

Emmet County Road Commission

BASIC FINANCIAL STATEMENTS

December 31, 2018

EMMET COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

Leroy Sumner
Vice - Chairman

Frank Zulski, Jr.
Chairman

Larry Williams
Member

Brian A. Gutowski, P.E.
Engineer - Manager

Lisa Kleeman
Finance Director/Clerk

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor’s Report	1
Management’s Discussion and Analysis	4
Basic Financial Statements:	
Statement of Net Position	10
Statement of Activities.....	11
Balance Sheet.....	12
Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balance	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	15
Notes to Financial Statements.....	16
Required Supplementary Information:	
Employee Retirement and Benefit System: Schedules of Funding Progress	30
Budgetary Comparison Schedule:	
Statement of Revenues	32
Statement of Expenditures.....	33
Other Information:	
Analysis of Changes in Fund Balances	34
Analysis of Revenues	35
Analysis of Expenditures.....	36
Report on Compliance:	
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37
Schedule of Findings and Responses.....	39



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA
LESLIE BOHN, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Emmet County Road Commission
2265 E. Hathaway Road
Harbor Springs, Michigan 49740

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Emmet County Road Commission (a component unit of Emmet County, Michigan) as of and for the year ended December 31, 2018, and related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Emmet County Road Commission, as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress, and budgetary comparison schedules on pages 4 through 9, pages 30 through 31 and pages 32 through 33, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Emmet County Road Commission's basic financial statements. The schedules of analysis are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of analysis are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of analysis are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2019 on our consideration of the Emmet County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Emmet County Road Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering the Emmet County Road Commission's internal control over financial reporting and compliance.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

March 12, 2019

Management's Discussion and Analysis

Using This Annual Report

The Emmet County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The statement of net position and the statement of activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question of whether the Road Commission as a whole is better off or worse off as a result of the year's activities. These statements include all assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net position and the changes in them. The reader can think of the Road Commission's net position (the difference between assets, deferred outflows, liabilities, and deferred inflows) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net position is one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the Road Commission's major fund begins on page 12. The fund financial statements begin on page 34 and provide detailed information about the major fund. The Road Commission currently has only one fund, the general operations fund, in which all of the Road Commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net position increased approximately 10.6% from \$39,677,823 to \$43,888,470 for the year ended December 31, 2018. The net position and change in net position are summarized below.

Restricted net position (deficit), those items restricted mainly for Act 51 purposes, decreased \$376,632. The primary reason was the recording of the pension expense. Also, it is important for the reader to realize that the increase in capital assets is largely a result of Road Commission infrastructure assets.

Net position as of the years ended December 31, 2017 and 2018 are as follows:

	Governmental Activities	
	2017	2018
Current and Other Assets	\$ 2,480,517	\$ 2,934,359
Capital Assets	46,371,838	50,884,435
Total Assets	48,852,355	53,818,794
Deferred Outflows of Resources	-	715,109
Current Liabilities	801,694	1,280,151
Other Liabilities	7,885,991	8,907,538
Total Liabilities	8,687,685	10,187,689
Deferred Inflows of Resources	486,847	457,744
Net Position:		
Net Investment in Capital Assets	42,870,050	46,704,065
Restricted (Deficit) for County Road	(3,192,227)	(2,815,595)
Total Net Position	\$ 39,677,823	\$ 43,888,470

A summary of changes in net position for the years ended December 31, 2017 and 2018 are as follows:

	Governmental Activities	
	<u>2017</u>	<u>2018</u>
Program Revenues:		
Charges for Services	\$ 2,836,670	\$ 1,118,540
Operating Grants and Contributions	4,342,267	5,056,987
Capital Grants and Contributions	4,110,593	5,738,075
Interest Earned	2,211	22,672
General Revenues:		
Gain (Loss) on Equipment Disposal	<u>(537,126)</u>	<u>51,272</u>
Total Revenues	<u>10,754,615</u>	<u>11,987,546</u>
Program Expenses:		
Primary Road Maintenance	2,122,447	1,809,841
Local Road Maintenance	2,432,763	2,111,401
State Trunkline Maintenance	1,184,297	1,191,523
Equipment Expense	(179,194)	375,087
Administrative	464,387	526,044
Other	1,201,187	1,667,581
Interest	<u>117,194</u>	<u>95,422</u>
Total Expenses	<u>7,343,081</u>	<u>7,776,899</u>
Changes in Net Position	3,411,534	4,210,647
Beginning, Net Position	<u>36,266,289</u>	<u>39,677,823</u>
Ending, Net Position	<u>\$ 39,677,823</u>	<u>\$ 43,888,470</u>

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County which are earmarked by law for road and highway purposes.

For the year ended December 31, 2018, the fund balance as listed on page 14 of the general operations fund increased \$97,485 as compared to a increase of \$714,963 in the fund balance for the year ended December 31, 2017.

Total revenues were \$13,140,243, a decrease of \$811,689 as compared to last year. This change in revenues resulted primarily from a decrease in other financing sources.

Total expenditures were \$13,042,758, a decrease of \$194,211 as compared to last year. This change in expenditures is primarily a decrease in capital outlay costs in the current year.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget were compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final revenue budget for 2018 was more than the actual receipts by \$100,450. This was due, in part, to the projection of federal revenues.

Road Commission final expenditures were projected at \$13,177,708 while actual expenditures were \$13,042,758. This resulted in total expenditures under budget by \$134,950. The largest share of the variance was from capital outlay.

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2017, and 2018 the Road Commission had invested in capital assets as follows:

	<u>2017</u>	<u>2018</u>
Capital Assets Not Being Depreciated		
Construction in Progress	\$ 798,681	\$ 292,989
Land and Improvements	<u>17,303,389</u>	<u>17,514,266</u>
Total Capital Assets Not Being Depreciated	<u>18,102,070</u>	<u>17,807,255</u>
Capital Assets Being Depreciated		
Buildings and Improvements	6,011,463	6,388,560
Road Equipment	8,461,132	9,305,265
Other Equipment and Assets	861,709	861,359
Infrastructure and Improvements	<u>34,008,740</u>	<u>39,349,036</u>
Total Capital Assets Being Depreciated	<u>49,343,044</u>	<u>55,904,220</u>
Total Accumulated Depreciation	<u>(21,073,276)</u>	<u>(22,827,040)</u>
Total Net Capital Assets	<u>\$ 46,371,838</u>	<u>\$ 50,884,435</u>
Prior and current year’s major additions included the following:		
Improvements	<u>\$ 1,604,654</u>	<u>\$ 494,581</u>
Various Resurfacing Projects	<u>\$ 2,090,245</u>	<u>\$ 6,012,795</u>
Trucks/Equipment/Buildings	<u>\$ 3,345,569</u>	<u>\$ 1,522,478</u>

Debt Administration

The Road Commission has total long-term debt obligations in the amount of \$9,511,666. The Road Commission recorded a net pension liability in the amount of \$4,982,926 during 2018. Debt payments are indicated in Note 9 of the “Notes to Financial Statements” section.

Economic Factors and Next Year’s Budget

The Board of County Road Commissioner’s considered many factors when setting the fiscal year 2019 budget. One of the factors is the economy. The Road Commission derives approximately 44% of its revenues from the fuel tax collected. The economic changes have resulted in stable consumption of fuel and consequently stable Michigan Transportation Funds to be distributed.

The Board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Emmet County’s transportation system. Therefore, the board attempts to spend the public’s money wisely and equitably and in the best interest of the motoring public and the citizens of Emmet County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Emmet County Road Commission administrative offices at 2265 E. Hathaway Road, Harbor Springs, Michigan.

Basic Financial Statements

Emmet County Road Commission

Statement of Net Position December 31, 2018

ASSETS

Cash and Equivalents	\$ 576,154
Accounts Receivable:	
Michigan Transportation Fund	782,309
State Trunkline Maintenance	135,902
Due on County Road Agreements	9,301
State Transportation - Other	351,756
Sundry Accounts	336,681
Inventories:	
Road Materials	295,495
Equipment, Parts and Materials	256,019
Prepaid Items	190,742
Capital Assets (Not Depreciated)	17,807,255
Capital Assets (Net of Accumulated Depreciation)	<u>33,077,180</u>
Total Assets	<u>53,818,794</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension investment earnings	<u>715,109</u>
-----------------------------	----------------

LIABILITIES

Accounts Payable	246,397
Accrued Liabilities	71,939
Advances and Other	340,534
Interest Payable	17,153
Notes & Bonds Payable - Due within one year	604,128
Notes & Bonds Payable - Due in more than one year	3,576,242
Vested Employee Benefits - Due in more than one year	348,370
Net Pension Liability - Due in more than one year	<u>4,982,926</u>
Total Liabilities	<u>10,187,689</u>

DEFERRED INFLOWS OF RESOURCES

Other Grants	<u>457,744</u>
--------------	----------------

NET POSITION

Net Investment in Capital Assets	46,704,065
Unrestricted (Deficit)	<u>(2,815,595)</u>
Total Net Position	<u>\$ 43,888,470</u>

Emmet County Road Commission

Statement of Activities For the Year Ended December 31, 2018

Program Expenses:	
Primary Road Maintenance and Preventive Maintenance	\$ 1,809,841
Local Road Maintenance and Preventive Maintenance	2,111,401
State Trunkline	1,191,523
Net Equipment Expense	375,087
Net Administrative Expense	526,044
Depreciation - Unallocated	1,944,131
Interest Expense	95,422
Other	(276,550)
Total Program Expenses	<u>7,776,899</u>
Program Revenues:	
Charges for Services:	
Licenses and Permits	46,310
Charges for Services	1,072,230
Operating Grants and Contributions:	
State Grants	5,036,262
Contributions from Local Units	20,725
Interest Earnings	22,672
Capital Grants and Contributions:	
Federal Grants	64,140
State Grants	1,693,441
Contributions from Local Units	3,980,494
Total Program Revenues	<u>11,936,274</u>
Net Program Revenues (Expenses)	<u>4,159,375</u>
General Revenues:	
Gain (Loss) on Disposal	<u>51,272</u>
Total General Revenues	<u>51,272</u>
Change in Net Position	4,210,647
Net Position - Beginning Balance	<u>39,677,823</u>
Net Position - Ending Balance	<u>\$ 43,888,470</u>

Emmet County Road Commission

Balance Sheet December 31, 2018

	<u>Governmental Fund Type</u>
	<u>General</u>
	<u>Operating Fund</u>
ASSETS	
Cash and Equivalents	\$ 576,154
Accounts Receivable:	
Michigan Transportation Fund	782,309
State Trunkline Maintenance	135,902
State Transportation - Other	351,756
Due on County Road Agreements	9,302
Sundry Accounts	336,681
Inventories:	
Road Materials	295,495
Equipment, Parts and Materials	256,019
Prepaid Items	190,742
Total Assets	<u>\$ 2,934,360</u>
LIABILITIES	
Accounts Payable	\$ 246,397
Accrued Liabilities	71,939
Advances and Other	340,534
Total Liabilities	<u>658,870</u>
DEFERRED INFLOWS OF RESOURCES	
Other Grants	<u>457,744</u>
FUND BALANCE	
Nonspendable	742,256
Unassigned	1,075,490
Total Fund Balance	<u>\$ 1,817,746</u>

Emmet County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Position For the Year Ended December 31, 2018

Total Governmental Fund Balance	\$ 1,817,746
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	50,884,435
Net pension liability requirement.	(4,982,926)
Deferred outflows resulting from investment earnings.	715,109
Interest accrued but not due until the following year.	(17,153)
Other long-term liabilities are not available to pay in the current period and therefore are not reported in the funds.	<u>(4,528,741)</u>
Net Position of Governmental Activities	<u><u>\$ 43,888,470</u></u>

Emmet County Road Commission

Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended December 31, 2018

	Governmental Fund Type
	General Operating Fund
Revenues	
Licenses and Permits	\$ 46,310
Federal Sources	64,140
State Sources	6,729,703
Contributions from Local Units	1,891,163
Charges for Services	1,066,665
Interest Earnings and Rent	22,672
Other Revenue	2,166,893
Other Financing Sources	1,152,697
Total Revenues	<u>13,140,243</u>
Expenditures	
Public Works	11,751,971
Capital Outlay	718,654
Debt Service	572,133
Total Expenditures	<u>13,042,758</u>
Excess of Revenues Over (Under) Expenditures	97,485
Fund Balance - Beginning of Year	<u>1,720,261</u>
Fund Balance - End of Year	<u><u>\$ 1,817,746</u></u>

Emmet County Road Commission

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities For the Year Ended December 31, 2018

Net Change in Fund Balance - Total Governmental Funds	\$ 97,485
Amounts reported for governmental activities in the statements are different because:	
Governmental funds report capital outlays and infrastructure costs as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	4,512,597
Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net position. Proceeds provide current financial resources to governmental funds, but entering into loan agreements increases long-term liabilities in the statement of net position.	(678,582)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	<u>279,147</u>
Net Change in Net Position of Governmental Activities	<u><u>\$ 4,210,647</u></u>

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Emmet County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Emmet County Road Commission.

A. Reporting Entity

The Emmet County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3-member Board of County Road Commissioners appointed by the County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board No. 61, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Emmet County Road Commission, as a discretely presented component unit of Emmet County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Emmet County Road Commission. There is only one governmental activity reported in the government-wide financial statements.

The statement of net position presents the Road Commission's assets, deferred outflows, liabilities and deferred inflows with the difference being reported as either invested in capital assets or unrestricted net position.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements. The Road Commission has one major fund, the general operating fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government. Under the terms of grant agreements, the Road Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Road Commission's policy to first apply restricted grant resources to such programs, and then general revenues.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund BalanceCash and Equivalents

Cash and equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. All deposits are stated at cost.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid item in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by the Emmet County Road Commission as assets with an initial individual cost of more than \$3,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Land Improvements	5 to 30 years
Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Yard and Storage	4 to 10 years
Engineers' Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net position.

Vested Employee Benefits (Vacation and Sick Leave)

In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. Employees are compensated 100% of their vested vacation leave upon death, retirement or resignation. Sick leave vests upon death or retirement, limited to 50% of their total accumulated sick time up to a maximum of 400 hours.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Road Commission has pension items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Road Commission has grant items that qualify for reporting in this category.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Road Commission is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Road Commission has classified Inventories and Prepaid Items as being Nonspendable as these items are not expected to be converted to cash within the next year.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Road Commission. These amounts cannot be used for any other purpose unless the Road Commission removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the Road Commission's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Road Commission through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Road Commission would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plan and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, outflows, liabilities and inflows and affect the disclosure of contingent assets, outflows, liabilities and inflows at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Commission violated provisions of the Act for line items as indicated on page 33.

The Road Commission’s Chief Administrative Officer (manager) and Clerk prepare and submit a proposed operating budget to the Board of County Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The Board has authorized the Clerk to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 25 percent from one-line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements. All budgets lapse at fiscal year end.

NOTE 3 - CASH AND EQUIVALENTS

The cash and equivalents are classified into the following categories:

Petty Cash	\$ 300
Bank Deposits (Checking and Savings Accounts)	<u>575,854</u>
Total Cash and Equivalents	<u>\$ 576,154</u>

Cash is designated in the amount of \$15,000 for future building and land improvements. The Board also designated \$146,146 for future equipment purchases.

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker’s acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County’s investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

NOTE 3 - CASH AND EQUIVALENTS (Continued)

Interest rate risk. The Road Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Road Commission has no investment policy that would further limit its investment choices.

Custodial investment credit risk. Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Road Commission invests with the County of Emmet and would receive its proportional share of holdings.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. As of year end, \$550,777 of the Road Commission's bank balance of \$815,777 was exposed to credit risk because it was uninsured and uncollateralized.

Fair value measurement. The Road Commission categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Road Commission's assessment of the significance of particular inputs to these fair value measurements required judgment and considers factors specific to each asset or liability.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Emmet County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Emmet County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Emmet County Road Commission's financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Emmet County Road Commission for the current year was as follows:

	Beginning Balances <u>01/01/18</u>	Additions	Adjustments/ Deductions	Ending Balances <u>12/31/18</u>
<i>Capital Assets Not Being Depreciated</i>				
Construction in Progress	\$ 798,681	\$ 279,929	\$ 785,621	\$ 292,989
Land and Improvements	37,094	-	-	37,094
Infrastructure Improvements	<u>17,266,295</u>	<u>210,877</u>	<u>-</u>	<u>17,477,172</u>
Subtotal	<u>18,102,070</u>	<u>490,806</u>	<u>785,621</u>	<u>17,807,255</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	260,477	3,775	-	264,252
Buildings	5,750,986	382,322	9,000	6,124,308
Road Equipment	8,461,132	1,140,156	296,023	9,305,265
Shop Equipment	237,568	-	350	237,218
Office Equipment	102,430	-	-	102,430
Engineers' Equipment	53,707	-	-	53,707
Yard and Storage	235,594	-	-	235,594
Depletable Assets	232,410	-	-	232,410
Infrastructure	<u>34,008,740</u>	<u>6,012,795</u>	<u>672,499</u>	<u>39,349,036</u>
Subtotal	<u>49,343,044</u>	<u>7,539,048</u>	<u>977,872</u>	<u>55,904,220</u>
<i>Less Accumulated Depreciation</i>				
Land Improvements	54,191	20,958	-	75,149
Buildings	1,849,831	146,232	1,620	1,994,443
Road Equipment	7,101,307	597,965	286,844	7,412,428
Shop Equipment	197,797	5,153	350	202,600
Office Equipment	95,301	2,876	-	98,177
Engineers' Equipment	53,314	277	-	53,591
Yard and Storage	174,778	8,822	-	183,600
Depletable Assets	75,568	-	-	75,568
Infrastructure	<u>11,471,189</u>	<u>1,932,794</u>	<u>672,499</u>	<u>12,731,484</u>
Subtotal	<u>21,073,276</u>	<u>2,715,077</u>	<u>961,313</u>	<u>22,827,040</u>
Net Capital Assets Being Depreciated	<u>28,269,768</u>	<u>4,823,971</u>	<u>16,559</u>	<u>33,077,180</u>
Capital Assets, Net	<u>\$ 46,371,838</u>	<u>\$ 5,314,777</u>	<u>\$ 802,180</u>	<u>\$ 50,884,435</u>

Depreciation expense was charged to programs of the Emmet County Road Commission as follows:

Equipment Expense	\$ 597,965
Allocated	174,106
Administrative	10,212
Unallocated - Infrastructure	<u>1,932,794</u>
Total Depreciation Expense	<u>\$ 2,715,077</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS

Description of Plan and Plan Assets

The Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees’ Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.25% or 2.50% times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2017.

General Information about the Pension Plan

Plan Description. The employer’s defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

General: Closed Division	
	2017 Valuation
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
Employee Contributions:	2%
Act 88:	Yes (Adopted 05/20/1966)
COLA for Future Retirees:	2.50% (non compound)
DC Plan for New Hires	5/15/1998
NonUnion: Closed Division	
	2017 Valuation
Benefit Multiplier:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	3 years
Employee Contributions	2%
Act 88:	Yes (Adopted 05/20/1966)
COLA for Future Retirees:	2.50% (non compound)
DC Plan for New Hires:	5/15/1998

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)

Fin Dir/Brd Clrk hrd 7/31/17: Open Division	
	<u>2017 Valuation</u>
Benefit Multiplier:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/30
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	3 years
COLA for Future Retirees:	2.50% (Non-Compound)
Employee Contributions	2%
Act 88:	Yes (Adopted 05/20/1966)

Employees Covered by Benefit Terms

At December 31, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	39
Inactive employees entitled to but not yet receiving benefits	1
Active employees	<u>11</u>
	51

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission’s competitive bargaining unit and personnel policy, which require employees to contribute to the plan at 2% of wages. The Road Commission is required to contribute at an actuarially determined rate.

The monthly contribution rate at January 1, 2018 is as follows:

General	\$19,132
NonUnion	\$34,506

Net Pension Liability

The Road Commission’s net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.75%
Investment rate of return	7.75% net of interest and administrative expense including inflation

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of January 1, 2009, through December 31, 2013.

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount Rate. The discount rate used to measure the total pension liability was 8.0% in 2017. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2017	\$ 14,222,673	\$ 9,874,215	\$ 4,348,458
Service cost	85,429	-	85,429
Interest on total pension liability	1,102,474	-	1,102,474
Changes in benefits	-	-	-
Difference between expected and actual experience	(146,445)	-	(146,445)
Changes in assumptions	-	-	-
Employer contributions	-	818,883	(818,883)
Employee contributions	-	12,939	(12,939)
Net investment income	-	(385,174)	385,174
Benefit payments, including employee refunds	(968,919)	(968,919)	-
Administrative expense	-	(19,056)	19,056
Other	20,602	-	20,602
Net changes	93,141	(541,327)	634,468
Balances as of December 31, 2018	\$ 14,315,814	\$ 9,332,888	\$ 4,982,926

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the Road Commission, calculated using the discount rate of 8.00%, as well as what the Road Commission’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Change in net pension liability	\$6,364,800	\$4,982,926	\$3,791,966

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued MERS financial report.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2018, the Road Commission recognized pension expense of a negative \$538,621. At December 31, 2018, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 715,109	\$ -
Total	<u>\$ 715,109</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recorded in pension expense as follows:

Year Ended December 31,

2019	\$ 254,134
2020	87,232
2021	139,970
2022	233,773

Annual Pension Costs – For year ended 2018, the Emmet County Road Commission’s annual pension cost of \$643,656 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as of 2016, using the age normal cost method. Significant actuarial assumptions used include: (i) a 7.75% investment rate of return; (ii) projected salary increases of 2.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis.

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)

Defined Contribution Pension Plan

The Emmet County Road Commission provides pension benefits to all of its full-time employees hired after May 1998 through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by agreement, the County Road Commission contributes 10% percent of employees' gross earnings and employee contributions for each employee (plus interest allocated to the employee's account) are fully vested. Eligible employees are required to contribute 2% of their earnings.

The Emmet County Road Commission's total payroll during the current year was \$2,313,005. The current year contribution was calculated based on covered payroll of \$1,617,942, resulting in an employer contribution of \$161,794 and employee contributions of \$32,359.

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all Road Commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2018, the federal aid received and expended by the Road Commission was \$64,140 for MDOT contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the Road Commission performs the work and would be subject to single audit requirements if they expended \$750,000 or more.

NOTE 8 - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE 9 - LONG-TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

	Beginning Balances 01/01/18	Additions	Reductions	Ending Balances 12/31/18	Due Within One Year
Note payable to bank, including interest rate of 2.50%, payable in monthly installments of \$24,933, secured by equipment, maturing in 2021.	\$ -	\$ 870,498	\$ 165,202	\$ 705,296	\$ 287,242
\$3,300,000 Capital Improvement Bonds Payable (Series 2016) to Emmet County, including sliding scale interest rate of 1.1% to 3.05%, maturing in 2032.	3,017,801	282,199	190,000	3,110,000	195,000
\$600,000 State Infrastructure Bank Loan, including interest rate of 2.5%, Payable in annual installments of \$131,013, maturing in 2021.	483,987	-	118,913	365,074	121,886

NOTE 9 - LONG-TERM DEBT (Continued)

	Beginning Balances <u>01/01/18</u>	Additions	Reductions	Ending Balances <u>12/31/18</u>	Due Within One Year
Subtotal	3,501,788	1,152,697	474,115	4,180,370	604,128
Vested Employee Benefits	<u>344,658</u>	<u>3,712</u> (1)	-	<u>348,370</u>	-
Total Long-Term Debt	<u>\$ 3,846,446</u>	<u>\$ 1,156,409</u>	<u>\$ 474,115</u>	<u>\$ 4,528,740</u>	<u>\$ 604,128</u>

(1) net increase

During November 2016, the County of Emmet, Michigan issued \$3,300,000 in capital improvement bonds, limited tax general obligation Series 2016. Serial principal payments are remitted annually and interest is due semi-annually each May and November.

Annual debt service requirements are as follows:

Year Ending <u>December 31</u>	<u>Bonds Payable</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 195,000	\$ 74,177	\$ 409,128	\$ 20,603
2020	195,000	71,252	417,974	11,747
2021	200,000	67,892	243,268	3,577
2022	205,000	64,093	-	-
2023	205,000	59,943	-	-
2024-2028	1,110,000	222,381	-	-
2029-2032	<u>1,000,000</u>	<u>60,958</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,110,000</u>	<u>\$ 620,696</u>	<u>\$ 1,070,370</u>	<u>\$ 35,927</u>

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, the County Road Commission offers COBRA health care benefits to all retired employees and/or their spouse. The benefit includes the provision that a retiree pays 100% of the cost of the premium. The Road Commission remitted no funds for post employment benefits during 2018.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants - The Road Commission has received significant financial assistance from state and federal agencies in the form of various grants and maintenance agreements. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Road Commission. In the opinion of management, any such disallowed claims would not have a material effect on any of the financial statements included herein or on the overall financial position of the Road Commission at December 31, 2018.

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

Risk Management - The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

The Road Commission from time to time is named as a defendant in accident claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. Insurance coverage related to these claims and lawsuits, if any, is categorized under the general liability insurance program. It is the opinion of management and legal counsel that reasonable estimates of the Road Commission's current liability for these matters, if any, have been recorded.

There are nonaccident liability and condemnation lawsuits currently pending against the Road Commission claiming amounts for damages and relief without stated limitations. It is the opinion of management and legal counsel that reasonable estimates of the Road Commission's current liability for these matters, if any, have been recorded.

NOTE 12 - LEASES

The Road Commission executed a noncancelable operating lease for equipment related to road maintenance operations. Lease terms require a single lease payment of \$127,700 which was remitted on August 11, 2017. Lease expense is amortized monthly through August 2022. Net rental expense was \$25,540.

Required Supplementary Information

Emmet County Road Commission

Required Supplementary Information Employee Retirement and Benefit System Schedule of Funding Progress For the Year Ended December 31, 2018

	2015	2016	2017	2018
Total pension liability				
Service cost	\$ 86,656	\$ 77,029	\$ 70,691	\$ 85,429
Interest	1,070,460	1,090,310	1,128,844	1,102,474
Difference in actual and expected experience	-	(29,666)	(561,974)	(146,445)
Changes in assumptions	-	698,065	-	-
Other adjustments	14,183	(9,644)	(33,736)	20,602
Benefit payments, including refund of member contributions	(907,964)	(943,781)	(912,722)	(968,919)
Net change in total pension liability	263,335	882,313	(308,897)	93,141
Total pension liability - beginning	13,385,922	13,649,257	14,531,570	14,222,673
Total pension liability - ending	<u>\$ 13,649,257</u>	<u>\$ 14,531,570</u>	<u>\$ 14,222,673</u>	<u>\$ 14,315,814</u>
Plan fiduciary net position				
Contributions - employer	\$ 925,752	\$ 568,932	\$ 645,673	\$ 818,883
Contributions - employee	14,460	12,619	12,329	12,939
Net investment income (loss)	(130,421)	941,856	1,175,824	(385,174)
Benefit payments, including refunds of member contributions	(907,964)	(943,781)	(912,722)	(968,919)
Administrative expense	(18,790)	(18,600)	(18,627)	(19,056)
Net change in plan fiduciary net position	(116,963)	561,026	902,477	(541,327)
Plan fiduciary net position - beginning	8,527,675	8,410,712	8,971,738	9,874,215
Plan fiduciary net position - ending	<u>\$ 8,410,712</u>	<u>\$ 8,971,738</u>	<u>\$ 9,874,215</u>	<u>\$ 9,332,888</u>
Net pension liability - ending	<u>\$ 5,238,545</u>	<u>\$ 5,559,832</u>	<u>\$ 4,348,458</u>	<u>\$ 4,982,926</u>
Plan fiduciary net position as a percentage of the total pension liability	62%	62%	69%	65%
Covered - employee payroll	\$ 733,633	\$ 655,521	\$ 597,089	\$ 650,370
Net pension liability as a percentage of covered-employee payroll	714%	848%	728%	766%

Emmet County Road Commission

Required Supplementary Information Employee Retirement and Benefit System Schedule of Funding Progress For the Year Ended December 31, 2018

	2015	2016	2017	2018
Actuarially determined contribution	\$ 925,752	\$ 568,932	\$ 645,673	\$ 643,656
Contributions in relation to the actuarially determined contribution	(925,752)	(568,932)	(645,673)	(818,883)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ (175,227)
Covered - employee payroll	\$ 721,914	\$ 733,633	\$ 655,521	\$ 597,089
Contributions as a percentage of covered-employee payroll	128%	78%	98%	137%

Notes to Schedule:

Actuarially determined contribution rates are calculated as of December 31st, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	22 years
Asset valuation method	10-years smoothed market
Inflation	2.50%
Salary increases	3.75%, average, including inflation
Investment rate of return	7.75%
Retirement age	In the 2017 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience
Mortality	Assumptions were based on the RP-2014 Mortality Table - Blended 50% Male / 50% Female

Emmet County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues - Budget and Actual For the Year Ended December 31, 2018

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits	\$ 42,000	\$ 47,775	\$ 46,310	\$ (1,465)
Federal Sources				
Surface Transportation Program	543,000	117,496	64,140	(53,356)
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Allocation	5,184,000	5,334,400	5,315,720	(18,680)
Snow Removal	148,400	193,540	193,539	(1)
Urban Road	216,000	220,300	220,425	125
Other	-	755,861	755,861	-
Rural Primary	134,819	21,644	11,775	(9,869)
Forest Road	143,700	222,383	222,383	-
Contributions from Local Units				
Townships	2,365,150	1,896,097	1,891,163	(4,934)
Charges for Services				
Trunkline Maintenance	1,075,000	878,111	861,715	(16,396)
Trunkline Nonmaintenance	39,623	197,590	192,919	(4,671)
Salvage Sales	4,000	10,500	10,566	66
Other	-	-	1,465	1,465
Interest Earnings and Rent	2,000	22,000	22,672	672
Other Revenue				
Gain (Loss) on Disposal	-	55,814	51,272	(4,542)
Other	2,056,520	2,104,485	2,115,621	11,136
Other Financing Sources				
Bond & Note Proceeds	1,409,992	1,152,697	1,152,697	-
Total Revenues	<u>\$ 13,374,204</u>	<u>\$ 13,240,693</u>	<u>\$ 13,140,243</u>	<u>\$ (100,450)</u>

Emmet County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures - Budget and Actual For the Year Ended December 31, 2018

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation / Structural Improvements	\$ 2,896,234	\$ 3,082,234	\$ 3,015,164	\$ 67,070
Maintenance	1,426,384	1,686,184	1,679,689	6,495
Local Road				
Preservation / Structural Improvements	2,543,029	2,901,853	2,902,001	(148)
Maintenance	1,637,603	2,059,452	2,062,463	(3,011)
Trunkline Maintenance	1,180,110	1,015,000	998,604	16,396
Trunkline Nonmaintenance	39,623	197,590	192,919	4,671
Administrative Expense - Net	560,766	563,867	526,044	37,823
Equipment Expense - Net	5,838	81,047	375,087	(294,040)
Capital Outlay - Net	1,767,252	1,014,363	718,654	295,709
Debt Service				
Principal	617,807	480,182	474,115	6,067
Interest	102,430	95,936	98,018	(2,082)
Total Expenditures	12,777,076	13,177,708	<u>\$ 13,042,758</u>	<u>\$ 134,950</u>
Fund Balance - January 1, 2018	<u>1,720,261</u>	<u>1,720,261</u>		
Total Budget	<u>\$ 14,497,337</u>	<u>\$ 14,897,969</u>		

Other Information

Emmet County Road Commission

Other Information Analysis of Changes in Fund Balance For the Year Ended December 31, 2018

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 6,227,241	\$ 4,597,741	\$ 2,315,261	\$ 13,140,243
Total Expenditures	5,074,656	5,410,711	2,557,391	13,042,758
Excess of Revenues Over (Under) Expenditures	1,152,585	(812,970)	(242,130)	97,485
Optional Transfers	(812,970)	812,970	-	-
Fund Balance - January 1, 2018	946,293	-	773,968	1,720,261
Fund Balance - December 31, 2018	<u>\$ 1,285,908</u>	<u>\$ -</u>	<u>\$ 531,838</u>	<u>\$ 1,817,746</u>

Emmet County Road Commission

Other Information Analysis of Revenues For the Year Ended December 31, 2018

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ 5,510	\$ 11,940	\$ 28,860	\$ 46,310
Federal Sources				
Surface Transportation Program	64,140	-	-	64,140
State Sources				
Michigan Transportation Fund				
Engineering	6,541	3,459	-	10,000
Allocation	3,477,265	1,838,455	-	5,315,720
Snow Removal	127,736	65,803	-	193,539
Urban Road	162,229	58,196	-	220,425
Other	755,861	-	-	755,861
Rural Primary	11,775	-	-	11,775
Forest Road	191,915	30,468	-	222,383
Contributions from Local Units				
Townships	20,725	1,870,438	-	1,891,163
Charges for Services				
Trunkline Maintenance	-	-	861,715	861,715
Trunkline Nonmaintenance	-	-	192,919	192,919
Salvage Sales	-	-	10,566	10,566
Other	-	-	1,465	1,465
Interest and Rents				
Interest Earnings	12,470	-	10,202	22,672
Other Revenue				
Gain on Equipment Disposals	-	-	51,272	51,272
Other	1,391,074	718,982	5,565	2,115,621
Other Financing Sources				
Bond and Note Proceeds	-	-	1,152,697	1,152,697
Total Revenues	\$ 6,227,241	\$ 4,597,741	\$ 2,315,261	\$ 13,140,243

Emmet County Road Commission

Other Information Analysis of Expenditures For the Year Ended December 31, 2018

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation / Structural Improvements	\$ 3,015,164	\$ -	\$ -	\$ 3,015,164
Maintenance	1,679,689	-	-	1,679,689
Local Road				
Preservation / Structural Improvements	-	2,902,001	-	2,902,001
Maintenance	-	2,062,463	-	2,062,463
Trunkline Maintenance	-	-	998,604	998,604
Trunkline Nonmaintenance	-	-	192,919	192,919
Administrative Expense - Net	255,681	270,363	-	526,044
Equipment Expense - Net	124,122	175,884	75,081	375,087
Capital Outlay - Net	-	-	718,654	718,654
Debt Service				
Debt Principal Payments	-	-	474,115	474,115
Interest Expense	-	-	98,018	98,018
Total Expenditures	<u>\$ 5,074,656</u>	<u>\$ 5,410,711</u>	<u>\$ 2,557,391</u>	<u>\$ 13,042,758</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA
LESLIE BOHN, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of County Road Commissioners
Emmet County Road Commission
2265 E. Hathaway Road
Harbor Springs, Michigan 49740

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and major fund of the Emmet County Road Commission (a component unit of Emmet County, Michigan), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Emmet County Road Commission's basic financial statements and have issued our report thereon dated March 12, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Emmet County Road Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Emmet County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Emmet County Road Commission's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies, listed as 2018-001 and 2018-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Emmet County Road Commission financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2018-002.

Emmet County Road Commission's Response to Findings

The Emmet County Road Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Emmet County Road Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

March 12, 2019

Significant Deficiencies – Financial Statements

**Preparation of the Financial Statements in Accordance
with Generally Accepted Accounting Principles**

Finding 2018-001

Specific Requirement: Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 115.

Criteria: Internal controls should be in place to provide reasonable assurance to the Road Commission that management reports financial statements necessary to monitor and report annual financial activity in accordance with GASB Statement 34 without auditor intervention.

Condition: Personnel responsible for financial reporting may not be monitoring and reporting annual financial activity in accordance with GASB Statement 34 without auditor intervention.

Effect: The effect of this condition places a reliance on the independent auditor as part of the Road Commission’s internal controls over financial reporting for GASB Statement 34. This reliance makes the independent auditor effectively part of internal controls.

Cause: Change in application of auditing standards for financial reporting.

Recommendation: The Road Commission should review and implement the necessary procedural activities to monitor and report annual financial activity in accordance with GASB Statement 34.

Planned Corrective Action: As a result of funding priorities, the Road Commission has not allocated resources to fund this process. The Road Commission will evaluate whether to continue utilizing the auditors, train staff for this function or subcontract the process based on a cost benefit review.

- Contact Person(s) Responsible for Correction:
Brian Gutowski, Manager

Significant Deficiencies – Noncompliance with State Statutes

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 2018-002

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

Condition: Our examination of procedures used by the Road Commission to adopt and maintain operating budgets for the Road Commission’s budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The Road Commission’s 2018 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2018 expenditures exceeded the board’s approved budget allocations for some general fund activities.

During the fiscal year ended December 31, 2018, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 33 of the financial statements.

Effect: Condition’s may violate State Law.

Cause: Unknown.

Recommendation: We recommend that the Road Commission’s chief administrative officer and personnel responsible for administering the activities of the various funds of the Road Commission, develop budgetary control procedures for the General Fund which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Planned Corrective Action: Amounts will be maintained in the future.

- Contact Person(s) Responsible for Correction:
Brian Gutowski, Manager