

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

ANNUAL FINANCIAL REPORT
with Supplementary Information

FOR THE YEAR ENDED DECEMBER 31, 2017



CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

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DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of Cheboygan County
Indian River, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the General Fund, and the Employee Health Care Benefit Trust Fund of the Cheboygan County Road Commission (the "Road Commission"), a component unit of Cheboygan County, Michigan, as of and for the year ended December 31, 2017 and the 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 judgement, 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, the General Fund, and the Employee Health Care Benefit Trust Fund of the Road Commission as of December 31, 2017 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principal

The Road Commission adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. As a result, note disclosures were enhanced and required supplementary information has been added relative to the retiree healthcare plan in anticipation of the adoption of GASB Statement No 75. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and defined benefit pension and retiree health benefit schedules, as listed in the table of contents, 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2018 on our consideration of the Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 Cheboygan County Road Commission's internal control over financial reporting and compliance.



Certified Public Accountants

May 31, 2018

CHEBOYGAN COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Cheboygan County Road Commission (the "Road Commission"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2017. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Road Commission's basic financial statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Road Commission's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Road Commission's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the combined assets and deferred outflows of resources and combined liabilities and deferred inflows of resources reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

General Fund Financial Statements

Unlike the government-wide financial statements, the General Fund (governmental) financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the General Fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the General Fund financial statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Both the balance sheet/statement of net position and the statement of revenues, expenditures, and changes in fund balance/statement of activities provide a reconciliation to facilitate this comparison between the General Fund financial statements and the government-wide financial statements.

The Road Commission adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Fiduciary Fund Financial Statements

The Employee Health Care Benefit Trust Fund (fiduciary fund) is used to account for resources held in trust for members and beneficiaries of the Road Commission's retirees' health care plan. The fiduciary fund activity is not reflected in the government-wide financial statements because the resources are not available to support the Road Commission's own programs. The Road Commission's Employee Health Care Benefit Trust Fund is reported in the statements of fiduciary net position and changes in fiduciary net position. The accounting used for fiduciary funds is much like that used for the government-wide presentation. The Road Commission is responsible for ensuring that the assets reported in this fund are used for its intended purpose.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and general and fiduciary fund financial statements. The notes to the financial statements can be found on pages 10-34 of this report.

FINANCIAL HIGHLIGHTS

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$20,240,975 at December 31, 2017.

Net position is separated into two major components, net investment in capital assets of \$30,393,017, and unrestricted (deficit) of \$10,152,042. The net investment in capital assets of the Road Commission reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Road Commission's net investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Road Commission's net position increased \$1,626,878 from a year ago.

The following table presents a comparison of the Statement of Net Position at December 31, 2017 and 2016 in a condensed format:

Condensed Statement of Net Position	<u>2017</u>	<u>2016</u>
Assets -		
Current and other non-capital assets	\$ 5,321,903	\$ 5,357,152
Capital Assets	<u>32,206,657</u>	<u>30,091,937</u>
Total Assets	<u>37,528,560</u>	<u>35,449,089</u>
Deferred Outflows of Resources -		
Deferred charge on refunding bond	36,360	39,390
Related to pension plan	<u>504,659</u>	<u>1,019,682</u>
Total Deferred Outflows of Resources	<u>541,019</u>	<u>1,059,072</u>
Liabilities -		
Noncurrent liabilities	16,097,256	16,341,478
Other liabilities	<u>344,695</u>	<u>369,199</u>
Total Liabilities	<u>16,441,951</u>	<u>16,710,677</u>
Deferred Inflows of Resources -		
Taxes levied for a subsequent period	1,201,182	1,183,387
Related to pension plan	<u>185,471</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>1,386,653</u>	<u>1,183,387</u>
Net Position -		
Net investment in capital assets	30,393,017	28,146,327
Unrestricted (deficit)	<u>(10,152,042)</u>	<u>(9,532,230)</u>
Total Net Position	<u>\$ 20,240,975</u>	<u>\$ 18,614,097</u>

The following table presents a comparison of the Statement of Activities for the year ended December 31, 2017 and 2016 in a condensed format:

Condensed Statement of Activities	<u>2017</u>	<u>2016</u>
Revenues -		
Property Taxes	\$ 1,187,121	\$ 1,175,861
Federal Sources	985,404	743,165
State Sources	5,362,313	4,327,916
Local Sources	1,100,855	787,925
Charges for Services and Other	<u>2,270,028</u>	<u>2,401,491</u>
Total Revenues	<u>10,905,721</u>	<u>9,436,358</u>
Expenses -		
Maintenance	6,422,425	6,405,489
Administrative	579,720	562,337
Equipment (net)	65,179	68,243
Depreciation	2,154,744	2,073,315
Interest	<u>56,775</u>	<u>62,181</u>
Total Expenses	<u>9,278,843</u>	<u>9,171,565</u>
Change in Net Position	1,626,878	264,793
Net Position - Beginning of Year	<u>18,614,097</u>	<u>18,349,304</u>
Net Position - End of Year	<u>\$ 20,240,975</u>	<u>\$ 18,614,097</u>

General Fund Financial Analysis

As noted earlier, the focus of the General Fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$3,798,326, a decrease of \$29,665 from the prior year. Approximately 74% or \$2,795,683 of the fund balance constitutes unassigned fund balance, which is available for spending at the Road Commission's discretion. The remainder of the fund balance in the amount of \$1,002,643 is nonspendable for prepaid items, deposits, and inventory.

BUDGETARY HIGHLIGHTS

The Road Commission amended its 2017 budget to reflect the finalizing of township projects. Thus, revenues were increased by \$1,571,326 to \$10,571,232 and expenditures were increased by \$1,526,307 to \$10,526,213, projecting an increase to fund balance of \$45,019. The actual results for 2017 had revenues of \$10,905,721 and expenditures of \$10,935,386, resulting in a decrease to fund balance of \$29,665.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Road Commission had \$32,206,657 in capital assets at the end of the year, representing an increase of \$2,114,720 or 7% from the previous year. Major current year acquisitions included two single-axle trucks and fit-outs, a CAT grader and attachments, a half-ton quad cab pickup, as well as general infrastructure additions.

Additional information on the Road Commission's capital assets may be found in Note 9 to the financial statements.

Long-term Liabilities - At September 30, 2017 and 2016, the Road Commission had \$2,085,170 and \$2,207,518, respectively, in outstanding long-term liabilities. The activity during the year was due to principal payments on existing bonds and an increase to the accrued vacation and sick liability.

Additional information on the Road Commission's long-term liabilities may be found in Note 10 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

2018 projections are that the Michigan Transportation Fund revenues will increase from 2017 levels due to a 7.3 cent/gallon gasoline tax increase and registration fee increase. The State Legislature has approved a road funding package that will gradually increase revenue to the Road Commission. Revenues from Federal sources through the Transportation Improvement Program are projected to be \$648,566 for reconstruction on primary roads in Cheboygan County. Revenues from the Cheboygan County millage are projected to be \$1,201,182 for 2018. The millage funds will be used for reconstruction of primary roads. Improvements to local roads will be completed by outside contractors with funding provided by township sources. The Road Commission's focus will primarily be on maintenance activities for 2018. Capital outlay purchases for 2018 will include 3 new tandem axle trucks with fit-outs to replace aging trucks in the fleet. In 2018, due to the projected road funding increases, the Road Commission has developed a 5-year plan to best allocate the new funds on road improvements, bridge repairs, equipment upgrades, staffing, and facilities upgrades.

CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designed to provide a general overview of the Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Cheboygan County Road Commission, 5302 South Straits Highway, Indian River, Michigan 49749.

BASIC FINANCIAL STATEMENTS

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

BALANCE SHEET / STATEMENT OF NET POSITION
DECEMBER 31, 2017

	General Fund	Adjustments (Note 2)	Governmental Activities
Assets:			
Cash	\$ 1,783,917	\$ -	\$ 1,783,917
Due from other governmental units	1,294,740	-	1,294,740
Receivables	1,240,603	-	1,240,603
Prepaid items	79,104	-	79,104
Deposits - health insurance	19,793	-	19,793
Inventory	903,746	-	903,746
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	7,027,326	7,027,326
Assets being depreciated	-	25,179,331	25,179,331
Total Assets	\$ 5,321,903	32,206,657	37,528,560
Deferred Outflows of Resources:			
Deferred charges on refunding bond		36,360	36,360
Related to pension plan		504,659	504,659
Total Deferred Outflows of Resources		541,019	541,019
Liabilities:			
Accounts payable	\$ 48,626	-	48,626
Accrued liabilities	134,502	-	134,502
Accrued interest payable	-	22,300	22,300
Due to other governmental units	9,652	-	9,652
Advances and deposits	129,615	-	129,615
Non-Current Liabilities -			
Due within one year	-	135,000	135,000
Due in more than one year	-	1,715,000	1,715,000
Accrued vacation and sick	-	235,170	235,170
Net pension liability	-	11,022,475	11,022,475
Net OPEB obligation	-	2,989,611	2,989,611
Total Liabilities	322,395	16,119,556	16,441,951
Deferred Inflows of Resources:			
Taxes levied for a subsequent period	1,201,182	-	1,201,182
Related to pension plan	-	185,471	185,471
Total Deferred Inflows of Resources	1,201,182	185,471	1,386,653
Fund Balance:			
Nonspendable - Prepays, deposits, and inventory	1,002,643	(1,002,643)	-
Unassigned	2,795,683	(2,795,683)	-
Total Fund Balance	3,798,326	(3,798,326)	-
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 5,321,903		
Net Position:			
Net investment in capital assets		30,393,017	30,393,017
Unrestricted (deficit)		(10,152,042)	(10,152,042)
Total Net Position		\$ 20,240,975	\$ 20,240,975

The accompanying notes are an integral part of these financial statements.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE / STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	General Fund	Adjustments (Note 2)	Governmental Activities
Revenues:			
Property taxes	\$ 1,187,121	\$ -	\$ 1,187,121
Permits	41,935	-	41,935
Intergovernmental -			
Federal sources	985,404	-	985,404
State sources	5,362,313	-	5,362,313
Local sources	1,100,855	-	1,100,855
Charges for services	2,150,896	-	2,150,896
Interest and rents	2,713	-	2,713
Other	74,484	-	74,484
Total Revenues	10,905,721	-	10,905,721
Expenditures/Expenses:			
Current -			
Primary construction - capacity improvements	1,032	(1,032)	-
Primary preservation - structural improvements	1,986,839	(1,986,839)	-
Local preservation - structural improvements	1,366,334	(1,366,334)	-
Primary maintenance	1,566,774	114,892	1,681,666
Local maintenance	2,485,061	185,269	2,670,330
State maintenance	2,070,429	-	2,070,429
Administrative	466,986	112,734	579,720
Equipment operations -	2,589,782	(198,743)	2,391,039
Less equipment rental			
charged to other activities	(2,325,860)	-	(2,325,860)
Depreciation	-	2,154,744	2,154,744
Capital Outlay	916,274	(916,274)	-
Less: depreciation credit			
and retirements	(378,135)	378,135	-
Debt Service -			
Principal	135,000	(135,000)	-
Interest and fiscal charges	54,870	1,905	56,775
Total Expenditures/Expenses	10,935,386	(1,656,543)	9,278,843
Change in Fund Balance/Net Position	(29,665)	1,656,543	1,626,878
Fund Balance/Net Position at Beginning of Year	3,827,991	14,786,106	18,614,097
Fund Balance/Net Position at End of Year	\$ 3,798,326	\$ 16,442,649	\$ 20,240,975

The accompanying notes are an integral part of these financial statements.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

STATEMENT OF FIDUCIARY NET POSITION
EMPLOYEE HEALTH CARE BENEFIT TRUST FUND
DECEMBER 31, 2017

Assets:

Investments, at fair value - Mutual Funds	<u>\$ 640,135</u>
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Net Position - Restricted for Other Postemployment Benefits	<u><u>\$ 640,135</u></u>
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STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
EMPLOYEE HEALTH CARE BENEFIT TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

Additions:

Employer contributions	<u>\$ 134,452</u>
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Investment Income -	
Net appreciation in fair value of investments	55,405
Less: Investment advisory fees	<u>(2,484)</u>
Net Investment Income	<u>52,921</u>

Net increase in net position	187,373
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Net Position - Restricted for Other Postemployment Benefits	
Beginning of year	<u>452,762</u>

End of year	<u><u>\$ 640,135</u></u>
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The accompanying notes are an integral part of these financial statements.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Description of Road Commission Operations -

The Cheboygan County Road Commission (the "Road Commission") is a component unit of the County of Cheboygan, Michigan (the "County"), and is used to control the expenditure of revenues from the State of Michigan (the "State") distribution of gas and weight taxes, federal financial assistance, reimbursements from the Michigan Department of Transportation (MDOT) for work performed by the County on State trunklines and contributions from other local units of government (townships) for work performed by the Road Commission.

The Road Commission, which is established pursuant to the County Road Law (MCL224.1), operates under an elected Board of five (5) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides service to nineteen (19) townships in Cheboygan County and maintains over 1,440 miles of state, local and primary roads. All general long-term debt issuances, excluding capital lease purchase agreements, require County authorization.

B. Government-wide and Fund Financial Statements -

The government-wide financial statements (statement of net position and statement of activities) report information on the nonfiduciary activities of the Road Commission.

Separate financial statements are provided for the General Fund and the Employee Health Care Benefit Trust Fund, even though the latter is excluded from the government-wide financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation -

The government-wide financial statement columns are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are intended to finance operations (the December levy finances the next year's operations). Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

The General Fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized when 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 year. The major revenues susceptible to accrual are motor vehicle highway funds, property taxes, and township contributions. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, pension and other postemployment benefit expenses, and claims and judgements are recorded only when payment is due.

The Road Commission reports the following fund types -

Governmental Fund Type -

The General Fund is the Road Commission's primary operating fund.

Fiduciary Fund Type -

The Employee Health Care Benefit Trust Fund is used to account for the accumulation and investment of funds to provide for the funding of health care benefits for retirees of the Road Commission.

The financial statements of the Road Commission have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities, including the following accounting policies specific to road commissions: allocation of depreciation/depletion and equipment rental, the recording of handling and overhead credits, and the recording of equipment retirements with the related gain or loss on disposal of equipment. The more significant accounting policies are described as follows:

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

Cash - The Road Commission's cash consists of cash on hand, demand deposits, and savings deposits.

Investments - The Road Commission's investments are in mutual funds which are stated at fair value and reported in the Employee Health Care Benefit Trust Fund.

Inventories - Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost, which approximates market.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Prepaid Items - Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to future accounting periods and are recorded as prepaid items in the General Fund and government-wide financial statements.

Property Taxes - A County Road property tax is levied each December 1, based on the taxable value of real and personal property located in Cheboygan County as of the preceding December 31 for the various municipalities within Cheboygan County. Property taxes are recognized as revenues in the year for which they were levied.

Cheboygan County levied 1.00 mills for the year. The revenue generated is to be used to maintain and improve roads and as match funds for federal and state financed projects for roads within Cheboygan County.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure, are reported in the government-wide financial statements (statement of net position). Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets with estimated useful lives in excess of a year. Road equipment is capitalized as defined by MDOT without consideration of minimum cost. Capital assets and infrastructure are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is computed on the sum-of-the-years digits method for road equipment and the straight-line method for all other fixed assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Land Improvements	20 years
Buildings and Improvements	40 years
Equipment	5-8 years
Roads	8-20 years
Bridges	25-50 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways and bridges, which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads has been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource.

The Uniform Accounting Procedures Manual for Michigan County Road Commissions (the "Manual") provides for recording depreciation and depletion in the General Fund financial statements as a charge to various expenditure accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity (fund balance) of the General Fund financial statements.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

The Manual also provides for the net book value of road equipment that is retired to be reported as an equipment retirement in an equipment retirement credit account that is offset against capital outlay. The net of any proceeds received for the retirement (sale, abandonment, or trade-in) is reported as a gain or loss on disposal of equipment. As a result, fund balance of the General Fund is not affected.

Deferred Outflows/Inflows of Resources - In addition to assets, the balance sheet/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 (expenses/expenditures) until then. The Road Commission has the following items that qualify for reporting in this category: deferred charge on bond refunding and pension related changes in assumptions and differences between expected and actual experience. The deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price and is amortized over the shorter of the life of the refunded or refunding debt. The pension related deferred outflows of resources are amortized over the expected remaining service lives of the participants.

In addition to liabilities, the statement of net position and 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) so will not be recognized as an inflow of resources (revenue) until that time. The Road Commission had one item reported on both the government-wide statement of net position (accrual basis of accounting) and the General Fund balance sheet (modified accrual basis of accounting) for taxes levied for a subsequent period. The aforementioned item will be recognized as an inflow of resources in the period the tax levy is for. The Road Commission also reported the net difference between expected and actual plan investment earnings related to the Road Commission's pension on the government-wide statement of net position. This deferred inflow is amortized over five (5) years.

Accrued Vacation and Sick - In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payments for unused sick leave and vacation under formulas and conditions specified in the contracts. All amounts vested are accrued in the government-wide statements (statement of net position).

Advances From the State of Michigan - The State advances funds on a State maintenance agreement it has with the Road Commission for specified maintenance, which the Road Commission will perform during the year, and for equipment purchased and used in performance of the specified maintenance. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State.

Equipment Rental - The Manual provides that the cost of operating equipment, including depreciation, be charged (allocated) to the various activities. The credit of this allocation is an offset to equipment expenditures/expenses. As a result, the available fund balance and net position are not affected.

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NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Handling and Overhead Credits - The Manual provides that the charging of handling and overhead based on a calculation related to a specific project's cost, particularly the State Trunkline agreements, be reported as an expenditure/expense under the appropriate activity and a credit to a handling or overhead credit account that is offset against the Administrative activity. As a result, the available fund balance and net position are not affected.

Long-term Obligations - In the government-wide financial statements (statement of net position), long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, when material, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as debt service expenditures.

Other Postemployment Benefits (OPEB) - The Road Commission offers retiree healthcare benefits to employees. The Road Commission receives an alternative measurement method calculation permitted by Governmental Accounting Standards Board (GASB) Statement No. 45 for OPEB to compute the annual required contribution (ARC) necessary to fund the obligations over the remaining amortization period. In the General Fund, OPEB cost recognition occurs as contributions occur. For the government-wide statements, the Road Commission reports the annual OPEB cost regardless of when it is paid.

Fund Balance - In the financial statements, the General Fund can present fund balance in one or more of the following classifications:

Nonspendable fund balance - the portion of fund balance that cannot be spent because of its form.

Restricted fund balance - the portion of fund balance that has limitations imposed on use by external sources.

Committed fund balance - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action via board resolution (e.g., to establish, modify or rescind), of the highest level of decision-making authority (Board of County Road Commissioners).

Assigned fund balance - the portion of fund balance that reflects the Road Commission's intended use of resources. Such intent currently must be determined by the Engineer/Manager or designee as provided via resolution of the Board of County Road Commissioners.

Unassigned fund balance - the portion of a fund balance in the General Fund that cannot be classified into one of the four categories above.

When different classifications of fund balance are present, it is the Road Commission's policy that expenditures are to be spent from restricted fund balance first, if appropriate, followed in order by committed fund balance, then assigned and lastly unassigned.

Estimates - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Upcoming Accounting Pronouncement - Recently GASB issued the following statement that may have an impact on the Road Commission's financial statements when adopted. The Road Commission is currently evaluating the implications of this pronouncement.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued in June 2015 and will become effective for the Road Commission's December 31, 2018 fiscal year. The statement requires governments providing defined benefit plans to report the net OPEB liability in their statement of net position. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets accumulated in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND GENERAL FUND FINANCIAL STATEMENTS:

A. Explanation of differences between the Balance Sheet and the Statement of Net Position (Page 7).

Fund Balance - General Fund	\$ 3,798,326
Capital assets used in General Fund activities are not current financial resources and therefore not reported in the General Fund financial statements.	
Add - capital assets	58,499,258
Deduct - accumulated depreciation	(26,292,601)
Certain changes in pension plan liabilities are reported as deferred outflows (inflows) of resources in the statement of net position.	
Deferred outflows of resources	504,659
Deferred inflows of resources	(185,471)
Charges on refunding are reported as debt service costs in the General Fund but deferred and amortized in the statement of net position.	
	36,360
Long-term liabilities are not due in the current period and therefore not reported in the General Fund	
Bonds payable	(1,850,000)
Accrued compensated absences	(235,170)
Net pension liability	(11,022,475)
Net OPEB obligation	(2,989,611)
Accrued interest payable on long-term liabilities not reported in the General Fund	
	(<u>22,300</u>)
Net Position - Governmental Activities	<u>\$ 20,240,975</u>

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NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND GENERAL FUND FINANCIAL STATEMENTS - (cont'd):

B. Explanation of differences between the Statement of Revenues, Expenditures, and Change in Fund Balance and the Statement of Activities (Page 8).

Change in fund balance - General Fund	\$(29,665)
<p>The General Fund reports capital outlay as expenditures; however, in the government-wide statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Add - capital outlay and infrastructure	4,270,479
Deduct - depreciation	(2,154,744)
Deduct - retirements	(1,015)
<p>Principal payments on long-term liabilities are reported as an expenditure in the General Fund, but not in the statement of activities where it reduces the long-term liability.</p>	
	135,000
<p>Interest expense adjustment for accrual reported in the statement of activities when the liability is incurred and reported in the General Fund only when payment is due</p>	
	1,125
<p>Deferred charges on refunding that are expensed in the General Fund in the year of refunding, but deferred and amortized over the remaining life of the bond in the statement of activities</p>	
	(3,030)
<p>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 General Fund.</p>	
Increase in accrued sick and vacation	(12,652)
Changes in pension expense related to deferred items related to pension plan	(700,494)
Decrease in net pension liability	306,258
Increase in net OPEB obligation	(184,384)
Change in Net Position - Governmental Activities	<u>\$ 1,626,878</u>

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Compliance -

The Road Commission Engineer/Manager prepares from data submitted by the administrative staff, a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

The budget for the General Fund is adopted on the modified accrual basis, which is consistent with accounting principles generally accepted in the United States of America.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioner's resolution.

The Road Commission's approved budget was adopted at the activity level. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act since amendments to the budget at the activity level must be approved by the Board of County Road Commissioners.

The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Michigan Public Act 621 of 1978, Section 18, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated at the legally enacted level. The Michigan Department of Treasury requires the reporting of any significant overages at the legal level of budgetary control level (any overages at the legal level of budgetary control greater than 10% of the total expenditure and the overage itself is larger than 10%). For the fiscal year ended December 31, 2017, the Road Commission had an overage that exceeded this threshold as follows:

	Final Amended Budget	Amount Expended	Budget Variance
State Maintenance	\$ 1,853,343	\$ 2,070,429	\$ 217,086

NOTE 4 - DEPOSITS AND INVESTMENTS:

As of December 31, 2017, the carrying amount of deposits and investments is as follows:

	General Fund	Fiduciary Fund	Reporting Entity
Petty Cash	\$ 300	\$ -	\$ 300
Deposits with Financial Institutions Maintained by County Treasurer	1,783,617	-	1,783,617
Investments - Mutual Funds	-	640,135	640,135
	\$ 1,783,917	\$ 640,135	\$ 2,424,052

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (cont'd):

Deposits -

The Manual provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Cheboygan County Treasurer's Office, and in order to make disbursements, the Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account.

Michigan Compiled Laws Section 129.921 (Public Act 20 of 1994, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Custodial Credit Risk - Deposits - is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. Michigan Public Acts authorize road commissions to deposit into the accounts of federally insured banks, insured credit unions, and savings and loan associations with an office in Michigan. The Road Commission's investment policy does not have a custodial credit risk requirement.

The Road Commission's deposits consist of demand accounts and savings accounts. At December 31, 2017, the carrying amount of the Road Commission's deposits is \$1,783,617 and the bank balance is \$2,386,343. As a component unit of Cheboygan County, all Road Commission cash is part of the accounts maintained by Cheboygan County, at financial institutions insured by federal deposit insurance. However, it cannot be determined to what extent the insurance applies to the Road Commission.

Investments -

The Employee Health Care Benefit Trust Fund investments are made in accordance with the provisions of the State of Michigan Public Employee Retirement System Investment Act, Public Act 314 of 1965, as amended, and are held for the exclusive purposes of providing plan benefits and defraying reasonable expenses of administration as provided in the Act.

The Employee Health Care Benefit Trust Fund investments are made through the use of an investment advisor who serves at the leisure of the Trustee as provided by the trust agreement.

Credit Risk - Investments - As of December 31, 2017, the Employee Health Care Benefit Trust Fund has \$640,135 invested exclusively in mutual funds.

Custodial Credit Risk - Investments - 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 that are in the possession of another party. The Road Commission's investment policy does not address custodial credit risk.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (cont'd):

The Road Commission categorized 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 quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, inputs other than quoted prices that are observable, or market-corroborated inputs; and Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its 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 fair value hierarchy, the fair value measurements are categorized based on the lowest level input that is significant to valuation. The Road Commission's assessment of the significance of particular inputs used requires judgement and consideration of factors specific to each asset.

The Road Commission's recurring fair value measurements as of December 31, 2017 consisted of mutual funds in the amount of \$640,135 that are categorized as Level 1 inputs.

Interest Rate Risk - Investments - is the risk that the value of investments will decrease as a result of a rise in interest rates. The Road Commission's investment policy does not address interest rate risk.

Concentration of Credit Risk - Investments - is the risk of loss attributed to the magnitude of the Road Commission's investment in a single issuer. The Road Commission's investment policy does not address concentration of credit risk.

NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS:

Due from other governmental units as of December 31, 2017 consist of the following:

State -		
Motor Vehicle Highway Funds	\$	795,776
Trunkline Maintenance/Non-Maintenance		431,041
MDOT Audit Adjustment		40,110
MDOT Maintenance Advance Adjustment		17,140
		1,284,067
Local -		
Township Road Agreements		9,400
Other		1,273
		\$ 1,294,740

NOTE 6 - RECEIVABLES:

Receivables at December 31, 2017 consist of the following:

Property taxes	\$	1,201,182
Insurance Refunds		39,009
Other		412
		\$ 1,240,603

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NOTE 7 - INVENTORIES:

The inventory balance of \$903,746 at December 31, 2017 consisted of \$431,058 of road materials and \$472,688 of equipment parts and materials.

NOTE 8 - FEDERAL AWARDS:

It is required by MDOT that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures are required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended December 31, 2017, the Road Commission had less than \$750,000 of force account and other expenditures applicable to federal awards. As a result, an audit for compliance under the Single Audit Act has not been performed.

NOTE 9 - CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Balance January 1, 2017	Additions	Removals/ Deletions	Balance December 31, 2017
Capital Assets, not being depreciated -				
Land	\$ 179,255	\$ -	\$ -	\$ 179,255
Land Improvements	6,516,304	244,459	-	6,760,763
Right-of-Ways	<u>87,308</u>	<u>-</u>	<u>-</u>	<u>87,308</u>
Total Capital Assets, not being depreciated	<u>6,782,867</u>	<u>244,459</u>	<u>-</u>	<u>7,027,326</u>
Capital Assets, being depreciated -				
Buildings and Improvements	4,007,549	4,339	-	4,011,888
Road Equipment	8,132,881	851,917	448,932	8,535,866
Shop Equipment	251,623	4,604	1,900	254,327
Office Equipment	65,478	23,912	4,597	84,793
Engineering Equipment	60,004	1,713	995	60,722
Yard and Storage	291,957	29,789	144	321,602
Infrastructure -				
Land improvements	1,519,360	-	-	1,519,360
Roads	24,170,135	3,109,746	210,489	27,069,392
Bridges	9,587,017	-	-	9,587,017
Depletable Assets -				
Gravel Pits	<u>26,965</u>	<u>-</u>	<u>-</u>	<u>26,965</u>
	<u>48,112,969</u>	<u>4,026,020</u>	<u>667,057</u>	<u>51,471,932</u>

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 9 - CAPITAL ASSETS - (cont'd):

	Balance January 1, <u>2017</u>	<u>Additions</u>	Removals/ Deletions	Balance December 31, <u>2017</u>
Less - accumulated depreciation for -				
Buildings and Improvements	\$ 2,610,891	\$ 109,952	\$ -	\$ 2,720,843
Road Equipment	7,413,406	272,352	447,917	7,237,841
Shop Equipment	243,098	2,637	1,900	243,835
Office Equipment	60,556	2,192	4,597	58,151
Engineering Equipment	59,658	336	995	58,999
Yard and Storage	259,801	11,934	144	271,591
Infrastructure -				
Land improvements	263,720	75,968	-	339,688
Roads	10,543,942	1,485,134	210,489	11,818,587
Bridges	3,333,495	194,239	-	3,527,734
Depletable Assets - Gravel Pits	<u>15,332</u>	<u>-</u>	<u>-</u>	<u>15,332</u>
	<u>24,803,899</u>	<u>2,154,744</u>	<u>666,042</u>	<u>26,292,601</u>
Total Capital Assets, being depreciated, net	<u>23,309,070</u>	<u>1,871,276</u>	<u>1,015</u>	<u>25,179,331</u>
Governmental activities capital assets, net	<u>\$ 30,091,937</u>	<u>\$ 2,115,735</u>	<u>\$ 1,015</u>	<u>\$ 32,206,657</u>

Total depreciation for the year ended December 31, 2017 was \$2,154,744.

NOTE 10 - LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2017:

	Balance January 1, <u>2017</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2017</u>	Due Within One Year
2013 MTF Refunding Bonds	\$ 1,985,000	\$ -	\$ 135,000	\$ 1,850,000	\$ 135,000
Accrued Vacation and Sick	<u>222,518</u>	<u>12,652</u>	<u>-</u>	<u>235,170</u>	<u>-</u>
	<u>\$ 2,207,518</u>	<u>\$ 12,652</u>	<u>\$ 135,000</u>	<u>\$ 2,085,170</u>	<u>\$ 135,000</u>

CHEBOYGAN COUNTY ROAD COMMISSION
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DECEMBER 31, 2017

NOTE 10 - LONG-TERM LIABILITIES - (cont'd):

Significant details regarding outstanding long-term liabilities are presented below:

MTF Bonds -

Michigan Transportation Fund (MTF) Refunding Bonds, Series 2013, dated December 17, 2013, were issued in the amount of \$2,285,000, due in annual installments of \$135,000 to \$180,000 through May 1, 2029, with interest of 2.00-3.75% payable semi-annually. The proceeds of the refunding bonds were placed in escrow for the purpose of generating resources for all future debt service payments of \$2,170,000 of MTF Bonds, Series 2004. Accordingly, the defeased portion of the bond issue is not included in the Road Commission's financial statements. The principal balance outstanding of the defeased bonds at December 31, 2017 is \$1,840,000. The bonds are issued in anticipation of and are payable from monies derived from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction, reconstruction, and work incidental thereto pursuant to Act 51. In addition, the limited tax full faith and credit of the County of Cheboygan has been pledged for meeting payment of the principal and interest on the bond.

\$ 1,850,000

The annual principal and interest requirements to service the MTF Refunding Bonds as of December 31, 2017 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 135,000	\$ 52,170	\$ 187,170
2019	140,000	49,420	189,420
2020	140,000	46,620	186,620
2021	145,000	43,589	188,589
2022	145,000	40,145	185,145
2023-2027	790,000	132,292	922,292
2028-2029	<u>355,000</u>	<u>13,406</u>	<u>368,406</u>
	<u>\$ 1,850,000</u>	<u>\$ 377,642</u>	<u>\$ 2,227,642</u>

Accrued Vacation and Sick -

The accrued vacation and sick balance represents vested vacation and sick benefits due to Road Commission employees upon termination of employment with the Road Commission. The balance at December 31, 2017 is \$235,170. All amounts vested have been accrued on the government-wide financial statements.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 11 - PENSION PLANS:

Defined Benefit Plan:

Plan Description -

The Road Commission participates in the Michigan Municipal Employees Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan (the "Plan") created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly-available financial report that includes financial statements and required supplementary information which may be obtained at www.mersofmich.com, by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917, or by calling (800) 767-6377.

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension and pension expense have been determined on the same basis as they are reported by the Plan. The Plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value or estimated fair value. Road Commission contributions to the Plan are recognized when due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with benefit terms.

The membership at December 31, 2016 was comprised of 33 active participants, 63 retirees and beneficiaries, and 6 other vested inactive participants.

Benefits Provided -

Retirement benefits are calculated based on division as 2.0% to 2.5% of the employee's final three-year (3) average salary times the employee's years of service. Employees are vested after 10 years of service. Normal retirement age is 60. Early retirement with a reduced benefit is at 50 with 25 years of service or at 55 with 15 years of service. Early retirement with an unreduced benefit is at 55 with 25 years of services for Divisions 01 and 13, and 55 with 30 years of service for Division 12. Employees are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability benefits are determined in the same manner as retirement benefits but are payable immediately. An employee who leaves service may withdraw his or her contributions, plus accumulated interest. Benefit terms provide for annual cost-of-living adjustments to each employee's retirement benefit subsequent to the employee's retirement date of 2.00% to 2.50%.

Benefit terms, within the parameters established by MERS, are established and amended by authority of the Board of County Road Commissioners. Effective January 1, 2015, non-union employees previously included within Division 01 were put into a separate division, establishing Division 13.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 11 - PENSION PLANS - (cont'd):

Contributions -

The Road Commission pays the actuarially determined amount, which for the year ended December 31, 2017 was a flat rate of \$64,988 per month for Division 01, 10.82% of covered payroll for Division 12 for the period January-August 2017, a flat rate of \$2,867 per month for Division 12 for the period September-December 2017, and a flat rate of \$9,154 per month for Division 13. Division 01 was closed on April 1, 2013 to new hires, transfers, and rehires. Effective March 12, 2016, Division 12 was closed to new hires, transfers, and rehires. Employee contributions of 1.50% were required for the period January 1, 2017 - March 31, 2017 for Divisions 01 and 12. Employee contributions of 2.50% were required for Divisions 01 and 12 for the period April 1, 2017 - December 31, 2017 and Division 13 for the entire fiscal year. In November 2017, the Road Commission amended the Plan that will require employee contributions of 3.00% in fiscal 2018 as follows: Division 01 (effective April 1, 2018), Division 12 (effective June 1, 2018), and Division 13 (effective January 1, 2018).

Net Pension Liability -

The net pension liability of the Road Commission has been measured as of December 31, 2017 as determined by an actuarial valuation performed as of December 31, 2016 and is composed of the following:

	<u>Total Pension Liability</u>	<u>Plan's Net Position</u>	<u>Net Pension Liability</u>
Beginning balance	\$ 20,201,012	\$ 8,872,279	\$ 11,328,733
Service cost	168,083	-	168,083
Changes in benefits	(12,242)	-	(12,242)
Interest on total pension liability	1,569,927	-	1,569,927
Difference between expected and actual experience	212,191	-	212,191
Net investment income	-	1,153,497	(1,153,497)
Contributions from employer	-	1,066,779	(1,066,779)
Contributions from employees	-	29,845	(29,845)
Benefit payments	(1,321,944)	(1,321,944)	-
Administrative costs	-	(18,271)	18,271
Other	(12,367)	-	(12,367)
Ending balance	<u>\$ 20,804,660</u>	<u>\$ 9,782,185</u>	<u>\$ 11,022,475</u>

Plan fiduciary net position as a percentage of the total pension liability 47.02%

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions -

At December 31, 2017, the Road Commission had a net pension liability of \$11,022,475. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 11 - PENSION PLANS - (cont'd):

For the year ended December 31, 2017, the Road Commission recognized pension expense related to the Plan of \$1,461,015. At December 31, 2017, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on Plan investments	\$ -	\$ 185,471
Difference between expected and actual experience	165,694	-
Changes in assumptions	338,965	-
	\$ 504,659	\$ 185,471

The amounts of deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

2018	\$ 459,227
2019	96,028
2020	(145,374)
2021	(90,693)
	\$ 319,188

Actuarial Assumptions -

The total pension liability was determined by an actuarial valuation as of December 31, 2016, which used updated procedures to roll forward the estimated liability to December 31, 2017. The valuation used the following actuarial assumptions based on the most recent study of Plan experience covering the period from December 31, 2008 through December 31, 2013.

Salary Increases - 3.00%

Inflation - 2.50%

Investment Rate of Return - 7.75%

Mortality Rates - 50% Male and 50% Female blend of the following tables: 1) the RP-2014 Healthy Annuitant Mortality Tables with rates multiplied by 105%, 2) the RP-2014 Employee Mortality Tables, and 3) the RP-2014 Juvenile Mortality Tables. For disabled retirees, the RP-2014 Disabled Retiree Mortality Tables using a 50% Male and 50% Female blend were used.

Discount Rate - The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Road Commission contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 11 - PENSION PLANS - (cont'd):

Projected Cash Flows -

Based on the assumptions above, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 real rates of return (expected returns, net of 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of December 31, 2016 for each major asset class included in the Plan's target asset allocation, as disclosed in the investment footnote of the Plan, are summarized in the following table.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	57.5 %	5.0 %
Global Fixed Income	20.0	2.2
Real Assets	12.5	4.2
Diversifying Strategies	10.0	6.6
	100.0 %	

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 percent, 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 percent) or 1-percentage-point higher (9.00 percent) than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net pension liability	\$ 13,280,045	\$ 11,022,475	\$ 9,104,678

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 11 - PENSION PLANS - (cont'd):

Defined Contribution Plans:

The Road Commission has established a Defined Contribution Plan through MERS. The Defined Contribution Plan is open to the Engineer/Manager, new hires, rehires, and transfers of current Defined Benefit Plan Division #13 for non-union hired employees hired after October 16, 2015. The Defined Contribution Plan requires the Road Commission to contribute 5% of a participant's compensation. The Road Commission will also contribute a 1:1 match for employee contributions up to 3%. Vesting for the Defined Contribution Plan is as follows: 0% for the first two years of service, and then increases by 25% each service year thereafter. The Defined Contribution Plan fully vests after 6 years of service. Employer contributions related to the Defined Contribution Plan for the year ended December 31, 2017 were \$28,937.

Deferred Compensation Plan:

Effective July 18, 2013, the Road Commission now offers a MERS 457 Supplemental Retirement Program Plan, created in accordance with the Internal Revenue Code Section 457, which covers all full-time employees and commissioners, as well as the Engineer/Manager. The assets of the deferred compensation plan are held in trust for the exclusive benefit of the participants and their beneficiaries. MERS as the custodian 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 Road Commission for purposes of providing direction to MERS from time to time for the investment of 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, Section 457 plan balances and activities are not reflected in the Road Commission's financial statements.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS:

Plan Description -

In addition to the pension benefits described in Note 11, the Road Commission provides postemployment benefits through a single-employer defined benefit healthcare plan (the "Retiree Health Plan") to eligible employees who retire from the Road Commission. Benefit provisions are established through negotiations between the Road Commission's management, the Board of Commissioners, and the various collective bargaining units. Management of the Retiree Health Plan is provided by the Board of County Road Commissioners, which consists of five members.

The Retiree Health Plan is audited within the scope of the audit of the basic financial statements; separate audited financial statements are not issued.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Benefits Provided -

Benefits provided by the Retiree Health Plan consist of healthcare, dental, and prescription drug coverage for the retiree and spouse. Benefit eligibility is based on the employees' union agreement as noted below:

Bargaining Unit	Dates Hired	Retirement Age/ Years of Service	Benefits Received
Local 1325	Pre March 11, 2003	55/10	100% of premiums
	March 12, 2003 - June 30, 2009	55/10	50-100% of premiums depending on years of service*
	July 1, 2009 - April 1, 2013	55/25 or 60/10	50-100% of premiums depending on years of service*
	April 2, 2013 - March 12, 2016	55/30 or 60/20	50-100% of premiums depending on years of service*
	Post-March 13, 2016	55/30 or 60/20	50-100% of premiums depending on years of service**
Supervisors	Pre-March 11, 2003	60/10	100% of premiums
	March 12, 2003 - May 31, 2013	60/10	50-100% of premiums depending on years of service*
	Post-June 1, 2013	55/30 or 60/20	50-100% of premiums depending on years of service*
Non Union	Pre-August 1, 2009	55/10	100% of premiums
	August 1, 2009 - December 31, 2016	55/25 or 60/10	50-100% of premiums depending on years of service*

* Benefits received cease when the retiree and spouse become Medicare eligible.

** Benefits received are for the retiree only. Benefits cease when the retiree becomes Medicare eligible.

Non-union employees hired on or after January 1, 2017 are not eligible to receive benefits.

Plan Membership -

At December 31, 2017, Retiree Health Plan membership consisted of 38 active members and 51 inactive members or beneficiaries receiving benefits.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Funding Policy -

The Road Commission recognizes the cost of providing these benefits on a pay-as-you-go method for current retirees. The Retiree Health Plan requires no member contributions for Road Commission employees. The Road Commission can periodically make contributions to an irrevocable trust to provide advance funds for these benefits which are counted towards the ARC contribution. During the year, total contributions were \$659,430, including \$134,452 to the irrevocable trust fund.

Annual OPEB Cost and Net OPEB Obligation -

The Road Commission's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount calculated in accordance with the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents the level of funding necessary to cover the normal cost each year and the amortization of any unfunded actuarial liabilities (or funding excess) amortized over a period not to exceed thirty years. The Road Commission's annual OPEB cost for the year, the amount actually contributed, and changes in the net OPEB obligation are as follows:

Annual required contribution	\$	829,932
Interest on net OPEB obligation		196,366
Adjustment to annual required contribution	(182,484)
Annual OPEB cost (expense)		843,814
Contributions made	(659,430)
Increase in net OPEB obligation		184,384
Net OPEB obligation - beginning of year		2,805,227
Net OPEB obligation - end of year	\$	2,989,611

Schedule of Employer Contributions -

<u>Year Ended</u> <u>December 31,</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2015	\$ 1,069,829	49.18 %	\$ 2,365,309
2016	1,072,431	58.98	2,805,227
2017	843,814	78.15	2,989,611

Schedule of Funding Progress -

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u> <u>(b)</u>	<u>Unfunded</u> <u>(Overfunded)</u> <u>Accrued</u> <u>Liability</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL</u> <u>as a % of</u> <u>Covered</u> <u>Payroll</u> <u>(b-a)/c</u>
12/31/11	\$ 51,667	\$ 7,968,733	\$ 7,917,066	0.65 %	\$ 1,688,622	469 %
12/31/14	265,967	14,257,885	13,991,918	1.87	1,835,645	762
12/31/17	640,135	12,380,885	11,740,750	5.17	1,536,334	764

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement Age of Active Employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 55 or 60, depending on the applicable collective bargaining units benefit provisions.

Marital Status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics. The United States Life Tables for Males and for Females were obtained from the Center for Disease Control (www.cdc.gov). The most recent data are the life tables for males and females, 2014 version (Tables 2 and 3 from the National Vital Statistics Report, Vol. 66, No. 4 dated August 14, 2017).

Turnover - Nongroup-specific age-based turnover data from GASB Statement No. 45 was used as the basis for assigning active members a probability of remaining employment until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare Cost Trend Rate - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. The rate was estimated at 3.4 percent for 2019, fluctuating between 4.4 percent and 4.9 percent before decreasing to 4.8 percent in 2024 and for the years thereafter.

Health Insurance Premiums - 2018 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Inflation Rate - The expected long-term inflation assumption of 2.0 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2010 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

Payroll Growth Rate - The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on historical and expected returns of the short-term investment portfolio, a discount rate of 5 percent and 7 percent investment rate was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open period with a remaining amortization period of 30 years.

Investment Policy -

The Retiree Health Plan's policy in regards to the invested assets is established and may be amended by the Board of County Road Commissioners by a majority of its members. The policy does not address a target allocation or long-term expected rate of return for invested assets.

Rate of Return -

For the year ended December 31, 2017, the annual money-weighted rate of return on Retiree Health Plan investments, net of investment expense, is 10.52%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability (Unfunded Accrued Liability) of the Road Commission -

For 2017, the Road Commission reports OPEB expense based on funding requirements, as directed by GASB Statement No. 45. Beginning next year, the Road Commission will adopt GASB Statement No. 75, which will require measurement of OPEB expense as it is earned, rather than as it is funded. The components of the net OPEB liability of the Road Commission as measured at December 31, 2017 are as follows:

Total OPEB liability	\$	12,380,885
Retiree Health Plan fiduciary net position		640,135
Net OPEB liability	\$	11,740,750
Retiree Health Plan fiduciary net position as a percentage of total OPEB liability		5.17%

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Single Discount Rate -

A single discount rate of 5.00% was used to measure the total OPEB liability. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made when the projected benefit payments come due. Based on these assumptions, the Retiree Health Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Retiree Health Plan members. Therefore, the long-term expected rate of return on Retiree Health Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate -

The following presents the net OPEB liability of the Road Commission, calculated using the discount rate of 5.00%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower (4.00%) or one percentage-point higher (6.00%) than the current rate.

	1% Decrease (4.00%)	Current Discount Rate (5.00%)	1% Increase (6.00%)
Net OPEB Liability	\$ 13,231,482	\$ 11,740,750	\$ 10,465,258

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates -

The following presents the net OPEB liability of the Road Commission, calculated using the healthcare cost trend rate of 3.40%, increasing to 4.90% before decreasing to 4.80%, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage-point lower or one percentage-point higher than the current rate.

	1% Decrease (2.40-3.90%)	Current Healthcare Cost Trend Rate (3.40-4.90%)	1% Increase (4.40-5.90%)
Net OPEB Liability	\$ 10,474,955	\$ 11,740,750	\$ 13,219,734

NOTE 13 - ADVANCES:

An advance of \$129,615 at December 31, 2017 was provided by the State for working capital under a road maintenance contract the Road Commission has with MDOT. The advance is adjusted annually by the State and must be repaid if the maintenance contract is cancelled.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 14 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

In the normal course of its operations, the Cheboygan County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

The Road Commission participates in a number of federal and state-assisted grant programs, which are subject to compliance audits. The periodic program compliance monitoring of many of the federal and state programs have not yet been conducted or completed. Accordingly, the Road Commission's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Road Commission expects such amounts, if any, to be immaterial.

As part of its trunkline maintenance agreement with the State, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

NOTE 15 - RISK MANAGEMENT:

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (the "Pool") established pursuant to the laws of the State, which authorizes 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 for Michigan County Road Commissions which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The 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 formation 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.

The Road Commission is also a member of the County Road Association Self-Insurance Fund (the "Fund") for workers' compensation self-insurance. The Fund is a municipal self-insurance entity operating within the laws of the State. The Fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Fund.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 15 - RISK MANAGEMENT - (cont'd):

The Road Commission is self-insured for health care benefits with the administrative services of the program being performed by a health insurance provider. The Road Commission makes monthly payments, based on estimated claims and a stop-loss provision, which are adjusted quarterly. The Road Commission pays claims up to \$40,000 per contract per contract year. Stop-loss insurance has been purchased to insure the Road Commission against losses in excess of these limits. Based on past history, the Road Commission has estimated the accrued health care claims, including an estimate for claims incurred but not reported (IBNR), of \$40,000 at December 31, 2017, which is recorded in the General Fund. Changes in the balance of claims liability are as follows:

	2017	2016
Unpaid claims, beginning of year	\$ 40,000	\$ 40,000
Incurred claims (including IBNR's)	695,408	534,517
Claims Paid	(695,408)	(534,517)
Unpaid claims, end of year	40,000	40,000
Less current portion	40,000	40,000
Long-term Liabilities	\$ -	\$ -

REQUIRED SUPPLEMENTARY INFORMATION

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GENERAL FUND
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 1,183,387	\$ 1,187,061	\$ 1,187,121	\$ 60
Permits	30,000	43,100	41,935	(1,165)
Intergovernmental -				
Federal sources	880,830	985,082	985,404	322
State sources	4,955,734	5,275,080	5,362,313	87,233
Local sources	196,792	1,087,600	1,100,855	13,255
Charges for services	1,701,063	1,875,400	2,150,896	275,496
Interest and rents	2,100	2,909	2,713	(196)
Other	50,000	115,000	74,484	(40,516)
Total Revenues	<u>8,999,906</u>	<u>10,571,232</u>	<u>10,905,721</u>	<u>334,489</u>
Expenditures:				
Current -				
Primary Construction/ capacity improvements	-	-	1,032	(1,032)
Primary preservation - structural improvements	1,998,522	1,984,300	1,986,839	(2,539)
Local preservation - structural improvements	476,496	1,367,200	1,366,334	866
Primary maintenance	2,176,302	1,510,000	1,566,774	(56,774)
Local maintenance	1,847,248	2,409,500	2,485,061	(75,561)
State maintenance	1,701,063	1,853,343	2,070,429	(217,086)
Administrative	445,000	456,000	466,986	(10,986)
Equipment - net	-	313,000	263,922	49,078
Capital Outlay - net	165,000	443,000	538,139	(95,139)
Debt Service	190,275	189,870	189,870	-
Total Expenditures	<u>8,999,906</u>	<u>10,526,213</u>	<u>10,935,386</u>	<u>(409,173)</u>
Revenues Over (Under) Expenditures	-	45,019	(29,665)	(74,684)
Fund Balance at Beginning of Year	<u>3,827,991</u>	<u>3,827,991</u>	<u>3,827,991</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 3,827,991</u>	<u>\$ 3,873,010</u>	<u>\$ 3,798,326</u>	<u>\$(74,684)</u>

CHEBOYGAN COUNTY ROAD COMMISSION
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EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN FISCAL YEARS (PLAN YEAR)

	Year Ended December 31,		
	2017	2016	2015
Total Pension Liability			
Service Cost	\$ 168,083	\$ 172,502	\$ 177,977
Changes in benefits	(12,242)	-	-
Interest	1,569,927	1,452,926	1,465,734
Differences between expected and actual experience	212,191	72,699	-
Changes in assumptions	-	1,016,897	-
Benefit payments, including refunds	(1,321,944)	(1,296,034)	(1,229,200)
Other	(12,367)	58,676	16,746
	<u>603,648</u>	<u>1,477,666</u>	<u>431,257</u>
Change in total pension liability			
Total pension liability, beginning of year	<u>20,201,012</u>	<u>18,723,346</u>	<u>18,292,089</u>
Total pension liability, end of year	<u>\$ 20,804,660</u>	<u>\$ 20,201,012</u>	<u>\$ 18,723,346</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 1,066,779	\$ 872,808	\$ 724,576
Contributions - Member	29,845	13,472	-
Net investment income	1,153,497	926,220	(130,146)
Benefit payments, including refunds	(1,321,944)	(1,296,034)	(1,229,200)
Administrative expenses	(18,271)	(18,314)	(19,271)
	<u>909,906</u>	<u>498,152</u>	<u>(654,041)</u>
Net change in plan fiduciary net position			
Plan fiduciary net position, beginning of year	<u>8,872,279</u>	<u>8,374,127</u>	<u>9,028,168</u>
Plan fiduciary net position, end of year	<u>\$ 9,782,185</u>	<u>\$ 8,872,279</u>	<u>\$ 8,374,127</u>
Road Commission's Net Pension Liability - Ending	<u>\$ 11,022,475</u>	<u>\$ 11,328,733</u>	<u>\$ 10,349,219</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	47.02%	43.92%	44.73%
Covered Employee Payroll	\$ 1,358,613	\$ 1,440,708	\$ 1,488,063
Road Commission's Net Pension Liability as a Percentage of Covered Employee Payroll	811.3%	786.3%	695.5%

* GASB Statement No. 68 was implemented for fiscal year December 31, 2015. The Road Commission did not elect retroactive implementation.

CHEBOYGAN COUNTY ROAD COMMISSION
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EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
LAST TEN YEARS

	Year Ended December 31,			
	2017	2016	2015	2014-2008*
Actuarially determined contributions	\$ 912,327	\$ 755,671	\$ 724,576	\$ -
Contributions in relation to the actuarially determined contribution	1,066,779	872,808	724,576	-
Contribution Deficiency (Excess)	\$(154,452)	\$(117,137)	\$ -	\$ -
Covered Payroll	\$ 1,353,460	\$ 1,470,793	\$ 1,454,072	\$ -
Contributions as a Percentage of Covered Employee Payroll	78.82%	59.34%	49.83%	0.00%

Valuation Date December 31, two years prior of the end of the fiscal year

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, open
Remaining amortization period	23 years
Asset valuation method	10-year smoothed market value
Inflation	2.5%
Salary increases	3%
Investment rate of return	7.75%
Retirement age	Replacement Index up to age 70, then 100%
Mortality	50% Male and 50% Female blend of the following tables: 1) the RP-2014 Healthy Annuitant Mortality Tables with rates multiplied by 105%; 2) the RP-2014 Employee Mortality Tables; and 3) the RP-2014 Juvenile Mortality Tables. □

* GASB Statement No. 68 was implemented for fiscal year December 31, 2015. The Road Commission did not elect retroactive implementation.

CHEBOYGAN COUNTY ROAD COMMISSION
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DEFINED BENEFIT OPEB PLAN
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
LAST TEN FISCAL YEARS

	2017	2016-2008*
Total OPEB Liability		
Service Cost	\$ 212,937	\$ -
Interest	833,369	-
Differences between expected and actual experience	(205,655)	-
Benefit payments, including refunds	(524,978)	-
Change in total OPEB liability	315,673	-
Total OPEB liability, beginning of year	12,065,212	-
Total OPEB liability, end of year	\$ 12,380,885	\$ -
 Plan Fiduciary Net Position		
Employer contributions -		
Retiree healthcare premiums	\$ 524,978	\$ -
OPEB Trust Fund	134,452	-
Net investment income	52,921	-
Benefit payments, including refunds	(524,978)	-
Net change in plan fiduciary net position	187,373	-
Plan fiduciary net position, beginning of year	452,762	-
Plan fiduciary net position, end of year	\$ 640,135	\$ -
 Road Commission's Net OPEB Liability - Ending	\$ 11,740,750	\$ -
 Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	5.17%	0.00%
 Covered Employee Payroll	\$ 1,536,334	\$ -
 Road Commission's Net OPEB Liability as a Percentage of Covered Employee Payroll	764.21%	0.00%

* GASB Statement No. 74 was implemented for fiscal year ended December 31, 2017 and the Road Commission did not elect retroactive implementation.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

DEFINED BENEFIT OPEB PLAN
SCHEDULE OF CONTRIBUTIONS
LAST TEN FISCAL YEARS

	2017	2016-2008*
Actuarially determined contributions	\$ 829,932	\$ -
Contributions in relation to the actuarially determined contribution	659,430	-
Contribution Deficiency (Excess)	\$ 170,502	\$ -
Covered Payroll	\$ 1,536,334	\$ -
Contributions as a Percentage of Covered Employee Payroll	42.92%	- %

Valuation Date December 31, 2017

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	30 years, Open
Asset Valuation Method	Market Value of Assets
Price Inflation	2.00%
Wage Inflation	2.00%
Salary Increases	2.00%
Investment Rate of Return	7.00%
Retirement Age	55 or 60, depending on the applicable bargaining agreement
Mortality	National Center for Health Statistics 2014 version (Tables 2 and 3 from the National Vital Statistics Report, Vol.66 No. 7 dated August 14, 2017)
Health Care Trend Rates	Initial trend of 3.40% in 2019, fluctuating between 4.40% and 4.90% before decreasing to 4.80% in 2024 and for years thereafter

* GASB Statement No. 74 was implemented for fiscal year ended December 31, 2017 and the Road Commission did not elect retroactive implementation.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

DEFINED BENEFIT OPEB PLAN
SCHEDULE OF INVESTMENT RETURNS
LAST TEN FISCAL YEARS

	<u>2017</u>	<u>2016-2008*</u>
Annual money-weighted rate of return, net of investment expenses	10.52%	0.00%

* GASB Statement No. 74 was implemented for fiscal year ended December 31, 2017 and the Road Commission did not elect retroactive implementation.

SUPPLEMENTARY INFORMATION

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County

DETAIL SCHEDULE OF REVENUES
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

Revenues:

Property taxes	\$ 1,187,121
Permits	41,935
Federal Sources -	
Surface Transportation Program (STP)	579,476
D Funds	106,619
Other	299,309
	985,404
State Sources -	
Motor Vehicle Highway Funds - Act 51 -	
Engineering	10,000
Primary Allocation roads	2,682,324
Local Allocation roads	2,398,360
Snow Removal	145,509
Other	6,487
Forest Road Money	119,633
	5,362,313
Local Sources -	
Township contributions	1,088,815
Other contributions	12,040
	1,100,855
Charges for Services -	
Trunkline maintenance	1,624,247
Trunkline nonmaintenance	508,349
Salvage and other	18,300
	2,150,896
Interest and Rents	2,713
Other -	
Sundry refunds	15
Proceeds/gain on equipment disposal	64,079
Other	10,390
	74,484
Total Revenues	\$ 10,905,721

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County

DETAIL SCHEDULE OF EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

Expenditures:

Construction/Capacity Improvement -		
Other	\$	1,032
Preservation/ structural improvements -		
Primary roads and structures		1,986,839
Local roads and structures		1,366,334
		3,353,173
Maintenance -		
Primary roads and structures, winter maintenance, and traffic control		1,566,774
Local roads and structures, winter maintenance, and traffic control		2,485,061
		4,051,835
State Maintenance -		
Trunkline maintenance		1,562,080
Trunkline nonmaintenance		508,349
		2,070,429
Equipment -		
Direct		1,542,288
Indirect		739,499
Operating		307,995
Less - equipment rental	(2,325,860)
		263,922
Administrative -		
Administration		666,812
Less -		
State trunkline overhead	(191,104)
Purchase discounts and other	(8,722)
		466,986
Capital Outlay -		
Equipment		916,274
Less -		
Depreciation	(377,120)
Equipment retirements	(1,015)
		538,139
Debt Service -		
Principal		135,000
Interest		54,870
		189,870
Total Expenditures	\$	10,935,386

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BY FUND BALANCE SUB-ACCOUNTS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Primary	Local	County	Total
Revenues:				
Property taxes	\$ 1,187,121	\$ -	\$ -	\$ 1,187,121
Permits	-	300	41,635	41,935
Intergovernmental -				
Federal Sources	756,672	228,410	322	985,404
State Sources	2,831,064	2,524,762	6,487	5,362,313
Local Sources	12,040	1,088,815	-	1,100,855
Charges for services	-	-	2,150,896	2,150,896
Interest	-	-	2,713	2,713
Other	9,010	685	64,789	74,484
Total Revenues	4,795,907	3,842,972	2,266,842	10,905,721
Expenditures:				
Local construction/capacity improvements	1,032	-	-	1,032
Preservation/structural improvements	1,986,839	1,366,334	-	3,353,173
Maintenance	1,566,774	2,485,061	-	4,051,835
State maintenance	-	-	2,070,429	2,070,429
Administrative - net	224,137	242,849	-	466,986
Equipment - net	61,539	122,148	80,235	263,922
Capital outlay - net	-	-	538,139	538,139
Debt Service -				
Principal	-	-	135,000	135,000
Interest	-	-	54,870	54,870
Total Expenditures	3,840,321	4,216,392	2,878,673	10,935,386
Revenues over (under) expenditures before optional transfers	955,586	(373,420)	(611,831)	(29,665)
Optional transfers	(373,420)	373,420	-	-
Net Changes in Fund Balance	582,166	-	(611,831)	(29,665)
Fund Balance at Beginning of Year	923,161	477,174	2,427,656	3,827,991
Fund Balance at End of Year	\$ 1,505,327	\$ 477,174	\$ 1,815,825	\$ 3,798,326