

**Chippewa County Road Commission**

**BASIC FINANCIAL STATEMENTS**

**December 31, 2018**

**CHIPPEWA COUNTY ROAD COMMISSION**

**BOARD OF COUNTY ROAD COMMISSIONERS**

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Chairman

Bradley L. Ormsbee  
Vice Chairman

Jeremy K. Gagnon  
Member

Robert Laitinen  
Manager

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Office Manager

**TABLE OF CONTENTS**

	<u>Page</u>
<b>INDEPENDENT AUDITOR’S REPORT</b> .....	1
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b> .....	4
<b>BASIC FINANCIAL STATEMENTS:</b>	
Statement of Net Position .....	9
Statement of Activities.....	10
Balance Sheet .....	11
Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Position.....	12
Statement of Revenues, Expenditures, and Changes in Fund Balance .....	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities .....	14
<b>Fiduciary Funds:</b>	
Statement of Net Position .....	15
Statement of Changes in Net Position.....	16
<b>NOTES TO FINANCIAL STATEMENTS</b> .....	17
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Employee Retirement and Benefit Systems:	
Pension:	
Schedule of Changes in Pension Liability .....	35
Schedule of Employer Contributions.....	36
OPEB:	
Changes in the OPEB Liability .....	37
State of Michigan Public Acts 530 and 202 Information.....	38
Assumptions and Methods for Calculation of Actuarially Determined Contributions.....	39
Schedule of Amortization of Deferred Outflows/Inflows of Resources .....	42
Summary of Plan Provisions .....	43
Budgetary Comparison Schedules:	
Statement of Revenues – Budget and Actual .....	44
Statement of Expenditures – Budget and Actual.....	45

**TABLE OF CONTENTS (Continued)**

	<u>Page</u>
<b>OTHER INFORMATION:</b>	
Analysis of Changes in Fund Balances .....	46
Analysis of Revenues.....	47
Analysis of Expenditures .....	48
<b>REPORT ON COMPLIANCE:</b>	
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> .....	49
Schedule of Findings and Responses .....	51



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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**INDEPENDENT AUDITOR'S REPORT**

Board of County Road Commissioners  
Chippewa County Road Commission  
3949 S. Mackinac Trail  
Sault Ste. Marie, MI 49783

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, major fund and the aggregate remaining fund information of the Chippewa County Road Commission (a component unit of Chippewa 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, major fund and the aggregate remaining fund information of the Chippewa 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, employee retirement and benefit systems, budgetary comparison schedules on pages 4 through 8, pages 38 through 43 and pages 44 through 45 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 Chippewa 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 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.

Board of County Road Commissioners  
Chippewa County Road Commission

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2019 on our consideration of the Chippewa 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 Chippewa 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 Chippewa County Road Commission's internal control over financial reporting and compliance.



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

March 22, 2019

## **Management's Discussion and Analysis**

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### **Using This Annual Report**

The Chippewa 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 of a result of the year's activities. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources 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 of resources, liabilities and deferred inflows of resources) 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 are 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 11. The fund financial statements begin on page 46 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 decreased 26.68% from \$82,244,879 to \$60,301,097 for the year ended December 31, 2018. The Net Position and Change in Net Position are summarized below.

Unrestricted Net Position decreased \$24,355,358. The primary reason was an increase in other post employment benefits liabilities.

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

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Current Assets	\$ 4,539,790	\$ 4,836,136
Capital Assets	<u>94,953,614</u>	<u>92,302,065</u>
Total Assets	<u>99,493,404</u>	<u>97,138,201</u>
Deferred Outflows of Resources	<u>1,076,755</u>	<u>458,470</u>
Current Liabilities	1,312,737	1,125,282
Noncurrent Liabilities	<u>36,373,181</u>	<u>13,178,783</u>
Total Liabilities	<u>37,685,918</u>	<u>14,304,065</u>
Deferred Inflows of Resources	<u>2,583,144</u>	<u>1,047,727</u>
Net Position		
Net Investment in Capital Assets	94,211,993	91,800,417
Unrestricted	<u>(33,910,896)</u>	<u>(9,555,538)</u>
Total Net Position	<u>\$ 60,301,097</u>	<u>\$ 82,244,879</u>

A summary of Changes in Net Position for the years ended December 31, 2018 and 2017 follows:

	Governmental Activities	
	2018	2017
Program Revenues		
Charges for Services	\$ 2,686,943	\$ 2,977,826
Grants and Contributions	10,791,069	8,847,698
Interest and Other	4,833	1,700
General Revenues		
Property Taxes	845,424	812,324
Gain (Loss) on Equipment Disposal	154,607	21,437
Total Revenues	<u>14,482,876</u>	<u>12,660,985</u>
Program Expenses		
Primary Roads	4,710,315	3,547,273
Local Roads	3,898,859	3,338,095
State Trunkline	2,539,026	2,600,102
Equipment Expense	1,022,179	289,441
Administrative	395,304	299,024
Interest Expense and Other	<u>(305,189)</u>	<u>1,462,414</u>
Total Expenses	<u>12,260,494</u>	<u>11,536,349</u>
Change in Net Position	2,222,382	1,124,636
Net Position – Beginning as Restated	<u>58,078,715</u>	<u>81,120,243</u>
Net Position – Ending	<u>\$ 60,301,097</u>	<u>\$ 82,244,879</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 of the general operations fund decreased \$515,482 as compared to an increase of \$1,034,717 in the fund balance for the prior year. Total revenues were \$15,150,476, an increase of \$2,489,492 as compared to last year. This change in revenues resulted primarily from federal, state and local project funding increases.

Total expenditures were \$15,665,958, an increase of \$4,039,691. The increase is largely due to the primary road projects.

**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 was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The revenue budget for 2018 was \$109,476 less than the actual receipts. This was due, in part, to the projection of state sources. The Road Commission budgets for the receipt of funds from the state for projects on primary and local roads as earned.

Road Commission expenditures were projected at \$16,564,000 while actual expenditures were \$15,665,958. This resulted in total expenditures being under budget by \$898,042. There were several items that account for the variance in the projection of the budget.

**Capital Assets**

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

	<u>2018</u>	<u>2017</u>
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 55,481,270	\$ 53,999,827
Other Capital Assets		
Buildings and Improvements	5,161,491	5,122,365
Road Equipment	15,072,350	13,891,527
Other Equipment and Assets	1,676,639	1,676,449
Infrastructure	<u>63,614,317</u>	<u>62,486,038</u>
Total Capital Assets at Historic Cost	141,006,067	137,176,206
Total Accumulated Depreciation	<u>(46,052,453)</u>	<u>(44,874,141)</u>
Total Net Capital Assets	<u>\$ 94,953,614</u>	<u>\$ 92,302,065</u>

Major additions included the following:

Buildings	<u>\$ 39,126</u>	<u>\$ 39,799</u>
Land & Improvements	<u>\$ 1,481,443</u>	<u>\$ 884,391</u>
Various Resurfacing Projects and Bridges	<u>\$ 2,882,324</u>	<u>\$ 2,898,807</u>
Trucks/Equipment/Other	<u>\$ 1,774,831</u>	<u>\$ 524,031</u>

**Debt**

The Road Commission currently has long-term debt in the amount of \$36,591,116 which represents bank loans, equipment financing, pension and benefit liabilities, and compensated absences. Due to provisions of applicable GASB Statements, the Commission recorded a \$24,815,511 and \$10,907,927 liability for other post employment benefits and pension, respectively.

### **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 60% 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. If a decrease in funding occurs, road projects may be reduced. Additionally, management may consider reducing labor costs through attrition and adjusting health care benefits.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Chippewa 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 the 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 Chippewa County Road Commission administrative offices at 3949 S. Mackinac Trail, Sault Ste. Marie, MI 49783.

## **Basic Financial Statements**

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# Chippewa County Road Commission

## Statement of Net Position December 31, 2018

### ASSETS

Cash and Equivalents	\$ 516,422
Accounts Receivable:	
Taxes	844,334
Michigan Transportation Fund	900,112
State Trunkline Maintenance	333,306
Due from State - Other	402,060
Due on County Road Agreements	20,223
Sundry Accounts	1,489
Inventories:	
Road Materials	1,135,573
Equipment, Parts and Materials	265,949
Prepaid Items	120,322
Capital Assets (Not Depreciated)	55,481,270
Capital Assets (Net of Accumulated Depreciation)	39,472,344
Total Assets	<u>99,493,404</u>

### DEFERRED OUTFLOWS OF RESOURCES

Pension and OPEB items	<u>1,076,755</u>
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### LIABILITIES

Accounts Payable	397,693
Accrued Liabilities	95,617
Advances	601,492
Notes Payable - Due within one year	217,935
Notes Payable - Due in more than one year	523,686
Vested Employee Benefits - Due in more than one year	126,057
Other Post Employment Benefits - Due in more than one year	24,815,511
Net Pension Liability - Due in more than one year	10,907,927
Total Liabilities	<u>37,685,918</u>

### DEFERRED INFLOWS OF RESOURCES

OPEB Items	1,738,810
Taxes Levied for Subsequent Period	844,334
Total Deferred Inflows of Resources	<u>2,583,144</u>

### NET POSITION

Net Investment in Capital Assets	94,211,993
Unrestricted (Deficit)	<u>(33,910,896)</u>
Total Net Position	<u>\$ 60,301,097</u>

# Chippewa County Road Commission

## Statement of Activities For the Year Ended December 31, 2018

Program Expenses:	
Primary Road Maintenance and Preventive Maintenance	\$ 4,710,315
Local Road Maintenance and Preventive Maintenance	3,898,859
State Trunkline	2,539,026
Net Equipment Expense	1,022,179
Net Administrative Expense	395,304
Interest Expense	21,099
Other	<u>(326,288)</u>
Total Program Expenses	<u>12,260,494</u>
Program Revenues:	
Charges for Services:	
Licenses and Permits	16,225
Charges for Services	2,670,718
Operating Grants and Contributions:	
State Grants	6,427,303
Interest Earnings	4,833
Capital Grants and Contributions:	
Federal Grants	1,120,988
State Grants	2,037,119
Contributions from Local Units	<u>1,205,659</u>
Total Program Revenues	<u>13,482,845</u>
Net Program Revenues (Expenses)	<u>1,222,351</u>
General Revenues:	
Taxes - Real Property	845,424
Gain (Loss) on Disposal	<u>154,607</u>
Total General Revenues	<u>1,000,031</u>
Change in Net Position	2,222,382
Net Position - Restated (see Note 12)	<u>58,078,715</u>
Net Position - Ending Balance	<u>\$ 60,301,097</u>



# Chippewa County Road Commission

## Balance Sheet December 31, 2018

	Governmental Fund Type
	General
	Operating Fund
<b>ASSETS</b>	
Cash and Equivalents	\$ 516,422
Accounts Receivable:	
Taxes	844,334
Michigan Transportation Fund	900,112
State Trunkline Maintenance	333,306
Due from State - Other	402,060
Due on County Road Agreements	20,223
Sundry Accounts	1,489
Inventories:	
Road Materials	1,135,573
Equipment, Parts and Materials	265,949
Prepaid Items	120,322
Total Assets	<u>\$ 4,539,790</u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 397,693
Accrued Liabilities	95,617
Advances	601,492
Total Liabilities	<u>1,094,802</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Taxes Levied for Subsequent Period	844,334
Total Deferred Inflows of Resources	<u>844,334</u>
<b>FUND BALANCE</b>	
Nonspendable	1,521,844
Unassigned	1,078,810
Total Fund Balance	<u>\$ 2,600,654</u>

# Chippewa County Road Commission

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

<b>Total Governmental Fund Balance</b>	\$ 2,600,654
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.	94,953,614
Net pension liability requirement.	(10,907,927)
Other post employment benefit liability requirement.	(24,815,511)
Deferred outflows or inflows resulting from pension and opeb items.	(662,055)
Other long-term liabilities are not available to pay in the current period and therefore are not reported in the funds.	<u>(867,678)</u>
<b>Net Position of Governmental Activities</b>	<u><u>\$ 60,301,097</u></u>

# Chippewa 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	
Property Taxes	\$ 845,424
Licenses and Permits	16,225
Federal Sources	1,120,988
State Sources	8,464,422
Contributions form Local Units	1,205,659
Charges for Services	2,652,876
Interest Earnings and Rent	4,833
Other Revenue	172,449
Other Financing Sources	667,600
Total Revenues	<u>15,150,476</u>
Expenditures	
Public Works	14,280,558
Capital Outlay	936,674
Debt Service	448,726
Total Expenditures	<u>15,665,958</u>
Excess of Revenues Over (Under) Expenditures	(515,482)
Fund Balance - Beginning of Year	<u>3,116,136</u>
<b>Fund Balance - End of Year</b>	<u><u>\$ 2,600,654</u></u>

# Chippewa 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** \$ (515,482)

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. 2,651,549

Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net position. Note proceeds provide current financial resources to governmental funds, but entering into loan agreements increases long-term liabilities in the statement of net position. (239,973)

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. 326,288

**Net Change in Net Position of Governmental Activities** \$ 2,222,382

**Statement of Net Position  
Fiduciary Fund  
December 31, 2018**

	<u>OPEB Trust Fund</u>
<b>ASSETS</b>	
Investments at Fair Market Value	\$ 735,873
<b>NET POSITION</b>	
Restricted for Other Post Employment Benefits	\$ 735,873

# Chippewa County Road Commission

## Statement of Changes in Net Position Fiduciary Fund For the Year Ended December 31, 2018

	<u>OPEB Trust Fund</u>
<b>ADDITIONS</b>	
Investment Earnings:	
Contributions - Employer	\$ 1,606,914
Net Increase (Decrease) in Fair Value of Investments	<u>(59,045)</u>
Total Additions	<u>1,547,869</u>
<b>DEDUCTIONS:</b>	
Benefit payments, including refunds of member contributions	806,914
Administrative Fees	<u>5,082</u>
Total Deductions	<u>811,996</u>
Change in Net Position	735,873
Net Position Restricted for Other Post Employment Benefits	
Beginning of Year	<u>-</u>
End of Year	<u><u>\$ 735,873</u></u>

## **Notes to Financial Statements**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Chippewa 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 Chippewa County Road Commission.

**A. Reporting Entity**

The Chippewa County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a three-member Board of County Road Commissioners appointed by the Chippewa County Board of County 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 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 Chippewa County Road Commission, a discretely presented component unit of Chippewa 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 Chippewa County Road Commission. There is only one fund reported in the government-wide financial statements.

The statement of net position presents the Road Commission's assets deferred outflows of resources, liabilities and deferred inflows of resources with the difference being reported as either invested in capital assets or restricted 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 operating fund is the only major fund of the Commission.



**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 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 Commission's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance**

Cash, Equivalents and Investments

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 recorded 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 items in both the government-wide and fund financial statements.

Property Taxes Receivable

The property tax is levied each December 1st. on the taxable valuation of property located in the County as of the preceding December 31st. The 2018 taxable valuation of \$1,490,684,272 for Road Millage amounted to \$1,132,036 less \$287,702 for cities and villages, (on which ad valorem taxes of .09879 mills were levied) for road maintenance purposes resulted in a net total of \$844,334.

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

In the government-wide financial statements, the tax is recorded as revenue when the tax is levied in the current year. Although the County’s 2018 ad valorem tax is levied and collectible December 1, 2018, it is the Road Commission’s policy to recognize revenues from the current tax levy in the subsequent year. When the proceeds of this levy are budgeted, and made available for the financing of the Road Commission’s operations in the governmental fund financial statements. The tax receivable is offset to deferred inflows.

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 Chippewa County Road Commission as assets with an initial individual cost of more than \$2,500 and/or an estimated useful life in excess of two 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.

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:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineers’ Equipment	3 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years
Depletable Assets	10 to 50 years

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 and OPEB 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 OPEB, State Grants and property tax items that qualify for reporting in this category.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Pensions and OPEB

For purposes of measuring the net pension and other post employment benefits liability, deferred outflows of resources and deferred inflows of resources related to pension and OPEB 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. 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.

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.

Compensated Absences (Vacation and Sick Leave)

Vacation – Prior to February 1, 1981, employees with vacation time will be credited to the employee and it may be used at the employee's discretion. Beginning February 1, 1985, employees may carry forward 40 hours of vacation per year, which must be used by the end of the next calendar year. Vacation pay is calculated and paid at the current rate of pay.

Sick Leave – Employees hired before February 1, 1993, may accumulate a maximum of 168 days of sick leave. Upon death or retirement, employees are paid for a maximum of 132 days at their current rate of pay. Employees hired on or after February 1, 1993, may accumulate a maximum of 600 hours of sick leave. Upon death or retirement, after 20 years of service employees are paid for 50% of their accumulated sick hours at their current rate of pay.

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 and liabilities 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.

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.

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

- 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 Board. These amounts cannot be used for any other purpose unless the Board 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 Board’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board 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 Board 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.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Budgetary Procedures

Budgetary procedures are established pursuant to PA 2 of 1968, as amended, which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Office Manager prepares a budget in accordance with the Act which is adopted by the Board at a public hearing each December. All budgets lapse at fiscal year end. Any violations of the Act are indicated on page 45.

**NOTE 3 - CASH AND EQUIVALENTS**

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.

**NOTE 3 - CASH AND EQUIVALENTS (Continued)**

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

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Petty Cash	\$ 150	\$ -
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	<u>516,272</u>	<u>795,109</u>
Total Cash and Equivalents	<u>\$ 516,422</u>	<u>\$ 795,109</u>

*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. Ratings were unavailable for the investments listed below.

*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, \$380,659 of the Road Commission’s bank balance of \$795,109 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. Investment ratings were unavailable.

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 judgement and considers factors specific to each asset or liability.

The Road Commission has the following fair value measurements as of December 31, 2018:

<u>Investments</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money Market	\$ 3,749	\$ -	\$ 3,749	\$ -
ETF’s	159,768	-	159,768	-
Mutual Funds	<u>572,356</u>	<u>-</u>	<u>572,356</u>	<u>-</u>
Total	<u>\$ 735,873</u>	<u>\$ -</u>	<u>\$ 735,873</u>	<u>\$ -</u>

**NOTE 4 - DEFERRED COMPENSATION PLAN**

The Chippewa 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 plans 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 (Chippewa 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 Chippewa County Road Commission’s financial statements.

**NOTE 5 - CAPITAL ASSETS**

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

	Beginning Balances 01/01/18	Additions	Adjustments/ Deductions	Ending Balances 12/31/18
<i>Capital Assets Not Being Depreciated</i>				
Land and Improvements	\$ 372,230	\$ -	\$ -	\$ 372,230
Land/Improvements - Infrastructure	<u>53,627,597</u>	<u>1,481,443</u>	<u>-</u>	<u>55,109,040</u>
Subtotal	<u>53,999,827</u>	<u>1,481,443</u>	<u>-</u>	<u>55,481,270</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	5,122,365	39,126	-	5,161,491
Road Equipment	13,891,527	1,761,981	581,158	15,072,350
Shop Equipment	272,173	-	-	272,173
Office Equipment	76,201	12,850	12,660	76,391
Engineers’ Equipment	99,637	-	-	99,637
Depletable Assets	1,228,438	-	-	1,228,438
Infrastructure – Roads	40,317,090	2,854,811	1,754,045	41,417,856
Infrastructure – Bridges	<u>22,168,948</u>	<u>27,513</u>	<u>-</u>	<u>22,196,461</u>
Subtotal	<u>83,176,379</u>	<u>4,696,281</u>	<u>2,347,863</u>	<u>85,524,797</u>
<i>Less Accumulated Depreciation</i>				
Buildings	2,716,715	144,519	-	2,861,234
Road Equipment	12,570,370	729,309	568,558	12,731,121
Shop Equipment	263,401	5,729	-	269,130
Office Equipment	57,246	9,256	12,660	53,842
Engineers’ Equipment	65,389	13,489	-	78,878
Depletable Assets	408,578	22,760	-	431,338
Infrastructure – Roads	19,900,242	2,188,541	1,754,045	20,334,738
Infrastructure – Bridges	<u>8,892,200</u>	<u>399,972</u>	<u>-</u>	<u>9,292,172</u>
Subtotal	<u>44,874,141</u>	<u>3,513,575</u>	<u>2,335,263</u>	<u>46,052,453</u>
Net Capital Assets Being Depreciated	<u>38,302,238</u>	<u>1,182,706</u>	<u>(12,600)</u>	<u>39,472,344</u>
Total Net Capital Assets	<u>\$ 92,302,065</u>	<u>\$ 2,664,149</u>	<u>\$ (12,600)</u>	<u>\$ 94,953,614</u>

**NOTE 5 - CAPITAL ASSETS (Continued)**

Depletion/depreciation expense was charged to programs of the Chippewa County Road Commission as follows:

Primary Road Maintenance and Preventive Maintenance	\$ 1,444,269
Local Road Maintenance and Preventive Maintenance	1,144,244
Equipment Expense	729,309
Administrative	14,820
Other Allocated	<u>180,933</u>
Total Depreciation Expense	<u>\$ 3,513,575</u>

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS SYSTEMS**

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 multiplied by the sum of 2.25% 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](http://www.mersofmich.com).

<b>01 – General: Closed Division</b>	
	<u><b>2017 Valuation</b></u>
<b>Benefit Multiplier:</b>	2.25% Multiplier (80% max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	55/25
<b>Early Retirement (Reduced):</b>	50/25
	55/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions</b>	0%
<b>Act 88:</b>	Yes (Adopted 11/20/1970)

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

<b>02 – General: Open Division</b>	
	<u><b>2017 Valuation</b></u>
<b>Benefit Multiplier:</b>	2.25% Multiplier (80% max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	55/25
<b>Early Retirement (Reduced):</b>	50/25
	55/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions</b>	2%
<b>Act 88:</b>	Yes (Adopted 2/1/2004)

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	87
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>60</u>
	151

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. The Road Commission is required to contribute at an actuarially determined monthly amount for 2018 was \$80,239.

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 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 BENEFIT SYSTEMS (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	55.5%	3.41%
Global Fixed Income	18.5%	0.23%
Real Assets	13.5%	0.97%
Diversifying Strategies	12.5%	0.03%

*Discount Rate.* The discount rate used to measure the total pension liability is 8.0% for 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:**

	<b>Increases (Decreases)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
<b>Balances at December 31, 2017</b>	\$ 19,743,836	\$ 10,192,701	\$ 9,551,135
Service cost	312,381	-	312,381
Interest on total pension liability	1,535,810	-	1,535,810
Difference between expected and actual experience	118,002	-	118,002
Employer contributions	-	974,042	(974,042)
Employee contributions	-	47,782	(47,782)
Net investment income	-	(386,989)	386,989
Benefit payments, including employee refunds	(1,404,808)	(1,404,808)	-
Administrative expense	-	(19,466)	19,466
Other changes	5,968	-	5,968
<b>Net changes</b>	<b>567,353</b>	<b>(789,439)</b>	<b>1,356,792</b>
<b>Balances as of December 31, 2018</b>	<b>\$ 20,311,189</b>	<b>\$ 9,403,262</b>	<b>\$ 10,907,927</b>

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (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:

	<b>1% Decrease (7.00%)</b>	<b>Current Discount Rate (8.00%)</b>	<b>1% Increase (9.00%)</b>
Road Commission’s net pension liability	\$13,040,317	\$10,907,927	\$9,088,903

*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 \$1,548,589. At December 31, 2018, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 62,707	\$ -
Changes in assumptions	229,235	-
Net difference between projected and actual earnings on pension plan investments	727,529	-
<b>Total</b>	<b>\$ 1,019,471</b>	<b>\$ -</b>

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

<u>Year Ended December 31:</u>	
2019	\$ 522,062
2020	90,909
2021	169,239
2022	237,261

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

Annual Pension Cost

During the year ended December 31, 2018, the Road Commission’s contributions totaling \$974,042 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2016. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member’s retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases. The unfunded actuarial liability is amortized as a level percent of payroll on a closed basis. The remaining amortization period is 23 years.

**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 \$1,008,093 for 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 administered projects are projects where the Road Commissions perform the work and would be subject to single audit requirements if they expended \$750,000 or more. \$112,895 was from a USDA Forest Road Cooperative Agreement.

**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.

	<u>Balance 01/01/18</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/18</u>	<u>Due Within One Year</u>
Installment payable secured by trucks, payable in monthly installments of \$12,272 including interest of 1.89%, due 2019.	\$ 261,803	\$ -	\$ 261,803	\$ -	\$ -
Installment payable secured by equipment, payable in monthly installments of \$3,760 including interest of 2.75%, due 2020.	112,390	-	40,952	71,438	43,695
Installment payable secured by equipment, payable in monthly installments of \$12,103 including interest of 3.31%, due 2023.	-	667,600	83,529	584,071	127,830

**NOTE 9 - LONG-TERM DEBT (Continued)**

	Balance 01/01/18	Additions	Reductions	Balance 12/31/18	Due Within One Year
Installment payable secured by equipment, payable in monthly installments of \$4,026 including interest of 2.95%, due 2020.	127,455	-	41,343	86,112	46,410
Subtotal	501,648	667,600	427,627	741,621	\$ 217,935
Compensated Absences (1)	127,620	-	1,563	126,057	
<b>TOTAL LONG-TERM DEBT</b>	<b>\$ 629,268</b>	<b>\$ 667,600</b>	<b>\$ 429,190</b>	<b>\$ 867,678</b>	

(1) Net decrease.

Annual debt service requirements are as follows:

	Principal	Interest	Total
2019	\$ 217,935	\$ 20,661	\$ 238,596
2020	199,580	13,975	213,555
2021	136,568	8,669	145,237
2022	141,157	4,080	145,237
2023	46,381	340	46,721
Total	\$ 741,621	\$ 47,725	\$ 789,346

**NOTE 10 - OTHER POST EMPLOYMENT BENEFITS**

In addition to the pension benefits, the Chippewa County Road Commission agrees to provide 100% of BC/BS and prescription drug coverage benefits to eligible retirees and/or their spouses who retire after February 1, 1985 and who were hired prior to February 1, 2005 until retiree’s death. If a retiree dies, the current spouse shall be provided the same coverage until attainment of Medicare eligibility. Upon attainment of Medicare eligibility, the retiree’s spouse will be responsible for 100% of the cost of any medical coverage if they elect to stay in the group.

For eligible retirees who were hired after February 1, 2005, the Chippewa County Road Commission agrees to pay a fixed percent of the premium for BC/BS and prescription drug coverage benefits based on years of service, but only until attainment of Medicare eligibility, at which time, 100% of premium shall be paid for by the retiree and or spouse if they elect to remain in the group.

*Plan Description.* The Road Commission administers a single-employer healthcare plan (“the Retiree Health Plan”). The plan provides healthcare insurance for eligible retirees through the Road Commission’s group health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiations between the Road Commission and employees. The Retiree Health Plan does not issue a publicly available financial report.

*Funding Policy.* Contribution requirements also are negotiated between the Road Commission and employees. The Road Commission contributes 100% of the cost of current-year premiums for eligible retired plan members. For fiscal year 2018, the Road Commission contributed \$1,606,914 to the plan. Total member contributions were \$24,555.

**NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (Continued)**

*Employees Covered by Benefit Terms*

As of December 31, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	67
Inactive employees entitled to but not yet receiving benefits	56
Active employees	<u>60</u>
Total participants covered by OPEB Plan	<u>183</u>

*Total OPEB Liability and Trust Assets* - The Road Commission’s total OPEB liability of \$25,551,384 was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

As of December 31, 2018, there was \$735,873 in assets in the Road Commission’s OPEB trust.

*Actuarial assumptions and other inputs* - The total OPEB liability was determined by an actuarial valuation as of December 31, 2018 and the following actuarial assumptions, applies to all periods included in the measurement:

Salary Increases	3.50%
Investment rate of return	7.60% including inflation
PA 202 Uniform Discount	3.00%
Mortality	RP–2014 adjusted to 2006 Total Data Set, with MP–2018 mortality improvement scale.

The long-term expected rate of return on investments was determined using a building-block method in which best-estimate ranges of expected future rates of return (expected returns, net of retirement plan investment expense 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 rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the retirement plan’s target asset allocation as of December 31, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Large Cap US	18%	9.2%
Mid Cap US	4	9.8
Small Cap US	4	10.3
International Equities	25	8.8
Emerging Mkt Equity	8	11.4
Short Term Fixed Inc.	14	3.6
US Fixed Inc.	9	4.8
International Fixed Inc.	2	4.5
Inflation – Linked	4	5.7
High Yield	4	6.9
Master Limited Partnerships	4	8.1
Precious Metals (Commodities)	4	4.4

The sum of each target allocation times its long-term expected rate results in a long-term expected rate of return of 7.60%.

**NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (Continued)**

*Discount Rate* - The discount rate used to measure the total OPEB liability was 3.72%. The assets are not projected to be sufficient to make projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the “*depletion date*”), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total OPEB Liability.

	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
<b>Balances at December 31, 2017</b>	\$ 27,396,310	\$ -	\$ 27,396,310
Service cost	265,610	-	265,610
Interest	861,367	-	861,367
Experience (gains)/losses	(175,598)	-	(175,598)
Change in plan terms	-	-	-
Change in actuarial assumptions	(1,989,391)	-	(1,989,391)
Contributions to OPEB trust	-	800,000	(800,000)
Contributions/benefit paid			
from general operating funds	-	806,914	(806,914)
Net investment income	-	(59,045)	59,045
Benefit payments including			
refunds of employee contributions	(806,914)	(806,914)	-
Administrative expense	-	(5,082)	5,082
<b>Net changes</b>	<u>(1,844,926)</u>	<u>735,873</u>	<u>(2,580,799)</u>
<b>Balances as December 31, 2018</b>	<u>\$ 25,551,384</u>	<u>\$ 735,873</u>	<u>\$ 24,815,511</u>

*Net OPEB Liability – Discount and Trend Rate Sensitivities* – The following presents the net OPEB Liability (NOL) of the Road Commission, calculated using trend and discount rates 1% higher and lower than base assumptions:

	<b>Discount</b>		
	<b>1% Decrease</b>	<b>Current Rate</b>	<b>1% Increase</b>
Total OPEB Liability	\$29,059,146	\$25,551,384	\$22,666,376
Plan Fiduciary Net Position	735,873	735,873	735,873
Net OPEB Liability	<u>\$28,323,273</u>	<u>\$24,815,511</u>	<u>\$21,930,503</u>

**NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (Continued)**

	<b>Trend</b>		
	<b>1% Decrease</b>	<b>Current Rate</b>	<b>1% Increase</b>
Total OPEB Liability	\$22,335,737	\$25,551,384	\$29,465,177
Plan Fiduciary Net Position	735,873	735,873	735,873
Net OPEB Liability	<u>\$21,599,864</u>	<u>\$24,815,511</u>	<u>\$28,729,304</u>

In the December 31, 2018, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.60% investment rate of return and an annual healthcare cost trend rate of 3.72% initially, reduced by decrements to an ultimate rate of 5% over six years. Both rates included a 2.5% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis over a 23 year period. The mortality assumption used the RP2014 Mortality Table adjusted to 2006 Total Data Set with MP-2018 mortality improvement.

*OPEB Expense*

Components of Road Commission’s OPEB Expense for the fiscal year ending December 31, 2018 are as follows:

	<u>12/31/2018</u>
Service Cost	\$ 265,610
Interest on Total OPEB Liability	861,367
Experience (Gains)/Losses	(34,567)
Changes of Assumptions	(391,612)
Projected Earnings on OPEB Plan Investments	(12,560)
Investment Earnings (Gains)/Losses	14,321
Administrative Expenses	<u>5,082</u>
Total OPEB Expense	<u>\$ 707,641</u>

Deferred Outflows and Inflows of Resources Related to OPEB Plan

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Experience (Gains)/Losses	\$ -	\$ 141,031
Changes in Assumptions	-	1,597,779
Investment Earnings (Gains)/Losses	<u>57,284</u>	<u>-</u>
Total	<u>\$ 57,284</u>	<u>\$ 1,738,810</u>

**NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (Continued)**

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended December 31:</u>	
2019	\$ (411,858)
2020	(411,858)
2021	(411,858)
2022	(411,858)
2023	(34,094)

**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. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant 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 Commission.

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 (\$2,000 for errors and omissions) for each insured event. The maximum limit of liability for each occurrence is \$10,500,000.

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.

Environmental Remediation – The Road Commission has implemented environmental impact evaluation procedures at its Trout Lake and Strongs, Michigan locations. The cost estimated of any environmental remediation is not determinable at this time. Ongoing monitoring of any existing contamination has been implemented at both Michigan locations and the sources of contamination have been removed from both sites. Future potential liabilities, if any, are undeterminable as of the opinion date. The Road Commission executed provisions of a Consent Agreement for payment of fines and penalties of approximately \$100,000 over a period of ten years. \$30,000 has been remitted to date.

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.



**NOTE 12- RESTATEMENT**

	<u>Governmental Net Position</u>
Beginning net position as previously stated at January 1, 2018	\$ 82,244,879
Restatement of Net Position – for implementation of GASB 75 – OPEB cumulative effect	<u>(24,166,164)</u>
Beginning net position as restated at January 1, 2018	<u>\$ 58,078,715</u>

## **Required Supplementary Information**

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# Chippewa County Road Commission

## Employee Retirement and Benefit Systems Required Supplementary Information Schedule of Changes in Pension Liability For the Year Ended December 31, 2018

	2015	2016	2017	2018
<b>Total pension liability</b>				
Service cost	\$ 281,858	\$ 285,706	\$ 312,302	\$ 312,381
Interest	1,397,298	1,434,259	1,505,449	1,535,810
Difference between expected and actual experience	-	81,278	(92,224)	118,002
Changes in assumptions	-	916,942	-	-
Benefit payments, including refund of member contributions	(1,201,033)	(1,262,953)	(1,332,756)	(1,404,808)
Other changes	(1,078)	(471)	22,721	5,968
<b>Net change in total pension liability</b>	477,045	1,454,761	415,492	567,353
<b>Total pension liability - beginning</b>	17,396,538	17,873,583	19,328,344	19,743,836
<b>Total pension liability - ending</b>	<u>\$ 17,873,583</u>	<u>\$ 19,328,344</u>	<u>\$ 19,743,836</u>	<u>\$ 20,311,189</u>
<b>Plan fiduciary net position</b>				
Contributions - employer	\$ 685,503	\$ 762,975	\$ 842,918	\$ 974,042
Contributions - employee	32,043	35,320	40,590	47,782
Net investment income	(139,106)	993,016	1,223,866	(386,989)
Benefit payments, including refunds of member contributions	(1,201,033)	(1,262,953)	(1,332,756)	(1,404,808)
Administrative expense	(20,530)	(19,619)	(19,412)	(19,466)
<b>Net change in plan fiduciary net position</b>	(643,123)	508,739	755,206	(789,439)
<b>Plan fiduciary net position - beginning</b>	9,571,879	8,928,756	9,437,495	10,192,701
<b>Plan fiduciary net position - ending</b>	<u>\$ 8,928,756</u>	<u>\$ 9,437,495</u>	<u>\$ 10,192,701</u>	<u>\$ 9,403,262</u>
<b>Net pension liability - ending</b>	<u>\$ 8,944,827</u>	<u>\$ 9,890,849</u>	<u>\$ 9,551,135</u>	<u>\$ 10,907,927</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	50%	49%	52%	46%
<b>Covered - employee payroll</b>	\$ 3,086,023	\$ 3,076,955	\$ 3,244,097	\$ 3,211,709
<b>Net pension liability as a percentage of covered-employee payroll</b>	290%	321%	294%	340%

# Chippewa County Road Commission

## Employee Retirement and Benefit Systems Required Supplementary Information Schedule of Employer Contributions For the Year Ended December 31, 2018

	2015	2016	2017	2018
Actuarially determined contribution	\$ 685,503	\$ 762,975	\$ 842,918	\$ 974,042
Contributions in relation to the actuarially determined contribution	(685,503)	(762,975)	(842,918)	(974,042)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered - employee payroll	\$ 2,660,500	\$ 3,086,023	\$ 3,076,955	\$ 3,244,097
Contributions as a percentage of covered-employee payroll	26%	25%	27%	30%

### 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	5-years smoothed market
Inflation	2.50%
Salary increases	3.75%, average, including inflation
Investment rate of return	7.75%
Retirement age	Varies depending on plan adoption
Mortality	Assumptions were based on the RP2014 Mortality Table - Blended 50% Male / 50% Female

# Chippewa County Road Commission

## Employee Retirement and Benefit Systems Required Supplementary Information Schedule of Changes in the OPEB Liability For the Year Ended December 31, 2018

	2018
<b>Total OPEB Liability - Beginning of Year</b>	\$ 27,396,310
Service cost	265,610
Interest	861,367
Change in assumptions	(1,989,391)
Differences between actual and expected experience	(175,598)
Benefit payments	(806,914)
<b>Total OPEB Liability - End of Year</b>	25,551,384
<b>Plan fiduciary net position</b>	
Contributions - employer	1,606,914
Net investment income	(59,045)
Benefits payments, including refunds of member contributions	(806,914)
Administrative expense	(5,082)
<b>Net change in plan fiduciary net position</b>	735,873
<b>Plan fiduciary net position - Beginning of Year</b>	-
<b>Plan fiduciary net position - End of Year</b>	735,873
<b>Net OPEB liability - End of Year</b>	\$ 24,815,511
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	2.9%
<b>Covered Payroll</b>	Not available
<b>Net OPEB liability as a percentage of covered payroll</b>	Not available
<b>Schedule of Employer Contributions</b>	
Service cost	\$ 242,510
Interest cost	46,784
Amortization of unfunded liability	1,237,998
Actuarially determined employer contribution	1,527,292
Employer contribution	(1,606,914)
Contribution deficiency/(excess)	\$ (79,622)
<b>Covered Payroll</b>	Not available
<b>Contribution as percentage of covered payroll</b>	Not available

**Notes to Schedule:**

Actuarially determined contribution rates are calculated as of December 31, 2018.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Asset valuation method	Market value
Discount rate	3.72%
Salary increases	3.50%
Investment rate of return	7.60%
PA 202 discount rate	3.00%
Mortality rate	RPH -2014 adjusted to 2006 total data set with MP-2018 mortality improvement scale

# Chippewa County Road Commission

## Employee Retirement and Benefit Systems Required Supplementary Information State of Michigan Public Acts 530 and 202 Information For the Year Ended December 31, 2018

### Financial Information

Assets (Fiduciary Net Position)	\$ 735,873
Liabilities (Total OPEB Liability)	25,551,384
Funded ratio for the plan year	2.90%
Actuarially recommended contribution (ARC)	1,527,292
Is ARC calculated in compliance with No. Letter 2018-3?	Yes

### Membership

Active members	60
Retirees and beneficiaries	67
Premiums paid on behalf of the retirants	806,914

### Actuarial Assumptions

Actuarially assumed rate of investment return	7.60%
Discount rate	3.72%
Amortization method used for funding unfunded liability	Level percent of compensation
Amortization period used for funding unfunded liability	22 years
Is each division closed to new employees	No
Healthcare trend assumption	PA 202 uniform trend

### Uniform Assumptions

Actuarial value of assets using uniform assumptions	\$ 735,873
Actuarial accrued liability using uniform assumptions	25,717,232
Funded ratio using uniform assumptions	2.90%
Actuarially determined contribution (ADC) using uniform assumptions	1,414,238

### Information for Summary Report (minimum required contribution)

Retiree insurance premiums for the year	806,914
Normal cost as a percent of covered payroll	Not available
Covered payroll for employees hired after June 30, 2018	Not available
Normal cost for employees hired after June 30, 2018	Not available
Minimum required contribution under PA 202	Not available

**Employee Retirement and Benefit Systems  
Required Supplementary Information  
Assumptions and Methods for Calculation of Actuarially Determined Contributions  
For the Year Ended December 31, 2018**

**Valuation Date** December 31, 2017

**Measurement Date** December 31, 2018

**Actuarial Methods**

Cost method Entry Age Normal (level percentage of compensation)

Amortization method Level percentage of compensation

Asset valuation method Market value

**Actuarial Assumptions**

**Discount rate** - 3.72% for December 31, 2018 liability and 2019 contribution

Rationale - Average effective rate consisting of long-term return on assets and 20 year Aa Municipal Bond rate

**Salary scale** - 3.5%

Rationale - Consistent with Uniform Assumptions under Public Act 202

**Return on plan assets** - 7.60%

Rationale - Based on long-term investment strategy

**Mortality rates** - RPH-2014 adjusted to 2006 Total Data Set with MP-2018 mortality improvement

Rationale - Contemporary table consistent with Uniform Assumptions under Public Act 202

**Utilization** - 100% of eligible employees will elect coverage at retirement; actual coverage used for non-active

Rationale - Benefits are provided at no cost or low cost to retirees

**Turnover rates** - See sample rates below:

Rationale - Based on employer experience

Age	Years of Service					
	0	1	2	3	4	5+
30	0.180	0.180	0.160	0.120	0.100	0.090
35	0.180	0.180	0.160	0.120	0.100	0.070
40	0.180	0.180	0.160	0.120	0.100	0.050
45	0.180	0.180	0.160	0.120	0.100	0.040
50	0.180	0.180	0.160	0.120	0.100	0.030

**Employee Retirement and Benefit Systems  
Required Supplementary Information  
Assumptions and Methods for Calculation of Actuarially Determined Contributions  
For the Year Ended December 31, 2018**

**Retirement rates** - Rates as shown below:

Rationale - Based on employer experience

Age	Rate	Age	Rate
55-57	10%	64	10%
58-59	5	65	25
60	15	66	45
61	10	67-68	10
62	35	69	25
63	20	70	100

**Disability rates** - Rates as shown below

Rationale - Based on employer experience

Age	Rate	Age	Rate
20	2%	45	11%
25	2	50	24
30	2	55	60
35	6	60	60
40	6	65	60

**Marital assumptions** - 85% of active employees will have covered spouse at retirement with females 3 years younger than males; Actual spouse data used for retirees

Rationale - Consistent with experience

**Annual per-capita costs valued**

Rationale - Actual retiree premiums as of the valuation date

Pre-65 Retiree Premiums					
	005	006	007	010-Base	011
Single	\$ 726.76	\$ 720.11	\$ 656.28	\$ 529.94	\$ 555.91
Double	1,702.23	1,728.27	1,533.05	1,229.83	1,292.17
Family	-	-	1,908.82	1,529.79	1,607.71
1 Reg./1 Comp.	1,608.65	1,652.22	1,519.79	1,264.16	-
Single Comp.	-	932.11	863.51	737.22	809.33
Double Comp.	-	1,864.22	1,703.19	1,474.44	-
Post-65 Retiree Premiums					
	901/904-Base	905	906-908	909	900-910
Single	\$ 568.81	\$ 577.78	\$ 557.53	\$ 552.00	\$ 450.09
Double	1,137.62	1,155.56	1,115.06	1,104.00	900.18

**Implicit Subsidy** - Not applicable

Rationale - Separate premiums for pre-65 retirees and active employees



**Employee Retirement and Benefit Systems  
Required Supplementary Information  
Assumptions and Methods for Calculation of Actuarially Determined Contributions  
For the Year Ended December 31, 2018**

**Administration fees** - \$16 per retiree per month for post-65 medical coverage; \$3 dental and vision fees paid for certain post-65 retirees with self-paid dental and vision coverage  
Rationale - actual fees in effect as of the valuation date

**Healthcare inflation**

Pre-65 - 8.5% in 2018 graded down 0.25% per year to 4.5% over 16 years

Medicare eligible - 7.0% in 2018 graded down 0.25% per year to 4.5% over 10 years

Administration fees - 0.0% per year

Rationale - Consistent with national trends and PA 202 uniform assumptions

**40% excise tax on "high cost" group health plan** - Premiums are projected to exceed the 2022 thresholds; The thresholds were indexed by CPI plus 1.0% in 2023 and CPI only beginning in 2024; The CPI is assumed to be 3.0% in 2021 and following; a 1.0% load was assessed to healthcare inflation to reflect future excise tax

**Data Collection**

Date and form of data - All personnel and asset data was prepared by the plan sponsor or a representative and was generally relied upon as being correct and complete without audit by Watkins Ross

**Assumption changes since prior valuation**

- Mortality updated
- Trend rates updated
- Discount rate changed from 3.16%
- Salary scale changed from 2.5% to 3.5%

# Chippewa County Road Commission

## Employee Retirement and Benefit Systems Required Supplementary Information Schedule of Amortization of Deferred Outflows/Inflows of Resources For the Year Ended December 31, 2018

### Schedule of Difference between Actual and Expected Experience

Year	Difference between actual and expected experience	Recognition period (Years)	Amount Recognized in Year Ended December 31,					2023+	Deferred Outflows of Resources	Deferred Inflows of Resources
			2018	2019	2020	2021	2022			
2018	(175,598)	5.08	\$ (34,567)	\$ (34,567)	\$ (34,567)	\$ (34,567)	\$ (34,567)	\$ (2,765)	\$ -	\$ (141,031)
Net recognized in OPEB expense			<u>\$ (34,567)</u>	<u>\$ (34,567)</u>	<u>\$ (34,567)</u>	<u>\$ (34,567)</u>	<u>\$ (34,567)</u>	<u>\$ (2,765)</u>	<u>\$ -</u>	<u>\$ (141,031)</u>

### Schedule of Changes in Assumptions

Year	Changes in assumptions	Recognition period (Years)	Amount Recognized in Year Ended December 31,					2023+	Deferred Outflows of Resources	Deferred Inflows of Resources
			2018	2019	2020	2021	2022			
2018	(1,989,391)	5.08	\$ (391,612)	\$ (391,612)	\$ (391,612)	\$ (391,612)	\$ (391,612)	\$ (31,329)	\$ -	\$ (1,597,779)
Net recognized in OPEB expense			<u>\$ (391,612)</u>	<u>\$ (391,612)</u>	<u>\$ (391,612)</u>	<u>\$ (391,612)</u>	<u>\$ (391,612)</u>	<u>\$ (31,329)</u>	<u>\$ -</u>	<u>\$ (1,597,779)</u>

### Schedule of Differences between Projected and Actual Earnings on OPEB Assets

Year	Difference between projected and actual earnings on OPEB assets	Recognition period (Years)	Amount Recognized in Year Ended December 31,					2023+	Deferred Outflows of Resources	Deferred Inflows of Resources
			2018	2019	2020	2021	2022			
2018	71,605	5	\$ 14,321	\$ 14,321	\$ 14,321	\$ 14,321	\$ 14,321	\$ -	\$ 57,284	\$ -
Net recognized in OPEB expense			<u>\$ 14,321</u>	<u>\$ 14,321</u>	<u>\$ 14,321</u>	<u>\$ 14,321</u>	<u>\$ 14,321</u>	<u>\$ -</u>	<u>\$ 57,284</u>	<u>\$ -</u>

### Total Deferred Outflow/(Inflow) of Resources

	Amount Recognized in Year Ended December 31,				
	2019	2020	2021	2022	2023
Total Deferred Outflow/(Inflow) of Resources	\$ (411,858)	\$ (411,858)	\$ (411,858)	\$ (411,858)	\$ (34,094)

**Plan name** - Chippewa County Road Commission Retiree Health Care Plan

**Eligibility Requirements**

- Normal Retirement - Age 55 with 25 years of service or Age 60 with 10 years of service
- Disability - 10 years of service and hired prior to 2/1/2005
- Non-Duty Death in service - 10 years of service and hired prior to 2/1/2005
- Duty Death in service - no age or service requirement and hired prior to 2/1/2005

**Summary of Benefits**

*Retire prior to 2/1/2001*

- Employer agrees to pay the full cost of Medical and Prescription Drug coverage for the Retiree and spouse
- Vision and Dental coverage may be continued at the expense of the Retiree/Spouse
- Surviving Spouses may continue coverage but will be responsible for 100% of premiums

*Retire after 2/1/2001 and hired prior to 2/1/2005*

- Employer agrees to pay the full cost of Medical and Prescription Drug coverage for the Retiree and spouse
- Vision and Dental coverage may be continued at the expense of the Retiree/Spouse
- Surviving Spouses will receive full Medical and Prescription Drug coverage from the Employer until eligible for Medicare. Surviving Spouses who are eligible for Medicare may continue coverage but will be responsible for 100% of premiums

*Hired after 2/1/2005*

- Employer will provide Medical and Prescription Drug coverage for the Retiree and Spouse according to the chart below, until the retiree becomes eligible for Medicare
- Vision and Dental coverage may be continued at the expense of the Retiree/Spouse
- Surviving Spouses shall retain eligibility for the Medical and Prescription Drug coverage to which the Retiree was entitled at death, until eligible for Medicare, or for the maximum period for which the Retiree remained eligible, whichever occurs first

Age and Service	Percentage of Premium Paid
Minimum age 55, 25 years of service	100%
Minimum age 60, 20 years of service	75
Minimum age 60, 15 years of service	50
Minimum age 60, 10 years of service	25

**Changes Since Prior Valuation** - None

# Chippewa 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)
Taxes	\$ 810,000	\$ 846,000	\$ 845,424	\$ (576)
Federal Sources	2,659,909	1,130,000	1,120,988	(9,012)
State Sources	6,918,924	8,250,000	8,464,422	214,422
Contributions from Local Units	2,188,966	1,130,000	#REF!	#REF!
Charges for Services	2,800,000	2,800,000	2,652,876	(147,124)
Other Revenue	804,200	885,000	861,107	(23,893)
Total Revenues	<u>\$ 16,181,999</u>	<u>\$ 15,041,000</u>	<u>#REF!</u>	<u>#REF!</u>

# Chippewa 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	\$ 4,907,585	\$ 6,300,000	\$ 6,031,629	\$ 268,371
Local Road	3,208,932	4,500,000	4,292,420	207,580
Trunkline Maintenance	2,800,000	2,800,000	2,539,026	260,974
Administrative Expense - Net	2,300	440,000	395,304	44,696
Equipment Expense - Net	300,000	1,100,000	1,022,179	77,821
Capital Outlay - Net	1,174,000	974,000	936,674	37,326
Debt Service	435,429	450,000	448,726	1,274
Distributive	3,353,753	-	-	-
Total Expenditures	16,181,999	16,564,000	<u>\$ 15,665,958</u>	<u>\$ 898,042</u>
Fund Balance - January 1, 2018	3,116,136	3,116,136		
Total Budget	<u>\$ 19,298,135</u>	<u>\$ 19,680,136</u>		

## **Other Information**

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# Chippewa County Road Commission

## 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	\$ 6,246,689	\$ 4,655,114	\$ 4,248,673	\$ 15,150,476
Total Expenditures	6,598,029	4,819,256	4,248,673	15,665,958
Excess of Revenues Over (Under) Expenditures	(351,340)	(164,142)	-	(515,482)
Fund Balance - January 1, 2018	1,427,200	1,166,385	522,551	3,116,136
Fund Balance - December 31, 2018	<u>\$ 1,075,860</u>	<u>\$ 1,002,243</u>	<u>\$ 522,551</u>	<u>\$ 2,600,654</u>

# Chippewa County Road Commission

## Analysis of Revenues For the Year Ended December 31, 2018

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes	\$ 106,723	\$ -	\$ 738,701	\$ 845,424
Licenses and Permits	-	-	16,225	16,225
Federal Sources				
Surface Transportation Program	378,091	-	-	378,091
C Funds	630,002	-	-	630,002
Other	112,895	-	-	112,895
State Sources				
Michigan Transportation Fund				
Engineering	5,537	4,463	-	10,000
Allocation	3,316,141	2,673,208	-	5,989,349
Snow Removal	480,750	-	-	480,750
Urban Road	364,367	69,441	-	433,808
Rural Primary	36,078	-	-	36,078
Forest Road	-	230,356	-	230,356
Other	402,057	882,024	-	1,284,081
Contributions from Local Units				
Townships	411,825	793,834	-	1,205,659
Charges for Services				
Trunkline Maintenance	-	-	2,512,587	2,512,587
Trunkline Nonmaintenance	-	-	132,295	132,295
Salvage Sales	-	-	7,994	7,994
Interest and Rents				
Interest Earnings	2,223	1,788	822	4,833
Other Revenue				
Gain on Equipment Disposals	-	-	154,607	154,607
Other	-	-	17,842	17,842
Other Financing Sources				
Installment Proceeds	-	-	667,600	667,600
Total Revenues	<u>\$ 6,246,689</u>	<u>\$ 4,655,114</u>	<u>\$ 4,248,673</u>	<u>\$ 15,150,476</u>



# Chippewa County Road Commission

## 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	\$ 2,853,475	\$ -	\$ -	\$ 2,853,475
Maintenance	3,178,154	-	-	3,178,154
Local Road				
Construction	-	4,027	-	4,027
Preservation/Structural Improvements	-	1,510,293	-	1,510,293
Maintenance	-	2,778,100	-	2,778,100
Trunkline Maintenance	-	-	2,406,731	2,406,731
Trunkline Nonmaintenance	-	-	132,295	132,295
Administrative Expense - Net	230,949	164,355	-	395,304
Equipment Expense - Net	335,451	362,481	324,247	1,022,179
Capital Outlay - Net	-	-	936,674	936,674
Debt Service				
Debt Principal Payments	-	-	427,627	427,627
Interest Expense	-	-	21,099	21,099
Total Expenditures	<u>\$ 6,598,029</u>	<u>\$ 4,819,256</u>	<u>\$ 4,248,673</u>	<u>\$ 15,665,958</u>

# **Report on Compliance**

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**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  
Chippewa County Road Commission  
3949 S. Mackinac Trail  
Sault Ste. Marie, Michigan 49783

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, major fund and aggregate remaining fund information of the Chippewa County Road Commission (a component unit of Chippewa County, Michigan), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Chippewa County Road Commission's basic financial statements and have issued our report thereon dated March 22, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Chippewa 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 Chippewa County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Chippewa 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 a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency listed as 2018-001.

### **Compliance and Other Matters**


As part of obtaining reasonable assurance about whether the Chippewa County Road Commission's 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Chippewa County Road Commission's Response to Findings**

The Chippewa County Road Commission's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Chippewa County Road Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 22, 2019

SIGNIFICANT DEFICIENCIES

*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 requires management to prepare annual audit statements in accordance with GASB Statement Number 34. (Audit report format)

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

*Condition:* Auditor modifies financial statements and footnotes to comply with governmental generally accepted accounting principles.

*Effect:* The effect of this condition places a reliance on the independent auditor as part of the Commission's internal controls over financial reporting.

*Cause:* Change in application of auditing standard.

*Recommendation:* The Commission should consider subcontracting financial statement preparation activities to monitor and report annual financial activity in accordance with GASB Statement Number 34 or train staff to accomplish this element.

*Planned Corrective Action:* In the past, the Board has relied on the auditors for this type of reporting for cost effectiveness. Due to limited resources, management does not wish to allocate additional funds to change this process. Management reviews adjustments for accuracy upon completion and reconciles discrepancies and other disclosures.

- Contact Person(s) Responsible for Correction:  
Robert Laitinen, Manager