

Mason County Road Commission

BASIC FINANCIAL STATEMENTS

December 31, 2018

MASON COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

Bill Schwass
Chairman

Doug Robidoux
Vice Chairman

Mike Ingison
Member

Mary Samuels
Manager/Director

Heather Braginton
Clerk/Secretary to Board

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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

Board of County Road Commissioners
Mason County Road Commission
510 E. State Street
Scottville, Michigan 49454

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 Mason County Road Commission (a component unit of Mason 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 Mason 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, and budgetary comparison schedules on pages 4 through 8, pages 34 through 40 and pages 41 through 42, 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 Mason 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 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 24, 2019 on our consideration of the Mason 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 solely 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 Mason 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 Mason County Road Commission's internal control over financial reporting and compliance.



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

May 24, 2019

Management's Discussion and Analysis

Using This Annual Report

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

Reporting the Road Commission as a Whole

The statement of net position and the statement of activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question of whether the Road Commission as a whole is better off or worse off as a result of the year's activities. These statements include all assets and liabilities 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, outflows, liabilities, and inflows) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net position is one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the Road Commission's major fund begins on page 11. The fund financial statements begin on page 43 and provide detailed information about the major fund. The Road Commission currently has only one major 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.
- Fiduciary fund – The Road Commission is trustee, or fiduciary, for its employees' OPEB Trust. The Road Commission is responsible for ensuring that the assets reported in the fiduciary funds are used for their intended purposes. All of the Road Commission's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the Road Commission's government-wide financial statements because the Road Commission cannot use these assets to finance its operations.

The Road Commission as a Whole

The Road Commission's net position increased \$3,724,891 from \$36,547,726 to \$40,272,617 for the year ended December 31, 2018. The net position and change in net position are summarized below.

Restricted net position is net position that has constraints placed on it by either: a) by creditors, grantors, contributors, or laws or regulations of other governments; b) by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used for only specific purpose stipulated in the legislation. As such, all net position (except for net investment in capital assets) are considered restricted.

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

	Governmental Activities	
	2018	2017
Current and Other Assets	\$ 5,807,704	\$ 4,121,590
Capital Assets	39,550,323	37,699,261
Total Assets	45,358,027	41,820,851
Deferred Outflows of Resources	483,037	168,755
Current Liabilities	1,246,940	952,260
Other Liabilities	3,866,621	4,205,966
Total Liabilities	5,113,561	5,158,226
Deferred Inflows of Resources	454,886	283,654
Net Position:		
Net Investment in Capital Assets	38,236,110	36,295,628
Restricted for County Roads	2,036,507	252,098
Total Net Position	\$ 40,272,617	\$ 36,547,726

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

	Governmental Activities	
	2018	2017
Program Revenues:		
Charges for Services	\$ 821,490	\$ 871,936
Operating Grants and Contributions	6,407,607	5,609,245
Capital Grants and Contributions	3,800,678	2,728,598
Other Revenue	946	5,290
General Revenues:		
Interest Earned	48,522	8,808
Gain on Equipment Disposal	144,200	233,900
	<u>11,223,443</u>	<u>9,457,777</u>
Program Expenses:		
Primary Road Maintenance	3,519,634	2,576,254
Local Road Maintenance	2,475,775	3,036,027
State Trunkline Maintenance	796,353	751,660
Equipment Expense	643,748	537,711
Administrative Expense	283,821	355,043
Interest Expense	51,286	41,527
Other Expense	8,742	49,065
	<u>7,779,359</u>	<u>7,347,287</u>
Change in Net Position	<u>3,444,084</u>	<u>2,110,490</u>
Beginning Net Position – as Restated	<u>36,828,533</u>	<u>34,437,236</u>
Ending, Net Position	<u>\$ 40,272,617</u>	<u>\$ 36,547,726</u>

The Road Commission’s Fund

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

For the year ended December 31, 2018, the fund balance as listed on page 13 of the general operations fund increased \$1,512,344 as compared to an increase of \$756,659 for the year ended December 31, 2017.

Total revenues were \$11,651,249, an increase of \$1,645,463 as compared to last year. This change in revenues resulted primarily from an increase in state funding.

Total expenditures were \$10,138,905, an increase of \$898,719 as compared to last year. This change in expenditures is primarily an increase in primary road costs in the current year.

Budgetary Highlights

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

The final revenue budget for 2018 was more than the actual receipts by \$518,905. This was due, in part, to the projection of state programs.

Road Commission final expenditures were projected at \$10,579,115 while actual expenditures were \$9,966,355. This resulted in total expenditures under budget by \$612,760. The largest share of the variance was from primary roads.

Capital Asset and Debt Administration

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	\$ 110,375	\$ 110,375
Infrastructure and Land Improvements	<u>18,399,523</u>	<u>18,399,523</u>
Total Capital Assets Not Being Depreciated	<u>18,509,898</u>	<u>18,509,898</u>
Capital Assets Being Depreciated		
Buildings	1,315,559	1,315,559
Road Equipment	6,920,350	6,713,844
Other Equipment and Assets	338,901	282,882
Infrastructure and Improvements	<u>38,046,846</u>	<u>34,687,630</u>
Total Capital Assets Being Depreciated	<u>46,621,656</u>	<u>42,999,915</u>
Total Accumulated Depreciation	<u>(25,581,231)</u>	<u>(23,810,552)</u>
Total Net Capital Assets	<u>\$ 39,550,323</u>	<u>\$ 37,699,261</u>

Prior and current year’s major additions included the following:

Infrastructure and Land Improvements	\$ -	\$ 562,453
Various Resurfacing Projects	<u>\$ 3,800,678</u>	<u>\$ 2,718,024</u>
Equipment	<u>\$ 579,583</u>	<u>\$ 840,553</u>

Debt Administration

The Road Commission has long-term debt obligations in the amount of \$4,334,847, which represents equipment financing, vested employee benefits, other post-employment benefit obligations and pension obligations. Debt payments are indicated in Note 8 of the "Notes to Financial Statements" section.

Economic Factors and Next Year's Budget

The Board of County Road Commissioner's considered many factors when setting the fiscal year 2019 budget. One of the factors is the economy. The Road Commission derives approximately 59% of its revenues from the fuel tax collected. The continued economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed.

The Board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Mason 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 Mason 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 Mason County Road Commission administrative offices at 510 E. State Street, Scottville, Michigan 49454.

Basic Financial Statements

Mason County Road Commission

Statement of Net Position December 31, 2018

ASSETS

Cash and Equivalents	\$ 3,792,312
Accounts Receivable:	
Michigan Transportation Fund	750,812
State Trunkline Maintenance	72,919
Due from State	334,829
Due on County Road Agreements	17,609
Sundry	10,341
Inventories:	
Road Materials	525,565
Equipment, Parts and Materials	219,496
Prepaid Items	83,821
Capital Assets (Not Depreciated)	18,509,898
Capital Assets (Net of Accumulated Depreciation)	<u>21,040,425</u>
Total Assets	<u>45,358,027</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension & OPEB Items	<u>483,037</u>
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LIABILITIES

Accounts Payable	85,279
Accrued Liabilities	41,874
Due from State	136,496
Advances	515,065
Installment Purchase Agreements Payable - Due within one year	468,226
Installment Purchase Agreements Payable - Due in more than one year	845,987
Vested Employee Benefits - Due in more than one year	82,595
Net OPEB Liability - Due in more than one year	25,905
Net Pension Liability - Due in more than one year	<u>2,912,134</u>
Total Liabilities	<u>5,113,561</u>

DEFERRED INFLOWS OF RESOURCES

Pension & OPEB items	<u>454,886</u>
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NET POSITION

Net Investment in Capital Assets	38,236,110
Restricted	<u>2,036,507</u>
Total Net Position	<u>\$ 40,272,617</u>

Mason County Road Commission

Statement of Activities For the Year Ended December 31, 2018

Program Expenses:	
Primary Road Maintenance and Preventive Maintenance	\$ 1,824,710
Local Road Maintenance and Preventive Maintenance	2,475,775
State Trunkline Maintenance and Nonmaintenance	796,353
Net Equipment Expense	643,748
Net Administrative Expense	283,821
Infrastructure Depreciation - Unallocated	1,694,924
Interest Expense	51,286
Other Expense	8,742
	<hr/>
Total Program Expenses	7,779,359
Program Revenues:	
Charges for Services	821,490
Operating Grants and Contributions:	
State Grants	6,384,668
Contributions from Local Units	22,939
Other Revenue	49,468
Capital Grants and Contributions:	
Federal Grants	1,088,482
State Grants	1,386,619
Contributions from Local Units	1,325,577
	<hr/>
Total Program Revenues	11,079,243
Net Program Revenues (Expenses)	<hr/> 3,299,884 <hr/>
General Revenues:	
Gain (Loss) on Equipment Disposal	144,200
	<hr/>
Total General Revenues	144,200
Change in Net Position	3,444,084
Net Position - Beginning Balance - as Restated	<hr/> 36,828,533 <hr/>
Net Position - Ending Balance	<hr/> <u>\$ 40,272,617</u> <hr/>

Mason County Road Commission

Balance Sheet December 31, 2018

	<u>Governmental Fund Type</u>
	<u>General</u>
	<u>Operating Fund</u>
ASSETS	
Cash and Equivalents	\$ 3,792,312
Accounts Receivable:	
Michigan Transportation Fund	750,812
State Trunkline Maintenance	72,919
County Road Agreements	17,609
Due from State	334,829
Sundry	10,341
Inventories:	
Road Materials	525,565
Equipment, Parts and Materials	219,496
Prepaid Items	83,821
Total Assets	<u>\$ 5,807,704</u>
LIABILITIES	
Accounts Payable	\$ 85,279
Accrued Liabilities	41,874
Due to State	136,496
Advances	515,065
Total Liabilities	<u>778,714</u>
FUND BALANCE	
Nonspendable	828,882
Committed	259,335
Assigned	974,506
Unassigned	2,966,267
Total Fund Balance	<u>5,028,990</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 5,807,704</u>

Mason County Road Commission

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

Total Governmental Fund Balance	\$ 5,028,990
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.	39,550,323
Net pension liability not reported in the funds.	(2,912,134)
Deferred outflows resulting from pension assumptions and investments.	483,037
Other long-term liabilities are not available to pay in the current period and therefore are not reported in the funds.	(1,422,713)
Deferred inflows resulting from differences in pension experience are reported on the statement of net position.	<u>(454,886)</u>
Net Position of Governmental Activities	<u><u>\$ 40,272,617</u></u>

Mason County Road Commission

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

	Governmental Fund Type
	General Operating Fund
Revenues	
Licenses and Permits	\$ 20,749
Federal Sources	1,088,482
State Sources	7,771,287
Contributions from Local Units	1,348,516
Charges for Services	800,741
Interest and Rents	49,272
Other Revenue	144,396
Other Financing Sources	255,256
Total Revenues	<u>11,478,699</u>
Expenditures	
Public Works	9,825,085
Capital Outlay	(254,692)
Debt Service	395,962
Total Expenditures	<u>9,966,355</u>
Excess of Revenues Over (Under) Expenditures	1,512,344
Fund Balance - Beginning of Year	<u>3,516,646</u>
Fund Balance - End of Year	<u><u>\$ 5,028,990</u></u>

Mason County Road Commission

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

Net Change in Fund Balance - Total Governmental Funds \$ 1,512,344

Amounts reported for governmental activities in the statements are different because:

Governmental funds report capital outlays and infrastructure improvements 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 and equipment retirements in the current period. 1,851,062

Repayment of installments payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net position. 344,676

Change in the net pension and net OPEB liabilities and related deferrals are an expense in the statement of activities. (564)

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. (8,178)

Issuance of installment loan purchases provides current financial resources to governmental funds, but increases long-term liabilities in the statement of net position. (255,256)

Net Change in Net Position of Governmental Activities \$ 3,444,084

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

	<u>OPEB Trust</u>
ASSETS	
Investments at Fair Market Value	\$ 211,949
NET POSITION	
Restricted for Other Post Employment Benefits	\$ 211,949

Mason County Road Commission**Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Year Ended December 31, 2018**

	<u>OPEB Trust</u>
ADDITIONS	
Contributions:	
Employer	\$ 29,750
Employee	-
Investment Earnings:	
Interest and Dividends and net increase (decrease) in Fair Value of Investments	<u>2,947</u>
Total Additions	<u>32,697</u>
DEDUCTIONS:	
Distributions	8,000
Administrative Fees	<u>-</u>
Total Deductions	<u>8,000</u>
Change in Net Position	24,697
Net Position Restricted for Other Post Employment Benefits	
Beginning of Year	<u>187,252</u>
End of Year	<u><u>\$ 211,949</u></u>

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Mason 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 Mason County Road Commission.

A. Reporting Entity

The Mason 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 County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

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

The statement of net position presents the Road Commission's assets, outflows, liabilities and inflows 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 Road Commission has one major fund, the general operating fund.

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

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

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

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

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

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

Inventories

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

Prepaid Items

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

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by the Mason County Road Commission as assets with an initial individual cost of more than \$1,000 and 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation

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

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

Long-Term Obligations

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

Vested Employee Benefits (Vacation and Sick Leave)

Mason County Road Employee's earn vacation leave in varying amounts depending on the number of years of service. Unpaid vacation leave at December 31, 2018 amounted to \$43,274.

Short-term leave accumulated at December 31, 2018 amounted to \$39,321.

Upon termination of employment, vacation is payable at 100 percent of the accumulated balance. Eight days per year are allowed as short-term leave and if not used by November 30, they are paid on the first pay of January each year. The accumulated balances shown above will therefore not increase but will decrease annually as they are paid off.

Pensions and OPEB

For purposes of measuring the net pension liability and net OPEB liability, deferred outflows of resources and deferred inflows of resources related to the plans and expense, information about the fiduciary net position of the Plans and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the actuaries. 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Deferred Inflows of Resources

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

Fund Balance Classification

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

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Road Commission has classified Inventories and Prepaid Items as being Nonspendable as these items are not expected to be converted to cash within the next year.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The primary road fund has been restricted by provisions of Act 51.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Road Commission. These amounts cannot be used for any other purpose unless the Road Commission removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Road Commission has committed funds for future employee benefits, equipment purchases, and building replacement/renovation.
- Assigned: This classification includes amounts that are constrained by the Road Commission's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Road Commission through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities and deferred 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.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Commission violated provisions of the Act for line items as indicated on page 42.

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

NOTE 3 - CASH AND EQUIVALENTS

The cash and equivalents are classified into the following categories:

Petty Cash	\$	100
Bank Deposits (Checking and Savings Accounts)		2,124,908
Investments		<u>1,667,304</u>
Total Cash and Equivalents	\$	<u><u>3,792,312</u></u>

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

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

NOTE 3 - CASH AND EQUIVALENTS (Continued)

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

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

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

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. As of year end, \$1,338,341 of the Road Commission's bank balance of \$1,851,867 was exposed to credit risk because it was uninsured and uncollateralized.

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

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

Investment Type	Fair Value	Level 1	Level 2	Level 3	Credit Rating	Concentration
Fixed Income Debt Securities:						
U.S. Government	\$ 950,000	\$ -	\$ 950,000	\$ -	AA+	51%
Michigan Class	717,304	-	717,304	-	Unrated/ Unclassified	38%
Other – OPEB Trust	211,949	-	211,949	-	Unrated	11%
Total	<u>\$ 1,879,253</u>	<u>\$ -</u>	<u>\$ 1,879,253</u>	<u>\$ -</u>		

NOTE 4 - DEFERRED COMPENSATION PLAN

The Mason 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 (Mason 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 Mason County Road Commission’s financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Mason 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	\$ 110,375	\$ -	\$ -	\$ 110,375
Infrastructure and Land Improvements	<u>18,399,523</u>	<u>-</u>	<u>-</u>	<u>18,399,523</u>
Subtotal	<u>18,509,898</u>	<u>-</u>	<u>-</u>	<u>18,509,898</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	1,315,559	-	-	1,315,559
Equipment - Road	6,713,844	523,564	317,058	6,920,350
Equipment - Shop	58,567	-	-	58,567
Equipment - Office	45,431	-	-	45,431
Equipment - Engineering	33,895	56,019	-	89,914
Equipment - Yard and Storage	144,989	-	-	144,989
Infrastructure – Bridges	8,748,677	1,969,184	-	10,717,861
Infrastructure - Roads	<u>25,938,953</u>	<u>1,831,494</u>	<u>441,462</u>	<u>27,328,985</u>
Subtotal	<u>42,999,915</u>	<u>4,380,261</u>	<u>758,520</u>	<u>46,621,656</u>
<i>Less Accumulated Depreciation</i>				
Buildings	1,061,341	14,783	-	1,076,124
Equipment - Road	4,826,812	630,119	144,508	5,312,423
Equipment - Shop	58,567	-	-	58,567
Equipment - Office	31,525	6,180	-	37,705
Equipment - Engineering	32,929	10,643	-	43,572
Equipment - Yard and Storage	144,990	-	-	144,990
Infrastructure – Roads/Bridges	<u>17,654,388</u>	<u>1,694,924</u>	<u>441,462</u>	<u>18,907,850</u>
Subtotal	<u>23,810,552</u>	<u>2,356,649</u>	<u>585,970</u>	<u>25,581,231</u>
Net Capital Assets Being Depreciated	<u>19,189,363</u>	<u>2,023,612</u>	<u>172,550</u>	<u>21,040,425</u>
Total Net Capital Assets	<u>\$ 37,699,261</u>	<u>\$ 2,023,612</u>	<u>\$ 172,550</u>	<u>\$ 39,550,323</u>

NOTE 5 - CAPITAL ASSETS (Continued)

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

Infrastructure - Unallocated	\$ 1,694,924
Equipment	523,564
Administrative	6,422
Allocated	<u>131,739</u>
 Total Depreciation Expense	 <u>\$ 2,356,649</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS

Description of Plan and Plan Assets

The Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees’ Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership 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.

01 – Union: Open Division	
	<u>2017 Valuation</u>
Benefit Multiplier:	2.00% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/30
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
Employee Contributions	0%
Act 88:	Yes (Adopted 11/27/2013)

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)

10 – Staff: Open Division

	<u>2017 Valuation</u>
Benefit Multiplier:	2.00% Multiplier (no% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
COLA for Future Retires:	2.50% (Non-Compound)
Employee Contributions	0%
Act 88:	Yes (Adopted 11/27/2013)

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	22
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>35</u>
	60

Funding Policy

The Road Commission is required to contribute the amounts necessary to fund the Michigan Municipal Employees Retirement System using the actuarial basis specified by statute. The Road Commission is required to contribute at an actuarially determined rate of 18.23% and 24.68% of payroll for union and nonunion employees, respectively.

Net Pension Liability

The Road Commission’s net pension liability was measured as of December 31, 2018, 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, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment expense, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

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

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)

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

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

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2017	\$ 8,119,258	\$ 5,410,771	\$ 2,708,487
Service cost	152,624	-	152,624
Interest on total pension liability	640,651	-	640,651
Changes in benefits	-	-	-
Difference between expected and actual experience	(441,536)	-	(441,536)
Changes in assumptions	-	-	-
Employer contributions	-	347,363	(347,363)
Employee contributions	-	-	-
Net investment income	-	(213,430)	213,430
Benefit payments, including employee refunds	(374,857)	(374,857)	-
Administrative expense	-	(10,527)	10,527
Other changes	(24,686)	-	(24,686)
Net changes	(47,804)	(251,451)	203,647
Balances as of December 31, 2018	\$ 8,071,454	\$ 5,159,320	\$ 2,912,134

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Road Commission’s net pension liability	\$3,705,348	\$2,912,134	\$2,228,777

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 \$372,634. At December 31, 2018, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 415,974
Changes in assumptions	84,377	-
Net difference between projected and actual earnings on pension plan investments	395,074	-
Total	\$ 479,451	\$ 415,974

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>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2019	\$ 222,720	\$ 197,862
2020	49,854	107,728
2021	77,922	110,384
2022	128,955	-

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)

Annual Pension Costs – For year ended 2018, the Mason County Road Commission’s annual pension cost of \$347,363 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as of 2016, using the age normal cost method. Significant actuarial assumptions used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 24 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 \$1,088,482 for MDOT contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT’s single audit). Local force account projects are projects where the Road Commission performs the work and would be subject to single audit requirements if they expended \$750,000 or more.

NOTE 8 - LONG-TERM DEBT

The following is a summary of pertinent information concerning the Road Commission’s long-term debt:

	Balance 01/01/18	Increases	Decreases	Balance 12/31/18	Due Within One Year
Caterpillar Financial Service Corp	\$ 152,803	\$ -	\$ 17,121	\$ 135,682	\$ 135,682
Caterpillar Financial Service Corp	307,958	-	23,140	284,818	23,664
Caterpillar Financial Service Corp	185,236	-	13,028	172,208	14,556
Caterpillar Financial Service Corp	289,915	-	25,370	264,545	26,629
John Deere Financial	213,677	-	11,973	201,704	12,439
PACCAR Financial Corporation	-	255,256	-	255,256	255,256
PACCAR Financial Corporation	254,044	-	254,044	-	-
Compensated Absences (1)	74,417	8,178	-	82,595	-
Total Long-Term Debt	\$ 1,478,050	\$ 263,434	\$ 344,676	\$ 1,396,808	\$ 468,226

(1) The change in benefits is shown as a net increase.

Installment Purchase Agreements

During 2017, the Road Commission purchased a Caterpillar motor grader and financed it on a lease/purchase with Caterpillar Financial Services Corporation. The interest rate is variable with monthly payments of \$3,240.

During 2015, the Road Commission purchased a Caterpillar wheeled excavator and financed it on a lease/purchase with Caterpillar Financial Services Corporation. The interest rate is 2.19% per annum with monthly payments of \$1,821 required. After 60 months, a final balloon payment of \$115,000 would be required to pay the balance due.

NOTE 8 - LONG-TERM DEBT (Continued)

During 2015, the Road Commission purchased a Caterpillar motor grader and financed it on a lease/purchase with Caterpillar Financial Services Corporation. The interest rate is 2.69% per annum with monthly payments of \$2,591 required. After 60 months, a final balloon payment of \$245,000 would be required to pay the balance due.

During 2015, the Road Commission purchased a Caterpillar wheel loader and financed it on a lease/purchase with Caterpillar Financial Services Corporation. The interest rate is 2.49% per annum with monthly payments of \$1,556 required. After 60 months, a final balloon payment of \$150,000 would be required to pay the balance due.

During 2015, the Road Commission purchased a John Deere motor grader and financed it on a lease/purchase with John Deere Financial. The interest rate is 3.825% per annum with monthly payments of \$1,661 required. After 60 months, a final balloon payment of \$180,192 would be required to pay the balance due.

During 2017, the Road Commission purchased two Kenworth T800 tractors on a lease/purchase with PACCAR Financial. The interest rate is 5.85% per annum with an annual payment of \$254,044 with an annual payment of \$254,044 plus interest due in March 2018.

During 2018, the Road Commission purchased two 2019 Kenworth T800 tractors and financed them on a lease/purchase with PACCAR Financial. The interest rate is 6.57% per annum with an annual payment of \$255,256 plus interest due in May 2019.

Annual debt service requirements to maturity for the above obligations are as follows:

	Installment Note Payable		
	Principal	Interest	Total
2019	\$ 468,226	\$ 50,518	\$ 518,744
2020	636,022	23,639	659,661
2021	29,337	9,541	38,878
2022	29,625	8,434	38,059
2023	<u>151,003</u>	<u>14,630</u>	<u>165,633</u>
TOTALS	<u>\$ 1,314,213</u>	<u>\$ 106,762</u>	<u>\$ 1,420,975</u>

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS

Plan Description. In addition to the pension benefits, the Mason County Road Commission provides post employment benefits through a single employer defined benefit health care plan (the Retiree Health Plan), to eligible employees who retire from the Road commission on or after attaining retirement age. Benefits provided by the plan consist of a fixed payment of \$250 per month from age 58 to age 65. Benefit provisions are established through negotiations between the Road Commission’s management and Board of Road Commissioners and the employees’ union. The plan does not issue a publicly available report.

Funding Policy. The Mason County Road Commission Retiree Health Care Plan was established and is being funded under the authority of the Road Commission and under agreements with the unions representing various classes of employees. The plan’s funding policy is that the employer will contribute \$21,750 for each of the next three years. Currently, benefit payments are made from general operating funds. Active participants do not make contributions to the plan. There is no long-term contract for contributions to the plan. The plan has no legally required reserves.

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefit payments	4
Inactive employees entitled to but not yet receiving benefits	-
Active employees	<u>35</u>
 Total participants covered by OPEB Plan	 <u><u>39</u></u>

Total OPEB Liability and Trust Assets - The Road Commission’s total OPEB liability of \$237,854 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 \$211,949 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	7.26% including inflation
20 year Aa municipal bond rate	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 plan 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
County Bonds	100%	3.26%

Together with inflation, the long-term expected rate of return is 3.26%.

Discount Rate - The discount rate used to measure the total OPEB liability was 3.14%. The projection of cash flows used to determine the discount rate assumed contributions of \$21,750 will be made annually. Based on this assumption, the retirement Plan’s fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the PA 202 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.

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (Continued)

	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balances at December 31, 2017	\$ 273,190	\$ 187,252	\$ 85,938
Service cost	12,765	-	12,765
Interest	9,446	-	9,446
Experience (gains)/losses	(44,576)	-	(44,576)
Change in plan terms	-	-	-
Change in actuarial assumptions	(4,971)	-	(4,971)
Contributions to OPEB trust	-	21,750	(21,750)
Contributions/benefit paid from general operating funds	-	8,000	(8,000)
Net investment income	-	2,947	(2,947)
Benefit payments including refunds of employee contributions	(8,000)	(8,000)	-
Administrative expense	-	-	-
Net changes	<u>(35,336)</u>	<u>24,697</u>	<u>(60,033)</u>
Balances as December 31, 2018	<u>\$ 237,854</u>	<u>\$ 211,949</u>	<u>\$ 25,905</u>

Net OPEB Liability – Discount 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:

	<u>Discount</u>		
	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 245,771	\$ 237,854	\$ 230,431
Plan Fiduciary Net Position	211,949	211,949	211,949
Net OPEB Liability	<u>\$ 33,822</u>	<u>\$ 25,905</u>	<u>\$ 18,482</u>

OPEB Expense

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

Service Cost	\$ 12,765
Interest on Total OPEB Liability	9,446
Experience (Gains)/Losses	(9,568)
Changes of Assumptions	(1,067)
Investment Earnings (Gains)/Losses	897
Projected earnings	<u>(7,430)</u>
Total OPEB Expense	<u>\$ 5,043</u>

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Deferred Outflows and Inflows of Resources Related to OPEB Plan

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Experience (Gains)/Losses	\$ -	\$ 35,008
Changes in Assumptions	-	3,904
Investment Earnings (Gains)/Losses	<u>3,586</u>	<u>-</u>
Total	<u>\$ 3,586</u>	<u>\$ 38,912</u>

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

Year Ended December 31:

2019	\$ (9,738)
2020	(9,738)
2021	(9,738)
2022	(6,112)

NOTE 10 - RISK MANAGEMENT

Mason County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Mason County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board. Settled claims for the general liability coverage have not exceeded the amount of coverage in any of the past three years.

The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.

NOTE 11 - STATE EQUIPMENT PURCHASE ADVANCE/HIGHWAY MAINTENANCE 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. Equipment advance monies for fiscal 2018 amount to \$377,078. The State has also advanced \$50,794 on the highway maintenance agreement.

NOTE 12 - SUBSEQUENT EVENTS

During 2019, the Road Commission authorized the purchase of equipment amounting to approximately \$168,000. Some purchases are anticipated to be financed by installment contracts.

NOTE 13 - RESTATEMENT

	<u>Governmental Net Position</u>
Beginning net position as previously stated at January 1, 2018	\$ 36,547,726
Restatement of Net Position – for implementation of GASB 75 – OPEB cumulative effect	<u>280,807</u>
Beginning net position as restated at January 1, 2018	<u>\$ 36,828,533</u>

Required Supplementary Information

Mason 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
Total pension liability				
Service cost	\$ 145,384	\$ 134,411	\$ 143,552	\$ 152,624
Interest	576,243	605,095	612,520	640,651
Differences between expected and actual experience	-	(360,537)	10,624	(441,536)
Changes in assumptions	-	337,511	-	-
Other changes	(21,937)	(39,185)	(48,544)	(24,686)
Benefit payments, including refund of member contributions	(336,472)	(352,484)	(367,230)	(374,857)
Net change in total pension liability	363,218	324,811	350,922	(47,804)
Total pension liability - beginning	7,080,307	7,443,525	7,768,336	8,119,258
Total pension liability - ending	<u>\$ 7,443,525</u>	<u>\$ 7,768,336</u>	<u>\$ 8,119,258</u>	<u>\$ 8,071,454</u>
Plan fiduciary net position				
Contributions - employer	\$ 252,898	\$ 290,143	\$ 301,961	\$ 347,363
Net investment income	(68,546)	501,752	639,846	(213,430)
Benefit payments, including refunds of member contributions	(336,472)	(352,484)	(367,230)	(374,857)
Administrative expense	(10,010)	(9,901)	(10,126)	(10,527)
Net change in plan fiduciary net position	(162,130)	429,510	564,451	(251,451)
Plan fiduciary net position - beginning	4,578,940	4,416,810	4,846,320	5,410,771
Plan fiduciary net position - ending	<u>\$ 4,416,810</u>	<u>\$ 4,846,320</u>	<u>\$ 5,410,771</u>	<u>\$ 5,159,320</u>
Net pension liability - ending	<u>\$ 3,026,715</u>	<u>\$ 2,922,016</u>	<u>\$ 2,708,487</u>	<u>\$ 2,912,134</u>
Plan fiduciary net position as a percentage of the total pension liability	59%	62%	67%	64%
Covered - employee payroll	\$ 1,575,702	\$ 1,458,502	\$ 1,536,826	\$ 1,616,727
Net pension liability as a percentage of covered-employee payroll	192%	200%	176%	180%

Mason 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	\$ 252,898	\$ 290,143	\$ 301,961	\$ 347,363
Contributions in relation to the actuarially determined contribution	<u>(252,898)</u>	<u>(290,143)</u>	<u>(301,961)</u>	<u>(347,363)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 1,575,702	\$ 1,458,502	\$ 1,536,826	\$ 1,616,727
Contributions as a percentage of covered-employee payroll	16%	20%	20%	21%

Notes to Schedule:

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

Methods and assumptions used to determine contribution rates:

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

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

	2018
Total OPEB Liability - Beginning of Year	\$ 273,190
Service cost	12,765
Interest	9,446
Change in assumptions	(4,971)
Experience (gains)/losses	(44,576)
Benefit payments	(8,000)
Total OPEB Liability - End of Year	<u>237,854</u>
Plan fiduciary net position	
Contributions - employer	29,750
Net investment income	2,947
Benefits payments, including refunds of member contributions	(8,000)
Administrative expense	-
Net change in plan fiduciary net position	<u>24,697</u>
Plan fiduciary net position - Beginning of Year	<u>187,252</u>
Plan fiduciary net position - End of Year	<u>211,949</u>
Net OPEB liability - End of Year	<u><u>\$ 25,905</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	89%
Covered Payroll	Not Available
Net OPEB liability as a percentage of covered payroll	Not Available
Schedule of Employer Contributions	
Normal cost	\$ 12,765
Interest cost	620
Amortization of unfunded liability	5,745
Actuarially determined employer contribution	19,130
Employer contribution	<u>(29,750)</u>
Contribution deficiency/(excess)	<u><u>\$ (10,620)</u></u>
Covered Payroll	Not Available
Contribution as percentage of covered payroll	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	3.14%
Salary increases	3.50%
Investment rate of return	3.26%
Mortality rate	RP-2014 adjusted to 2006 total data set with MP-2018

Mason 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)	\$	211,949
Liabilities (Total OPEB Liability)		237,854
Funded ratio for the plan year		89.10%
Actuarially recommended contribution (ARC)		16,752
Is ARC calculated in compliance with No. Letter 2018-3?		Yes

Membership

Active members	35
Retirees and beneficiaries	4
Premiums paid on behalf of the retirants	8,000

Actuarial Assumptions

Actuarially assumed rate of investment return	3.26%
Discount rate	3.14%
Amortization method used for funding unfunded liability	Level percent of pay
Amortization period used for funding unfunded liability	6 years
Is each division closed to new employees	No
Healthcare trend assumption	Not available

Uniform Assumptions

Actuarial value of assets using uniform assumptions	\$	211,949
Actuarial accrued liability using uniform assumptions		237,854
Funded ratio using uniform assumptions		89.10%
Actuarially determined contribution (ADC) using uniform assumptions		27,133

Information for Summary Report (minimum required contribution)

Retiree insurance premiums for the year	8,000
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

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 pay
Asset valuation method	Market value of assets

Actuarial Assumptions

Discount rate - 3.14% 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

20-year Aa Municipal Bond Rate - 3.00%

Rationale - Current bond rate

Salary scale - 3.5%

Rationale - Consistent with Uniform Assumptions under Public Act 202

Return on plan assets - 3.26%

Rationale -Consistent with long-term investment strategy

Mortality rates - RP-2014 adjusted to 2006 total data set, headcount weighted with MP-2018 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 - Consistent with experience

Turnover rates - Sample rates below:

Age	Rate (%)
20	7.79%
25	6.78%
30	4.66%
35	3.19%
40	2.21%
45	1.59%
50	0.00%

Marital assumption - N/A; no spousal benefit

Retirement rates - Earliest eligibility age

Rationale - Consistent with experience and maximizes available benefit

Inflation rates - N/A

Rationale - Benefits are a fixed dollar amount

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

Changes since prior valuation

- Mortality tables updated
- Discount rate changed from 3.35%
- Salary scale updated

Mason 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	(44,576)	4.66	\$ (9,568)	\$ (9,568)	\$ (9,568)	\$ (9,568)	\$ (6,304)	\$ -	\$ -	\$ (35,008)
Net recognized in OPEB expense			\$ (9,568)	\$ (9,568)	\$ (9,568)	\$ (9,568)	\$ (6,304)	\$ -	\$ -	\$ (35,008)

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	(4,971)	4.66	\$ (1,067)	\$ (1,067)	\$ (1,067)	\$ (1,067)	\$ (703)	\$ -	\$ -	\$ (3,904)
Net recognized in OPEB expense			\$ (1,067)	\$ (1,067)	\$ (1,067)	\$ (1,067)	\$ (703)	\$ -	\$ -	\$ (3,904)

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	4,483	5	\$ 897	\$ 897	\$ 897	\$ 897	\$ 895	\$ -	\$ 3,586	\$ -
Net recognized in OPEB expense			\$ 897	\$ 897	\$ 897	\$ 897	\$ 895	\$ -	\$ 3,586	\$ -

Total Deferred Outflow/(Inflow) of Resources

Total Deferred Outflow/(Inflow) of Resources	Amount Recognized in Year Ended December 31,				
	2019	2020	2021	2022	2023+
	\$ (9,738)	\$ (9,738)	\$ (9,738)	\$ (6,112)	\$ -

Plan name - Mason County Road Commission Post-Retirement Medical Plan

Eligibility requirements - \$250 pr month from age 58 to age 65

Changes since prior valuation - None

Mason County Road Commission

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

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits	\$ 12,000	\$ 20,399	\$ 20,749	\$ 350
Federal Sources	2,726,864	1,308,200	1,088,482	(219,718)
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Allocation	4,505,000	5,292,638	5,111,652	(180,986)
Snow Removal	110,000	164,256	164,256	-
Urban	180,000	-	234,351	234,351
Local Bridge	-	1,010,000	890,721	(119,279)
Other	-	1,407,121	1,060,130	(346,991)
Economic Development Fund				
Rural Primary	378,000	301,000	249,906	(51,094)
Forest Road	48,298	48,297	50,271	1,974
Contributions from Local Units				
Townships	900,000	978,429	978,429	-
Other	100,000	28,280	370,087	341,807
Charges for Services				
State Trunkline Maintenance	650,000	817,790	696,890	(120,900)
State Trunkline Nonmaintenance	-	-	99,463	99,463
Salvage Sales	2,000	4,469	4,388	(81)
Interest and Rents	2,000	35,611	49,272	13,661
Other Revenue				
Gain (Loss) on Disposal	10,000	315,858	144,200	(171,658)
Other	-	-	196	196
Other Financing Sources				
Installment Proceeds	-	255,256	255,256	-
Total Revenues	\$ 9,634,162	\$ 11,997,604	\$ 11,478,699	\$ (518,905)

Mason County Road Commission

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

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road:				
Preservation - Structural Improvements	\$ 5,303,456	\$ 3,752,696	\$ 3,430,232	\$ 322,464
Maintenance	1,400,000	1,507,343	1,523,546	(16,203)
Local Road:				
Preservation - Structural Improvements	1,599,000	556,847	680,051	(123,204)
Maintenance	1,100,000	2,516,559	2,467,334	49,225
State Trunkline:				
Maintenance	600,000	739,987	696,890	43,097
Nonmaintenance	-	99,463	99,463	-
Equipment Expense - Net	50,000	535,875	643,748	(107,873)
Administrative Expense - Net	250,000	314,413	283,821	30,592
Capital Outlay - Net	65,748	(83,407)	(254,692)	171,285
Debt Service - Net	637,632	639,339	395,962	243,377
Total Expenditures	11,005,836	10,579,115	<u>\$ 9,966,355</u>	<u>\$ 612,760</u>
Fund Balance - January 1, 2018	<u>3,516,646</u>	<u>3,516,646</u>		
Total Budget	<u>\$ 14,522,482</u>	<u>\$ 14,095,761</u>		

Other Information

Mason 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	\$ 6,788,362	\$ 3,602,212	\$ 1,088,125	\$ 11,478,699
Total Expenditures	<u>5,698,932</u>	<u>3,586,586</u>	<u>680,837</u>	<u>9,966,355</u>
Excess of Revenues Over (Under) Expenditures	1,089,430	15,626	407,288	1,512,344
Optional Transfers and Adjustments	-	-	-	-
Fund Balance - January 1, 2018	<u>1,159,707</u>	<u>858,605</u>	<u>1,498,334</u>	<u>3,516,646</u>
Fund Balance - December 31, 2018	<u><u>\$ 2,249,137</u></u>	<u><u>\$ 874,231</u></u>	<u><u>\$ 1,905,622</u></u>	<u><u>\$ 5,028,990</u></u>

Mason County Road Commission

Analysis of Revenues For the Year Ended December 31, 2018

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ -	\$ -	\$ 20,749	\$ 20,749
Federal Sources				
Surface Transportation Program	407,820	-	-	407,820
Bridge	680,662	-	-	680,662
State Sources				
Michigan Transportation Fund				
Engineering	6,064	3,936	-	10,000
Allocation	3,099,761	2,011,891	-	5,111,652
Urban	170,626	63,725	-	234,351
Snow Removal	99,579	64,677	-	164,256
Local Bridge	890,721	-	-	890,721
Other	642,694	417,436	-	1,060,130
Economic Development Fund				
Rural Primary	249,906	-	-	249,906
Forest Road	-	50,271	-	50,271
Contributions from Local Units				
Townships	-	978,429	-	978,429
Other	347,148	-	22,939	370,087
Charges for Services				
State Trunkline Maintenance	-	-	696,890	696,890
State Trunkline Nonmaintenance	-	-	99,463	99,463
Salvage Sales	-	-	4,388	4,388
Interest and Rents	16,001	11,847	21,424	49,272
Gain (Loss) on Equipment Disposal	177,380	-	(33,180)	144,200
Other Revenue	-	-	196	196
Other Financing Sources				
Installment Proceeds	-	-	255,256	255,256
Total Revenues	\$ 6,788,362	\$ 3,602,212	\$ 1,088,125	\$ 11,478,699

Mason 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	\$ 3,430,232	\$ -	\$ -	\$ 3,430,232
Maintenance	1,523,546	-	-	1,523,546
Local Road				
Preservation - Structural Improvements	-	680,051	-	680,051
Maintenance	-	2,467,334	-	2,467,334
State Trunkline Maintenance	-	-	696,890	696,890
State Trunkline Nonmaintenance	-	-	99,463	99,463
Equipment Expense - Net	175,638	328,934	139,176	643,748
Administrative Expense - Net	173,554	110,267	-	283,821
Capital Outlay - Net	-	-	(254,692)	(254,692)
Debt Service				
Debt Principal Payments	344,676	-	-	344,676
Interest Expense	51,286	-	-	51,286
Total Expenditures	<u>\$ 5,698,932</u>	<u>\$ 3,586,586</u>	<u>\$ 680,837</u>	<u>\$ 9,966,355</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

PHILLIP J. WOLF, CPA
LESLIE BOHN, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

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

Board of County Road Commissioners
Mason County Road Commission
510 E. State Street
Scottville, Michigan 49454

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 the aggregate remaining fund information of the Mason County Road Commission (a component unit of Mason County, Michigan), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Mason County Road Commission's basic financial statements and have issued our report thereon dated May 24, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Mason 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 Mason County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mason County Road Commission's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies, listed as 2018-001, 2018-002 and 2018-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mason County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2018-001.

Mason County Road Commission's Response to Findings

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

Purpose of this Report

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



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

May 24, 2019

Significant Deficiencies – Noncompliance with State Statutes

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 2018-001

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

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

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

During the fiscal year ended December 31, 2018, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 42 of the financial statements.

Effect: Condition’s violate State Statutes.

Cause: Unknown.

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

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

- Contact Person(s) Responsible for Correction:
Mary Samuels, Manager/Director

Significant Deficiencies

Internal Control Over Financial Reporting

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

Finding 2018-002

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 Responsible for Correction:
Mary Samuels, Manager

Significant Deficiencies

Internal Control Over Financial Reporting

Segregation of Duties

Finding 2018-003

Criteria/Condition: The Road Commission Clerk performs several functions of receipting, disbursing, and posting to the general ledger as well as the only signature on the checks. To provide a system of checks and balances, these functions are generally assigned to separate positions to minimize the potential for unauthorized transactions.

Effect: Lack of segregation of duties provides opportunities for inaccurate or unauthorized disbursements or transfers from road funds and increases the potential for inaccurate reporting of account activity.

Cause: Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the added personnel.

Recommendation: The Board should be aware of the potential weaknesses in the system and provide appropriate oversight or assistance to personnel when cost beneficial.

Planned Corrective Action: The board has implemented compensating controls to reduce the risks discussed above. Additionally, new accounts payable vendors must be approved prior to data entry and bank reconciliations are reconciled with the County Treasurer.

- Contact Person Responsible for Correction:
Mary Samuels, Manager



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

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of County Road Commissioners
Mason County Road Commission
510 E. State Street
Scottville, Michigan 49454

We have audited the financial statements of the governmental activities, major fund and the aggregate remaining information of the Mason County Road Commission (a component unit of the County of Mason, Michigan) for the year ended December 31, 2018, and have issued our reports thereon dated May 24, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Mason County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Mason County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis, schedule of funding progress, and budgetary comparison schedules, which supplement(s) the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have been engaged to report on the individual schedules and schedule of expenditures of federal awards, which accompany the financial statements but are not RSI. Our responsibility for this other information, as described by professional standards, is to evaluate the presentation of the other information in relation to the financial statements as a whole and to report on whether the other information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters during March 2019.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Mason County Road Commission are described in Note 1 to the financial statements. One new accounting policy was adopted regarding GASB Statement Number 75 and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Road Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- Vested Employee Benefits are based on current rates which may differ from rates used at time of distribution.
- Management's estimate of the amounts reported for OPEB liabilities, the net pension liabilities and actuarial amounts and actuarial value of assets was based on actuarial assumptions and estimates.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreement with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 24, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves the application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Comments and Recommendations

Information Technology (Prior)

The Board may want to perform vulnerability or intrusion scans or tests to assure that unauthorized or illegal access to Road Commission software or data has not occurred to prevent or detect theft of private information. Additionally, this procedure detects "ghost" programs operating for other than Road Commission purposes due to the internet.

Status: Unchanged.

Uniform Administrative Requirements (Prior)

As a precondition to receive federal funds, prospective recipients must have effective administrative and financial internal controls. The Uniform Guidance requires *written* policies and procedures regarding:

- Cash Management – Section 200.302(b)(6) payment procedures
- Allowability of Costs – Section 200.302(b)(7) in accordance with Subpart E – Cost Principals
- Conflict of Interest – Section 200.318(c) covering standards of conduct
- Procurement – Section 200.319(c) for purchasing
- Method of Conducting Technical Evaluations – Section 200.320(d)(3) regarding proposals
- Travel Reimbursement – Section 200.474(b) regarding travel expenses

Written policies should include provisions for training and consequences for violations of policies. The Commission should review its current written policies for compliance with the above requirements regarding federal awards and amend as necessary.

Status: Unchanged.

Other Postemployment Benefits (Prior)

In June 2015, the Governmental Accounting Standards Board issued Statement Number 74 – “Financial Reporting for Postemployment Benefits other than Pensions.” The standard addresses how to measure long-term liabilities and annual costs of Other Postemployment Benefits (OPEB) for the purposes of reporting them in the financial statements. The standard does not apply to how a governmental unit should fund future OPEB payments, however. The standard makes significant changes which will increase the liability and may adjust annual OPEB expense as well. A net OPEB liability will be reported in the employer’s statement of net position which could amount to a significant increase than past amounts reported. The OPEB expense will also be significantly more volatile, since there will likely be two sets of calculations for expense and funding. Additionally, changes in methods and assumptions used in the actuarial calculations, more extensive footnote disclosures and required supplementary information will be needed. The standard is effective for fiscal years beginning after June 15, 2016. We encourage the Board and management to review the provisions of this new standard and anticipate its effect on the financial reporting process.

Status: Corrected.

Single Approach for Reporting Leases (Prior)

The Governmental Accounting Standards Board (GASB) issued guidance that establishes a single approach to accounting for and reporting leases by state and local governments. The single approach is based on the principle that leases are financing of the right to use an underlying asset.

GASB Statement No. 87, *Leases*, provides guidance for lease contracts for nonfinancial assets – including vehicles heavy equipment, and buildings – but excludes nonexchange transactions, including donated assets, and leases of intangible assets.

Under the new Statement a lessee government is required to recognize (1) a lease liability and (2) an intangible asset representing the lessee’s right to use the leased asset. A lessor government is required to recognize (1) a lease receivable and (2) a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements.

A lease also will report the following in its financial statements:

- Amortization expense for using the lease asset (similar to depreciation) over the shorter of the term of the lease or the useful life of the underlying asset.
- Interest expense on the lease liability.
- Note disclosures about the lease, including a general description of the leasing arrangement, the amount of the lease assets recognized, and a schedule of future lease payments to be made.

Limited exceptions to the single-approach guidance are provided for:

- Short-term leases, defined as lasting a maximum of 12 months at inception, including any options to extend.
- Financial purchases.
- Certain regulated leases, such as between municipal airports and air carriers.

The full text of Statement 87 is available on the GASB website, www.gasb.org.

Status: To be implemented.

Obsolete Inventory

The Road Commission has accumulated outdated and obsolete parts inventory, which should be scrapped or sold. Removal of old and unused inventory items reduces handling time and costs and more accurately reports inventory levels. Additionally, post and sign inventory should be reviewed to remove old or unusable signage.

Employee Withholding Forms

Due to the significant changes recently enacted with the 2018 Tax Cuts and Jobs Act, the Board should consider having employees update their Form W4 – Employee’s Withholding Allowance Certificate. Tax Rate, credit and deduction changes have impacted federal income tax withheld from gross pay.

GASB 83 – Certain Asset Retirement Obligations

Effective 06/15/19 (your FY 2019)

This statement addresses accounting and financial reporting for certain asset retirement obligations—legally enforceable liabilities associated with the retirement of a tangible capital assets.

GASB 84 – Fiduciary Activities

Effective 12/15/2019 (your FY 2019)

This standard establishes new criteria for determining how to report fiduciary activities in governmental financial statements. The focus is on whether the government is controlling the assets, and who the beneficiaries are. Under this revised standard, certain activities previously reported in agency funds may be reclassified in future periods. Due to the number of specific factors to consider, management should assess the degree to which this standard may impact the Road Commission.

Other Matters

We applied certain limited procedures to the management’s discussion and analysis, schedule of funding progress, and budgetary comparison schedules, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquires, the basic financial statements, and our knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the individual schedules and schedule of expenditures of federal awards, which accompany the financial statements but are not RSI. With respect to this other information, we made certain inquires of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of the Mason County Road Commission, the cognizant audit agencies and other federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.



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

May 24, 2019