

Emmet County Road Commission

BASIC FINANCIAL STATEMENTS

December 31, 2017

EMMET COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

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Vice - Chairman

Frank Zulski, Jr.
Chairman

Larry Williams
Member

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

Lisa Kleeman
Finance Director/Clerk

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2017, 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, 2017, 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 31 through 32 and pages 33 through 34, 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 April 13, 2018 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 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

April 13, 2018

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 35 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 9.41% from \$36,266,289 to \$39,677,823 for the year ended December 31, 2017. The net position and change in net position are summarized below.

Restricted net position, those items restricted mainly for Act 51 purposes, decreased \$1,405,770. The primary reason was the recording of the net pension obligation. 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 2016 are as follows:

	Governmental Activities	
	2017	2016
Current and Other Assets	\$ 2,480,517	\$ 1,630,444
Capital Assets	<u>46,371,838</u>	<u>42,305,350</u>
Total Assets	<u>48,852,355</u>	<u>43,935,794</u>
Deferred Outflows of Resources	<u>-</u>	<u>289,759</u>
Current Liabilities	801,694	983,016
Other Liabilities	<u>7,885,991</u>	<u>6,696,096</u>
Total Liabilities	<u>8,687,685</u>	<u>7,679,112</u>
Deferred Inflows of Resources	<u>486,847</u>	<u>280,152</u>
Net Position:		
Net Investment in Capital Assets	42,870,050	40,864,286
Restricted (Deficit) for County Road	<u>(3,192,227)</u>	<u>(4,597,997)</u>
Total Net Position	<u>\$ 39,677,823</u>	<u>\$ 36,266,289</u>

A summary of changes in net position for the years ended December 31, 2017 and 2016 are as follows:

	Governmental Activities	
	2017	2016
Program Revenues:		
Charges for Services	\$ 2,836,670	\$ 1,662,224
Operating Grants and Contributions	4,342,267	3,640,930
Capital Grants and Contributions	4,110,593	4,075,314
Interest Earned	2,211	1,612
General Revenues:		
Gain (Loss) on Equipment Disposal	(537,126)	112,204
Total Revenues	10,754,615	9,492,284
Program Expenses:		
Primary Road Maintenance	2,122,447	2,760,447
Local Road Maintenance	2,432,763	1,673,014
State Trunkline Maintenance	1,184,297	1,203,381
Equipment Expense	(179,194)	(291,012)
Administrative	464,387	391,105
Other	1,201,187	2,554,542
Interest	117,194	27,552
Total Expenses	7,343,081	8,319,029
Changes in Net Position	3,411,534	1,173,255
Beginning, Net Position	36,266,289	35,093,034
Ending, Net Position	\$ 39,677,823	\$ 36,266,289

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, 2017, the fund balance as listed on page 14 of the general operations fund increased \$714,963 as compared to a decrease of \$226,001 in the fund balance for the year ended December 31, 2016.

Total revenues were \$13,951,932, an increase of \$3,218,957 as compared to last year. This change in revenues resulted primarily from an increase in other financing sources.

Total expenditures were \$13,236,969, an increase of \$2,277,993 as compared to last year. This change in expenditures is primarily an increase 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 2017 was less than the actual receipts by \$150,962. This was due, in part, to the projection of bond and note proceeds.

Road Commission final expenditures were projected at \$13,757,887 while actual expenditures were \$13,236,969. This resulted in total expenditures under budget by \$520,918. The largest share of the variance was from equipment expenditures.

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2017, and 2016 the Road Commission had invested in capital assets as follows:

	<u>2017</u>	<u>2016</u>
Capital Assets Not Being Depreciated		
Construction in Progress	\$ 798,681	\$ 481,037
Land and Improvements	<u>17,303,389</u>	<u>16,532,511</u>
Total Capital Assets Not Being Depreciated	<u>18,102,070</u>	<u>17,013,548</u>
Capital Assets Being Depreciated		
Buildings and Improvements	6,011,463	3,927,021
Road Equipment	8,461,132	7,972,593
Other Equipment and Assets	861,709	925,971
Infrastructure and Improvements	<u>34,008,740</u>	<u>32,593,233</u>
Total Capital Assets Being Depreciated	<u>49,343,044</u>	<u>45,418,818</u>
Total Accumulated Depreciation	<u>(21,073,276)</u>	<u>(20,127,016)</u>
Total Net Capital Assets	<u>\$ 46,371,838</u>	<u>\$ 42,305,350</u>
Prior and current year’s major additions included the following:		
Improvements	<u>\$ 1,604,654</u>	<u>\$ 1,730,431</u>
Various Resurfacing Projects	<u>\$ 2,090,245</u>	<u>\$ 2,618,735</u>
Trucks/Equipment/Buildings	<u>\$ 3,345,569</u>	<u>\$ 644,152</u>

Debt Administration

The Road Commission has long-term debt obligations in the amount of \$8,194,904. The Road Commission recorded a net pension liability in the amount of \$4,348,458 during 2017. 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 2018 budget. One of the factors is the economy. The Road Commission derives approximately 38% 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, 2017

ASSETS

Cash and Equivalents	\$ 349,857
Accounts Receivable:	
Michigan Transportation Fund	809,893
State Trunkline Maintenance	208,223
Due on County Road Agreements	299,179
State Transportation - Other	12,261
Sundry Accounts	38,326
Inventories:	
Road Materials	354,017
Equipment, Parts and Materials	230,429
Prepaid Items	178,332
Capital Assets (Not Depreciated)	18,102,070
Capital Assets (Net of Accumulated Depreciation)	<u>28,269,768</u>
Total Assets	<u>48,852,355</u>

LIABILITIES

Accounts Payable	201,962
Accrued Liabilities	53,184
Advances	217,884
Interest Payable	19,751
Notes Payable - Due within one year	308,913
Notes Payable - Due in more than one year	3,192,875
Vested Employee Benefits - Due in more than one year	344,658
Net Pension Liability - Due in more than one year	<u>4,348,458</u>
Total Liabilities	<u>8,687,685</u>

DEFERRED INFLOWS OF RESOURCES

Pension investment earnings	199,621
Other Grants	<u>287,226</u>
Total Deferred Inflows of Resources	<u>486,847</u>

NET POSITION

Net Investment in Capital Assets	42,870,050
Unrestricted (Deficit)	<u>(3,192,227)</u>
Total Net Position	<u>\$ 39,677,823</u>

Emmet County Road Commission

Statement of Activities For the Year Ended December 31, 2017

Program Expenses:	
Primary Road Maintenance and Preventive Maintenance	\$ 2,122,447
Local Road Maintenance and Preventive Maintenance	2,432,763
State Trunkline	1,184,297
Net Equipment Expense	(179,194)
Net Administrative Expense	464,387
Depreciation - Unallocated	1,866,647
Interest Expense	117,194
Other	(665,460)
Total Program Expenses	<u>7,343,081</u>
Program Revenues:	
Charges for Services:	
Licenses and Permits	43,855
Charges for Services	2,792,815
Operating Grants and Contributions:	
State Grants	4,340,236
Contributions from Local Units	2,031
Interest Earnings	2,211
Capital Grants and Contributions:	
Federal Grants	120,778
State Grants	1,022,390
Contributions from Local Units	2,967,425
Total Program Revenues	<u>11,291,741</u>
Net Program Revenues (Expenses)	<u>3,948,660</u>
General Revenues:	
Gain (Loss) on Disposal	<u>(537,126)</u>
Total General Revenues	<u>(537,126)</u>
Change in Net Position	3,411,534
Net Position - Beginning Balance	<u>36,266,289</u>
Net Position - Ending Balance	<u>\$ 39,677,823</u>

Emmet County Road Commission

Balance Sheet December 31, 2017

	Governmental Fund Type
	General
	Operating Fund
ASSETS	
Cash and Equivalents	\$ 349,857
Accounts Receivable:	
Michigan Transportation Fund	809,893
State Trunkline Maintenance	208,223
State Transportation - Other	12,261
Due on County Road Agreements	299,179
Sundry Accounts	38,326
Inventories:	
Road Materials	354,017
Equipment, Parts and Materials	230,429
Prepaid Items	178,332
Total Assets	<u><u>\$ 2,480,517</u></u>
LIABILITIES	
Accounts Payable	\$ 201,962
Accrued Liabilities	53,184
Other	217,884
Total Liabilities	<u>473,030</u>
DEFERRED INFLOWS OF RESOURCES	
Other Grants	<u>287,226</u>
FUND BALANCE	
Nonspendable	762,778
Unassigned	957,483
Total Fund Balance	<u><u>\$ 1,720,261</u></u>

Emmet County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Position For the Year Ended December 31, 2017

Total Governmental Fund Balance	\$ 1,720,261
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.	46,371,838
Net pension liability requirement.	(4,348,458)
Deferred inflows resulting from investment earnings.	(199,621)
Interest accrued but not due until the following year.	(19,751)
Other long-term liabilities are not available to pay in the current period and therefore are not reported in the funds.	<u>(3,846,446)</u>
Net Position of Governmental Activities	<u><u>\$ 39,677,823</u></u>

Emmet County Road Commission

Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended December 31, 2017

	Governmental Fund Type
	General Operating Fund
Revenues	
Licenses and Permits	\$ 43,855
Federal Sources	120,778
State Sources	5,362,626
Contributions from Local Units	2,969,456
Charges for Services	1,248,111
Interest Earnings and Rent	2,211
Other Revenue	1,523,709
Other Financing Sources	2,681,186
Total Revenues	<u>13,951,932</u>
Expenditures	
Public Works	10,146,293
Capital Outlay	2,350,011
Debt Service	740,665
Total Expenditures	<u>13,236,969</u>
Excess of Revenues Over (Under) Expenditures	714,963
Fund Balance - Beginning of Year	<u>1,005,298</u>
Fund Balance - End of Year	<u><u>\$ 1,720,261</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, 2017

Net Change in Fund Balance - Total Governmental Funds	\$ 714,963
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.	4,066,488
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.	(2,060,724)
Net pension expense and amortization not recognized under modified accrual.	721,994
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>(31,187)</u>
Net Change in Net Position of Governmental Activities	<u>\$ 3,411,534</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 \$500 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 50 days.

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 no 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 pension and 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 obligation, 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 34.

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>349,557</u>
Total Cash and Equivalents	\$	<u>349,857</u>

Cash is restricted in the amount of \$26,122 for future reimbursements of employee health costs.

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, \$94,530 of the Road Commission's bank balance of \$592,260 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>01/01/17</u>	Additions	Adjustments/ Deductions	Ending Balances <u>12/31/17</u>
<i>Capital Assets Not Being Depreciated</i>				
Construction in Progress	\$ 481,037	\$ 818,414	\$ 500,770	\$ 798,681
Land and Improvements	37,094	-	-	37,094
Infrastructure Improvements	<u>16,495,417</u>	<u>786,240</u>	<u>15,362</u>	<u>17,266,295</u>
Subtotal	<u>17,013,548</u>	<u>1,604,654</u>	<u>516,132</u>	<u>18,102,070</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	69,790	208,020	17,333	260,477
Buildings	3,857,231	2,067,278	173,523	5,750,986
Road Equipment	7,972,593	1,037,215	548,676	8,461,132
Shop Equipment	215,939	33,056	11,427	237,568
Office Equipment	125,906	-	23,476	102,430
Engineers' Equipment	69,898	-	16,191	53,707
Yard and Storage	281,818	-	46,224	235,594
Depletable Assets	232,410	-	-	232,410
Infrastructure	<u>32,593,233</u>	<u>2,090,245</u>	<u>674,738</u>	<u>34,008,740</u>
Subtotal	<u>45,418,818</u>	<u>5,435,814</u>	<u>1,511,588</u>	<u>49,343,044</u>
<i>Less Accumulated Depreciation</i>				
Land Improvements	69,790	1,734	17,333	54,191
Buildings	1,858,206	89,529	97,904	1,849,831
Road Equipment	7,252,407	397,501	548,601	7,101,307
Shop Equipment	206,555	2,669	11,427	197,797
Office Equipment	115,748	3,029	23,476	95,301
Engineers' Equipment	69,228	277	16,191	53,314
Yard and Storage	212,181	8,821	46,224	174,778
Depletable Assets	63,621	11,947	-	75,568
Infrastructure	<u>10,279,280</u>	<u>1,866,647</u>	<u>674,738</u>	<u>11,471,189</u>
Subtotal	<u>20,127,016</u>	<u>2,382,154</u>	<u>1,435,894</u>	<u>21,073,276</u>
Net Capital Assets Being Depreciated	<u>25,291,802</u>	<u>3,053,660</u>	<u>(75,694)</u>	<u>28,269,768</u>
Capital Assets, Net	<u>\$ 42,305,350</u>	<u>\$ 4,658,314</u>	<u>\$ (591,826)</u>	<u>\$ 46,371,838</u>

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

Equipment Expense	\$ 397,501
Allocated	107,363
Administrative	10,643
Unallocated - Infrastructure	<u>1,866,647</u>
Total Depreciation Expense	<u>\$ 2,382,154</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, 2016.

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	
	2016 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)
NonUnion: Closed Division	
	2016 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)

Employees Covered by Benefit Terms

At December 31, 2016, 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	2
Active employees	<u>10</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, 2017 is as follows:

General	\$21,456
NonUnion	\$31,854

Net Pension Liability

The Road Commission’s net pension liability was measured as of December 31, 2016, 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, 2016 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 2016. 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, 2016	\$ 14,531,570	\$ 8,971,738	\$ 5,559,832
Service cost	70,691	-	70,691
Interest on total pension liability	1,128,844	-	1,128,844
Changes in benefits	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions	(561,974)	-	(561,974)
Employer contributions	-	645,673	(645,673)
Employee contributions	-	12,329	(12,329)
Net investment income	-	1,175,824	(1,175,824)
Benefit payments, including employee refunds	(912,722)	(912,722)	-
Administrative expense	-	(18,627)	18,627
Other	(33,736)	-	(33,736)
Net changes	(308,897)	902,477	(1,211,374)
Balances as of December 31, 2017	\$ 14,222,673	\$ 9,874,215	\$ 4,348,458

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	\$5,748,704	\$4,348,458	\$3,144,187

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, 2017, the Road Commission recognized pension expense of a negative \$76,320. At December 31, 2017, 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
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	199,621
Total	\$ -	\$ 199,621

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,

2018	\$ 20,362
2019	20,362
2020	(146,542)
2021	(93,803)

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)

Annual Pension Costs – For year ended 2017, the Emmet County Road Commission’s annual pension cost of \$645,673 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 2015, 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.

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 \$2,083,012. The current year contribution was calculated based on covered payroll of \$1,383,111, resulting in an employer contribution of \$138,311 and employee contributions of \$27,662.

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, 2017, the federal aid received and expended by the Road Commission was \$120,778 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 <u>01/01/17</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balances <u>12/31/17</u>	Due Within <u>One Year</u>
\$2,400,000 maximum, Installment Payable to Emmet County, 2.50% interest, payable in monthly installments of \$13,219, starting 2014, maturing in 2017.	\$ 269,632	\$ -	\$ 269,632	\$ -	\$ -
\$838,646 apportioned Bonds Payable (Series 2012) to Emmet County, including sliding scale interest rate of 2.0% to 4.0%, maturing in 2017.	232,617	-	232,617	-	-
\$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.	338,815	2,681,186	2,200	3,017,801	190,000
\$600,000 State Infrastructure Bank Loan, including interest rate of 2.5%, Payable in annual installments of \$131,013, maturing in 2021.	<u>600,000</u>	<u>-</u>	<u>116,013</u>	<u>483,987</u>	<u>118,913</u>
Subtotal	1,441,064	2,681,186	620,462	3,501,788	308,913
Vested Employee Benefits	<u>310,462</u>	<u>34,196 (1)</u>	<u>-</u>	<u>344,658</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 1,751,526</u>	<u>\$ 2,715,382</u>	<u>\$ 620,462</u>	<u>\$ 3,846,446</u>	<u>\$ 308,913</u>

(1) net increase

During March 2012, the County of Emmet, Michigan issued \$4,795,000 in refunding bonds, limited tax general obligation Series 2012 and repaid a portion of the Emmet County Series 2003 limited tax general obligation bonds. An amount of the refunding (17.49%) was allocated to the Road Commission obligation in conjunction with the issuance which serial principal payments are remitted annually and interest is due semi-annually each May and November and was paid in full during 2017.

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. Draws are obligated at year end in the amount of \$3,017,801.

NOTE 9 - LONG-TERM DEBT (Continued)

Annual debt service requirements are as follows:

Year Ending December 31	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2018	\$ 190,000	\$ 76,587	\$ 118,913	\$ 12,100
2019	195,000	74,177	121,886	9,127
2020	195,000	71,252	124,933	6,080
2021	200,000	67,892	118,255	2,956
2022	205,000	64,093	-	-
2023-2027	1,080,000	249,565	-	-
2028-2032	<u>952,801</u>	<u>93,714</u>	-	-
Total	<u>\$ 3,017,801</u>	<u>\$ 697,280</u>	<u>\$ 483,987</u>	<u>\$ 30,263</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 2017.

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, 2017.

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.

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

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 \$10,642

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, 2017

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

Emmet County Road Commission

Required Supplementary Information Employee Retirement and Benefit System Schedule of Funding Progress For the Year Ended December 31, 2017

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

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 2016 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, 2017

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits	\$ 35,000	\$ 44,700	\$ 43,855	\$ (845)
Federal Sources				
Surface Transportation Program	164,500	121,602	120,778	(824)
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Allocation	4,560,000	4,965,000	4,956,300	(8,700)
Snow Removal	160,000	148,300	148,366	66
Urban Road	175,000	204,000	205,021	1,021
Local Bridge	-	-	1,425	1,425
Rural Primary	-	-	(112)	(112)
Forest Road	63,700	41,626	41,626	-
Contributions from Local Units				
Townships	2,700,000	2,967,872	2,967,425	(447)
Other	-	-	2,031	2,031
Charges for Services				
Trunkline Maintenance	860,000	1,190,500	1,198,640	8,140
Trunkline Nonmaintenance	60,000	40,000	39,240	(760)
Salvage Sales	2,000	8,400	8,445	45
Other	-	-	1,786	1,786
Interest Earnings and Rent	2,000	2,000	2,211	211
Other Revenue				
Gain (Loss) on Disposal	50,000	54,700	(20,995)	(75,695)
Other	1,951,000	1,506,770	1,544,704	37,934
Other Financing Sources				
Bond & Note Proceeds	3,007,700	2,495,500	2,681,186	185,686
Total Revenues	\$ 13,800,900	\$ 13,800,970	\$ 13,951,932	\$ 150,962

Emmet County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures - Budget and Actual For the Year Ended December 31, 2017

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation / Structural Improvements	\$ 2,150,000	\$ 2,685,800	\$ 2,542,131	\$ 143,669
Maintenance	1,800,000	1,491,489	1,616,531	(125,042)
Local Road				
Preservation / Structural Improvements	2,640,000	2,811,657	2,795,124	16,533
Maintenance	1,700,000	1,749,130	1,712,017	37,113
Trunkline Maintenance	860,000	1,240,500	1,145,057	95,443
Trunkline Nonmaintenance	60,000	40,000	39,240	760
Administrative Expense - Net	600,000	498,166	464,387	33,779
Equipment Expense - Net	150,000	54,700	(179,194)	233,894
Capital Outlay - Net	3,000,000	2,445,780	2,350,011	95,769
Debt Service				
Principal	628,500	619,115	620,462	(1,347)
Interest	46,500	121,550	120,203	1,347
Other	-	-	11,000	(11,000)
Total Expenditures	13,635,000	13,757,887	<u>\$ 13,236,969</u>	<u>\$ 520,918</u>
Fund Balance - January 1, 2017	<u>1,005,298</u>	<u>1,005,298</u>		
Total Budget	<u>\$ 14,640,298</u>	<u>\$ 14,763,185</u>		

Other Information

Emmet County Road Commission

Other Information Analysis of Changes in Fund Balance For the Year Ended December 31, 2017

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 5,627,655	\$ 4,311,464	\$ 4,012,813	\$ 13,951,932
Total Expenditures	4,321,499	4,671,326	4,244,144	13,236,969
Excess of Revenues Over (Under) Expenditures	1,306,156	(359,862)	(231,331)	714,963
Optional Transfers	(359,862)	359,862	-	-
Fund Balance - January 1, 2017	-	-	1,005,298	1,005,298
Fund Balance - December 31, 2017	<u>\$ 946,294</u>	<u>\$ -</u>	<u>\$ 773,967</u>	<u>\$ 1,720,261</u>

Emmet County Road Commission

Other Information Analysis of Revenues For the Year Ended December 31, 2017

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ -	\$ -	\$ 43,855	\$ 43,855
Federal Sources				
Surface Transportation Program	120,778	-	-	120,778
State Sources				
Michigan Transportation Fund				
Engineering	6,529	3,471	-	10,000
Allocation	3,235,965	1,720,335	-	4,956,300
Snow Removal	96,438	51,928	-	148,366
Urban Road	150,404	54,617	-	205,021
Local Bridge	-	1,425	-	1,425
Rural Primary	(112)	-	-	(112)
Forest Road	-	41,626	-	41,626
Contributions from Local Units				
Townships	555,816	2,411,609	-	2,967,425
Other	-	449	1,582	2,031
Charges for Services				
Trunkline Maintenance	-	-	1,198,640	1,198,640
Trunkline Nonmaintenance	-	-	39,240	39,240
Salvage Sales	-	-	8,445	8,445
Other	-	-	1,786	1,786
Interest and Rents				
Interest Earnings	-	-	2,211	2,211
Other Revenue				
Gain on Equipment Disposals	-	-	(20,995)	(20,995)
Other	1,461,837	26,004	56,863	1,544,704
Other Financing Sources				
Bond and Note Proceeds	-	-	2,681,186	2,681,186
Total Revenues	\$ 5,627,655	\$ 4,311,464	\$ 4,012,813	\$ 13,951,932

Emmet County Road Commission

Other Information Analysis of Expenditures For the Year Ended December 31, 2017

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation / Structural Improvements	\$ 2,542,131	\$ -	\$ -	\$ 2,542,131
Maintenance	1,616,531	-	-	1,616,531
Local Road				
Preservation / Structural Improvements	-	2,795,124	-	2,795,124
Maintenance	-	1,712,017	-	1,712,017
Trunkline Maintenance	-	-	1,145,057	1,145,057
Trunkline Nonmaintenance	-	-	39,240	39,240
Administrative Expense - Net	222,856	241,531	-	464,387
Equipment Expense - Net	(60,019)	(77,346)	(41,829)	(179,194)
Capital Outlay - Net	-	-	2,350,011	2,350,011
Debt Service				
Debt Principal Payments	-	-	620,462	620,462
Interest Expense	-	-	120,203	120,203
Other	-	-	11,000	11,000
Total Expenditures	\$ 4,321,499	\$ 4,671,326	\$ 4,244,144	\$ 13,236,969

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

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, 2017, 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 April 13, 2018.

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 2017-001 and 2017-002.

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 2017-002.

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

April 13, 2018

Significant Deficiencies – Financial Statements

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

Finding 2017-001

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 2017-002

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 2017 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2017 expenditures exceeded the board’s approved budget allocations for some general fund activities.

During the fiscal year ended December 31, 2017, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 34 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