

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

ANNUAL FINANCIAL REPORT
with Supplementary Information

FOR THE YEAR ENDED DECEMBER 31, 2019

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

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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, 2019 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 Cheboygan County Road Commission as of December 31, 2019 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and defined benefit pension and OPEB plan 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 13, 2020 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.

UHY LLP

Port Huron, Michigan
May 13, 2020

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, 2019. 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 10-33 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 \$15,524,896 at December 31, 2019.

Net position is separated into two major components, net investment in capital assets of \$33,208,634 and unrestricted (deficit) of \$(17,683,738). 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 \$2,714,404 from a year ago.

The following table presents a comparison of the Statement of Net Position at December 31, 2019 and 2018 in a condensed format:

Condensed Statement of Net Position

| | <u>2019</u> | <u>2018</u> |
|--------------------------------------|----------------------|----------------------|
| Assets - | | |
| Current and other non-capital assets | \$ 6,773,961 | \$ 6,349,399 |
| Capital Assets | <u>34,983,367</u> | <u>33,447,387</u> |
| Total Assets | <u>41,757,328</u> | <u>39,796,786</u> |
| Deferred Outflows of Resources | <u>176,905</u> | <u>892,979</u> |
| Liabilities - | | |
| Noncurrent liabilities | 23,396,926 | 26,033,289 |
| Other liabilities | <u>333,302</u> | <u>344,832</u> |
| Total Liabilities | <u>23,730,228</u> | <u>26,378,121</u> |
| Deferred Inflows of Resources | <u>2,679,109</u> | <u>1,501,152</u> |
| Net Position - | | |
| Net investment in capital assets | 33,208,634 | 31,415,009 |
| Unrestricted (deficit) | <u>(17,683,738)</u> | <u>(18,604,517)</u> |
| Total Net Position | <u>\$ 15,524,896</u> | <u>\$ 12,810,492</u> |

The following table presents a comparison of the Statement of Activities for the year ended December 31, 2019 and 2018 in a condensed format:

Condensed Statement of Activities

| | <u>2019</u> | <u>2018</u> |
|----------------------------------|----------------------|----------------------|
| Revenues - | | |
| Property Taxes | \$ 1,247,474 | \$ 1,205,597 |
| Federal Sources | 1,535,617 | 321,302 |
| State Sources | 6,632,134 | 6,938,923 |
| Local Sources | 833,883 | 727,069 |
| Charges for Services and Other | <u>2,570,799</u> | <u>2,203,570</u> |
| Total Revenues | <u>12,819,907</u> | <u>11,396,461</u> |
| Expenses - | | |
| Maintenance | 6,918,564 | 6,638,018 |
| Administrative | 388,461 | 617,957 |
| Equipment (net) | (172,478) | 430,839 |
| Depreciation | 2,911,542 | 2,333,241 |
| Interest | <u>59,414</u> | <u>55,750</u> |
| Total Expenses | <u>10,105,503</u> | <u>10,075,805</u> |
| Change in Net Position | 2,714,404 | 1,320,656 |
| Net Position - Beginning of Year | <u>12,810,492</u> | <u>11,489,836</u> |
| Net Position - End of Year | <u>\$ 15,524,896</u> | <u>\$ 12,810,492</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 \$5,178,667, an increase of \$403,925 from the prior year. Approximately 78% or \$4,021,600 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 \$1,157,067 is nonspendable for prepaid items, deposits, and inventory.

BUDGETARY HIGHLIGHTS

The Road Commission amended its 2019 budget to reflect the finalizing of township projects and additional State and Federal funding. Thus, revenues were increased by \$1,545,411 to \$12,394,537 and expenditures were increased by \$1,521,100 to \$12,370,226, projecting an increase to fund balance of \$24,311. The actual results for 2019 had revenues of \$12,819,907 and expenditures of \$12,415,982, resulting in an increase to the fund balance of \$403,925.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Road Commission had \$34,983,367 in capital assets at the end of the year, representing an increase of \$1,535,980 or approximately 5% from the previous year. Major current-year acquisitions included a new excavator and a new mowing tractor, as well as 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 December 31, 2019 and 2018, the Road Commission had \$23,396,926 and \$26,033,289, respectively, in outstanding long-term liabilities. The activity during the year was due to principal payments on existing bonds and installment purchases and an increase to the accrued vacation and sick liability. The balance also includes changes in the Road Commission's net pension and net OPEB liabilities.

Additional information on the Road Commission's long-term liabilities may be found in Note 11 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

2020 projections are that the Michigan Transportation Fund revenues will increase from 2019 levels. 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 \$683,001 for reconstruction on Primary Roads in Cheboygan County. State bridge funds in the amount of \$555,180 are being used to place a new bridge deck for a bridge located on N. Black River Road, with the balance coming from Road Commission funds. Revenues from the Cheboygan County millage are projected to be \$1,251,000 for 2020. 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. Crack sealing is being performed on roads per asset management system Paser ratings. The Road Commission's focus will primarily be on maintenance activities for 2020. Capital outlay purchases for 2020 will include purchasing three (3) tandem trucks. In 2017, the Road Commission 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, 2019

| | General Fund | Adjustments (Note 2) | Governmental Activities |
|---|-----------------|-------------------------|----------------------------|
| Assets: | | | |
| Cash | \$ 2,214,765 | \$ - | \$ 2,214,765 |
| Due from other governmental units | 2,029,110 | - | 2,029,110 |
| Receivables | 1,373,019 | - | 1,373,019 |
| Prepaid items | 139,506 | - | 139,506 |
| Deposits - health insurance | 24,282 | - | 24,282 |
| Inventory | 993,279 | - | 993,279 |
| Capital assets, net of accumulated depreciation - | | | |
| Assets not being depreciated | - | 7,037,269 | 7,037,269 |
| Assets being depreciated | - | 27,946,098 | 27,946,098 |
| Total Assets | \$ 6,773,961 | 34,983,367 | 41,757,328 |
| Deferred Outflows of Resources: | | | |
| Deferred charges on refunding bond | | 30,300 | 30,300 |
| Related to pension plan | | 146,605 | 146,605 |
| Total Deferred Outflows of Resources | | 176,905 | 176,905 |
| Liabilities: | | | |
| Accounts payable | \$ 43,128 | - | 43,128 |
| Accrued liabilities | 135,040 | - | 135,040 |
| Accrued interest payable | - | 20,008 | 20,008 |
| Advances and deposits | 135,126 | - | 135,126 |
| Non-Current Liabilities - | | | |
| Due within one year | - | 264,036 | 264,036 |
| Due in more than one year | - | 23,132,890 | 23,132,890 |
| Total Liabilities | 313,294 | 23,416,934 | 23,730,228 |
| Deferred Inflows of Resources: | | | |
| Taxes levied for a subsequent period | 1,282,000 | - | 1,282,000 |
| Related to pension plan | - | 66,772 | 66,772 |
| Related to OPEB plan | - | 1,330,337 | 1,330,337 |
| Total Deferred Inflows of Resources | 1,282,000 | 1,397,109 | 2,679,109 |
| Fund Balance: | | | |
| Nonspendable - Prepays, deposits, and inventory | 1,157,067 | (1,157,067) | - |
| Unassigned | 4,021,600 | (4,021,600) | - |
| Total Fund Balance | 5,178,667 | (5,178,667) | - |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balance | \$ 6,773,961 | | |
| Net Position: | | | |
| Net investment in capital assets | | 33,208,634 | 33,208,634 |
| Unrestricted (deficit) | | (17,683,738) | (17,683,738) |
| Total Net Position | | \$ 15,524,896 | \$ 15,524,896 |

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, 2019**

| | General Fund | Adjustments (Note 2) | Governmental Activities |
|--|---------------------|-------------------------|----------------------------|
| Revenues: | | | |
| Property taxes | \$ 1,247,474 | \$ - | \$ 1,247,474 |
| Permits | 37,760 | - | 37,760 |
| Intergovernmental - | | | |
| Federal sources | 1,535,617 | - | 1,535,617 |
| State sources | 6,632,134 | - | 6,632,134 |
| Local sources | 833,883 | - | 833,883 |
| Charges for services | 2,505,106 | - | 2,505,106 |
| Interest and rents | 3,655 | - | 3,655 |
| Other | 24,278 | - | 24,278 |
| Total Revenues | <u>12,819,907</u> | <u>-</u> | <u>12,819,907</u> |
| Expenditures/Expenses: | | | |
| Current - | | | |
| Primary construction - capacity improvements | 303,811 | (303,811) | - |
| Primary preservation - structural improvements | 2,725,513 | (2,725,513) | - |
| Local preservation - structural improvements | 996,362 | (996,362) | - |
| Primary maintenance | 2,310,179 | (120,101) | 2,190,078 |
| Local maintenance | 2,721,338 | (145,395) | 2,575,943 |
| State maintenance | 2,152,543 | - | 2,152,543 |
| Administrative | 479,597 | (91,136) | 388,461 |
| Equipment operations - | 3,450,511 | (975,656) | 2,474,855 |
| Less equipment rental | | | |
| charged to other activities | (2,647,333) | - | (2,647,333) |
| Depreciation | - | 2,911,542 | 2,911,542 |
| Capital Outlay | 421,836 | (421,836) | - |
| Less: depreciation credit | | | |
| and retirements | (816,601) | 816,601 | - |
| Debt Service - | | | |
| Principal | 260,675 | (260,675) | - |
| Interest and fiscal charges | 57,551 | 1,863 | 59,414 |
| Total Expenditures/Expenses | <u>12,415,982</u> | <u>(2,310,479)</u> | <u>10,105,503</u> |
| Change in Fund Balance/Net Position | 403,925 | 2,310,479 | 2,714,404 |
| Fund Balance/Net Position at Beginning of Year | <u>4,774,742</u> | <u>8,035,750</u> | <u>12,810,492</u> |
| Fund Balance/Net Position at End of Year | <u>\$ 5,178,667</u> | <u>\$ 10,346,229</u> | <u>\$ 15,524,896</u> |

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, 2019

Assets:

| | |
|--|----------------------------|
| Investments, at fair value - Mutual Funds | <u>\$ 1,297,708</u> |
| Net Position - Restricted for Other Postemployment Benefits | <u><u>\$ 1,297,708</u></u> |

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
EMPLOYEE HEALTH CARE BENEFIT TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

Additions:

| | |
|--|----------------------------|
| Employer contributions | <u>\$ 261,582</u> |
| Investment Income - | |
| Net appreciation in fair value of investments | 163,754 |
| Less: Investment advisory fees | <u>(5,351)</u> |
| Net Investment Income | <u>158,403</u> |
| Net increase in net position | 419,985 |
| Net Position - Restricted for Other Postemployment Benefits | |
| Beginning of year | <u>877,723</u> |
| End of year | <u><u>\$ 1,297,708</u></u> |

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, 2019

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

The government-wide financial statement columns (statement of net position and statement of activities) and the Employee Health Care Benefits Trust Fund are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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.

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 (OPEB) expenses, and claims and judgements are recorded only when payment is due.

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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

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:

C. 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.

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 the County as of the preceding December 31 for the various municipalities within the County. Property taxes are recognized as revenues in the year for which they were levied.

The County levied 1.00 mill 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 the County.

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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

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 |

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.

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 reports deferred charges on refunding, which 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 Road Commission also reports deferred outflows of resources related to the net pension and OPEB liabilities which are amortized over the remaining service lives of the plan's participants, with the exception of the difference between projected and actual investment earnings, which is amortized over five years.

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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

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 reports taxes levied for a subsequent period on both the government-wide statement of net position (accrual basis of accounting) and the General Fund balance sheet (modified accrual basis of accounting). The aforementioned item will be recognized as an inflow of resources in the period the tax levy is for. The Road Commission also reported deferred inflows of resources related to the net pension and net OPEB liabilities which are amortized over the remaining service lives of the plan's participants, with the exception of the difference between projected and actual investment earnings, which is amortized over five 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.

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.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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

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.

Upcoming Accounting Pronouncement - Recently, the Governmental Accounting Standards Board (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. 87, *Leases*, was issued in June 2017 and will become effective for the Road Commission's December 31, 2021 fiscal year. The objective of the statement is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use of an underlying asset. Under this statement, a lease is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the government's leasing activities.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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 | \$ 5,178,667 |
| <p>Capital assets used in General Fund activities are not current financial resources and therefore not reported in the General Fund financial statements.</p> | |
| Add - capital assets | 65,469,417 |
| Deduct - accumulated depreciation | (30,486,050) |
| <p>Certain changes in pension and OPEB plan liabilities are reported as deferred outflows (inflows) of resources in the statement of net position.</p> | |
| Deferred outflows of resources | 146,605 |
| Deferred inflows of resources | (1,397,109) |
| <p>Charges on refunding are reported as debt service costs in the General Fund but deferred and amortized in the statement of net position.</p> | |
| | 30,300 |
| <p>Long-term liabilities are not due in the current period and therefore not reported in the General Fund.</p> | |
| Bonds payable | (1,575,000) |
| Installment purchase agreement | (230,033) |
| Accrued compensated absences | (271,879) |
| Net pension liability | (11,243,912) |
| Net OPEB liability | (10,076,102) |
| <p>Accrued interest payable on long-term liabilities not reported in the General Fund</p> | |
| | (20,008) |
| Net Position - Governmental Activities | <u>\$ 15,524,896</u> |

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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 | \$ 403,925 |
| The General Fund reports capital outlay as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. | |
| Add - capital outlay and infrastructure | 4,447,522 |
| Deduct - depreciation | (2,911,542) |
| 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 | |
| | 260,675 |
| 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 | |
| | 1,167 |
| 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 | |
| | (3,030) |
| 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. | |
| Increase in accrued sick and vacation | (4,995) |
| Changes in pension expense related to deferred items related to pension and OPEB plans | (1,860,001) |
| Decrease in net pension liability | 507,286 |
| Decrease in net OPEB liability | <u>1,873,397</u> |
| Change in Net Position - Governmental Activities | <u>\$ 2,714,404</u> |

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.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - (cont'd):

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 Commissioners' 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, 2019, the Road Commission did not have any overages that exceeded this threshold.

NOTE 4 - DEPOSITS AND INVESTMENTS:

As of December 31, 2019, 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 | 2,214,465 | - | 2,214,465 |
| Investments - Mutual Funds | - | 1,297,708 | 1,297,708 |
| | <u>\$ 2,214,765</u> | <u>\$ 1,297,708</u> | <u>\$ 3,512,473</u> |

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.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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

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, 2019, the carrying amount of the Road Commission's deposits is \$2,214,465 and the bank balance is \$2,364,720. 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, 2019, the Employee Health Care Benefit Trust Fund has \$1,297,708 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.

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, 2019 consisted of mutual funds in the amount of \$1,297,708 that are categorized as Level 1 inputs.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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

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, 2019 consist of the following:

| | | |
|---------------------------------------|----|------------------|
| State - | | |
| Motor Vehicle Highway Funds | \$ | 1,015,819 |
| Trunkline Maintenance/Non-Maintenance | | 290,011 |
| MDOT Audit Adjustment | | 350,942 |
| MDOT Advance Adjustment | | <u>14,062</u> |
| | | 1,670,834 |
| Local - | | |
| Township Road Agreements | | <u>358,276</u> |
| | \$ | <u>2,029,110</u> |

NOTE 6 - RECEIVABLES:

Receivables at December 31, 2019 consist of the following:

| | | |
|-------------------|----|------------------|
| Property taxes | \$ | 1,282,000 |
| Insurance Refunds | | 3,547 |
| Other | | <u>87,472</u> |
| | \$ | <u>1,373,019</u> |

NOTE 7 - INVENTORIES:

The inventory balance of \$993,279 at December 31, 2019 consisted of \$572,691 of road materials and \$420,588 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, 2019, 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.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 9 - CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

| | Balance January 1, 2019 | Additions | Removals/ Deletions | Balance December 31, 2019 |
|--|-------------------------------|---------------------|------------------------|---------------------------------|
| Capital Assets, not being depreciated - | | | | |
| Land | \$ 179,255 | \$ - | \$ - | \$ 179,255 |
| Land Improvements | 6,770,706 | - | - | 6,770,706 |
| Right-of-Ways | 87,308 | - | - | 87,308 |
| Total Capital Assets, not being depreciated | <u>7,037,269</u> | <u>-</u> | <u>-</u> | <u>7,037,269</u> |
| Capital Assets, being depreciated - | | | | |
| Buildings and Improvements | 4,011,888 | 27,550 | - | 4,039,438 |
| Road Equipment | 9,372,289 | 393,089 | 258,642 | 9,506,736 |
| Shop Equipment | 265,048 | 1,197 | - | 266,245 |
| Office Equipment | 90,511 | - | - | 90,511 |
| Engineering Equipment | 60,722 | - | - | 60,722 |
| Yard and Storage | 322,314 | - | - | 322,314 |
| Infrastructure - | | | | |
| Land improvements | 1,519,489 | 303,811 | - | 1,823,300 |
| Roads | 29,188,388 | 3,721,875 | 201,363 | 32,708,900 |
| Bridges | 9,587,017 | - | - | 9,587,017 |
| Depletable Assets - | | | | |
| Gravel Pits | 26,965 | - | - | 26,965 |
| | <u>54,444,631</u> | <u>4,447,522</u> | <u>460,005</u> | <u>58,432,148</u> |
| Less: Accumulated depreciation for - | | | | |
| Buildings and Improvements | 2,886,602 | 166,794 | - | 3,053,396 |
| Road Equipment | 7,641,422 | 647,536 | 258,642 | 8,030,316 |
| Shop Equipment | 248,703 | 5,269 | - | 253,972 |
| Office Equipment | 63,536 | 5,733 | - | 69,269 |
| Engineering Equipment | 59,422 | 423 | - | 59,845 |
| Yard and Storage | 285,624 | 13,130 | - | 298,754 |
| Infrastructure - | | | | |
| Land improvements | 415,661 | 91,164 | - | 506,825 |
| Roads | 12,696,238 | 1,787,253 | 201,363 | 14,282,128 |
| Bridges | 3,721,973 | 194,240 | - | 3,916,213 |
| Depletable Assets - Gravel Pits | 15,332 | - | - | 15,332 |
| | <u>28,034,513</u> | <u>2,911,542</u> | <u>460,005</u> | <u>30,486,050</u> |
| Total Capital Assets, being depreciated, net | <u>26,410,118</u> | <u>1,535,980</u> | <u>-</u> | <u>27,946,098</u> |
| Governmental activities capital assets, net | <u>\$ 33,447,387</u> | <u>\$ 1,535,980</u> | <u>\$ -</u> | <u>\$ 34,983,367</u> |

Total depreciation for the year ended December 31, 2019 was \$2,911,542.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 10 - ADVANCES:

An advance of \$135,126 at December 31, 2019 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.

NOTE 11 - 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, 2019:

| | Balance January 1, 2019 | Additions | Deletions | Balance December 31, 2019 | Due Within One Year |
|--|-------------------------------|-----------------|---------------------|---------------------------------|---------------------------|
| 2013 MTF Refunding Bonds | \$ 1,715,000 | \$ - | \$ 140,000 | \$ 1,575,000 | \$ 140,000 |
| 2018 Installment Purchase | 350,708 | - | 120,675 | 230,033 | 124,036 |
| Accrued Vacation and Sick | 266,884 | 4,995 | - | 271,879 | - |
| Net Pension Liability (See Note 12) | 11,751,198 | - | 507,286 | 11,243,912 | - |
| Net OPEB Liability (See Note 13) | <u>11,949,499</u> | <u>-</u> | <u>1,873,397</u> | <u>10,076,102</u> | <u>-</u> |
| | <u>\$26,033,289</u> | <u>\$ 4,995</u> | <u>\$ 2,641,358</u> | <u>\$23,396,926</u> | <u>\$ 264,036</u> |

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, 2019 is \$1,595,000. The bonds are issued in anticipation of and are payable from monies derived from State collected taxes returned to the Road Commission from the MTF for highway construction, reconstruction, and work incidental thereto pursuant to Act 51. In addition, the limited tax full faith and credit of the County has been pledged for meeting payment of the principal and interest on the bond.

\$ 1,575,000

Installment Purchase -

In June 2018, the Road Commission entered into an installment purchase agreement for the acquisition of three tandem plow trucks in the amount of \$370,500. Monthly payments of \$10,734 are due through October 1, 2021 including interest of 2.75%.

230,033

\$ 1,805,033

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 11 - LONG-TERM LIABILITIES - (cont'd):

The annual principal and interest requirements to service the MTF Bonds and Installment Purchase as of December 31, 2019 are as follows:

| | Principal | Interest | Total |
|-----------|--------------|------------|--------------|
| 2020 | \$ 264,036 | \$ 51,390 | \$ 315,426 |
| 2021 | 250,997 | 44,930 | 295,927 |
| 2022 | 145,000 | 40,145 | 185,145 |
| 2023 | 150,000 | 36,083 | 186,083 |
| 2024 | 155,000 | 31,507 | 186,507 |
| 2025-2029 | 840,000 | 78,109 | 918,109 |
| | \$ 1,805,033 | \$ 282,164 | \$ 2,087,197 |

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, 2019 is \$271,879. All amounts vested have been accrued on the government-wide financial statements.

NOTE 12 - 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.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 12 - PENSION PLANS - (cont'd):

Member and Employer Contributions -

The Road Commission pays the actuarially determined amount, which for the year ended December 31, 2019 was a flat rate of \$67,967 per month for Division 01, a flat rate of \$173 per month for Division 12, and a flat rate of \$9,971 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. Effective October 16, 2014, Division 13 was closed to new-hires, transfers, and rehires. Employee contributions of 3.00% were required for the year ended December 31, 2019.

The membership at December 31, 2018 was comprised of 30 active participants, 60 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.

Net Pension Liability -

The net pension liability of the Road Commission has been measured as of December 31, 2019 as determined by an actuarial valuation performed as of December 31, 2018 and is composed of the following:

| | <u>Total Pension Liability</u> | <u>Plan's Net Position</u> | <u>Net Pension Liability</u> |
|---|------------------------------------|--------------------------------|----------------------------------|
| Beginning balance | \$ 20,983,501 | \$ 9,232,303 | \$ 11,751,198 |
| Service cost | 173,797 | - | 173,797 |
| Changes in benefits | (3,059) | - | (3,059) |
| Interest on total pension liability | 1,631,118 | - | 1,631,118 |
| Difference between expected and actual experience | 214,243 | - | 214,243 |
| Net investment income | - | 1,256,801 | (1,256,801) |
| Contributions from employer | - | 1,215,245 | (1,215,245) |
| Contributions from employees | - | 40,895 | (40,895) |
| Benefit payments | (1,362,853) | (1,362,853) | - |
| Administrative costs | - | (21,672) | 21,672 |
| Other | (32,116) | - | (32,116) |
| Ending balance | <u>\$ 21,604,631</u> | <u>\$ 10,360,719</u> | <u>\$ 11,243,912</u> |

Plan fiduciary net position as a percentage of the total pension liability 48%

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 12 - PENSION PLANS - (cont'd):

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

At December 31, 2019, the Road Commission had a net pension liability of \$11,243,912. The net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018.

For the year ended December 31, 2019, the Road Commission recognized pension expense related to the Plan of \$1,280,187. At December 31, 2019, 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 | \$ 39,484 | \$ - |
| Difference between expected and actual experience | 107,121 | 66,772 |
| | \$ 146,605 | \$ 66,772 |

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

| | |
|------|------------|
| 2020 | \$ 21,715 |
| 2021 | 36,050 |
| 2022 | 126,739 |
| 2023 | (104,671) |
| | \$ 79,833 |

Actuarial Assumptions -

The total pension liability was determined by an actuarial valuation as of December 31, 2018, which used updated procedures to roll forward the estimated liability to December 31, 2019. 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.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 12 - PENSION PLANS - (cont'd):

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.

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, 2019 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 | \$ 13,516,222 | \$ 11,243,912 | \$ 9,309,136 |

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
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NOTE 12 - 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, 2014. 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, 2019 were \$43,219.

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 13 - OTHER POSTEMPLOYMENT BENEFITS:

Plan Description -

In addition to the pension benefits described in Note 12, the Road Commission provides postemployment benefits through a single-employer defined benefit healthcare plan (the "OPEB Plan") to eligible employees who retire from the Road Commission. Management of the OPEB Plan is provided by the Board of County Road Commissioners, which consists of five members. The OPEB Plan is audited within the scope of the audit of the basic financial statements; separate audited financial statements are not issued.

Summary of Significant Accounting Policies -

For purposes of measuring net OPEB liability, deferred outflows of resources, deferred inflows of resources, OPEB expense, the fiduciary net position of the OPEB Plan, and additions to/deductions from fiduciary net position have been determined as the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are recorded at fair value.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Benefits Provided -

Benefits provided by the OPEB 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:

| <u>Bargaining Unit</u> | <u>Dates Hired</u> | <u>Retirement Age/ Years of Service</u> | <u>Benefits Received</u> |
|----------------------------|---------------------------------------|---|--|
| Local 1325 | Pre March 12, 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* |
| | March 13, 2016 - December 31, 2018 | 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* |
| | June 1, 2013 - December 31, 2018 | 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.

Local 1325 and supervisors hired after December 31, 2018 are not eligible to receive benefits. Non-union employees hired on or after December 31, 2016 are not eligible to receive benefits.

Plan Membership -

At December 31, 2019, OPEB Plan membership consisted of 36 active members and 39 inactive members or beneficiaries receiving benefits.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Contributions and Funding Policy -

The OPEB Plan provides for periodic employer contributions. The actuarially determined contribution was \$1,947,523 for the year ended December 31, 2019. During the year ended December 31, 2019, employer contributions of \$724,102 were made, including \$261,582 to the Employee Health Care Benefits Trust Fund.

The OPEB Plan was established by, and is being funded under, the authority of the Road Commission and under agreements with unions representing various classes of employees. The Road Commission has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a “pay-as-you-go” basis). However, the Road Commission has made contributions to advance-fund these benefits, as determined by the Board of County Road Commissioners through budget resolutions. Administrative expenses of the OPEB Plan are paid for by the General Fund.

Investment Policy -

The OPEB 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 long-term expected rate of return on the OPEB Plan’s investments was determined using a building-block method in which best estimate ranges of expected future real rates of return 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 and investment expenses. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB Plan’s target asset allocation are summarized below:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return Before Inflation</u> |
|-------------------------|--------------------------|--|
| Global equity | 65.40 % | 8.00 % |
| Global fixed income | 29.10 | 5.50 |
| Real assets | 3.10 | 6.20 |
| Diversifying strategies | 2.40 | 2.75 |

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Net OPEB Liability of the Road Commission -

The net OPEB liability of the Road Commission has been measured as of December 31, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by valuation as of that date and is composed of the following:

| | <u>Total OPEB Liability</u> | <u>OPEB Plan's Net Position</u> | <u>Net OPEB Liability</u> |
|---------------------------------|---------------------------------|-------------------------------------|-------------------------------|
| Beginning Balance | \$ 12,827,222 | \$ 877,723 | \$ 11,949,499 |
| Service cost | 93,977 | - | 93,977 |
| Interest on net OPEB liability | 634,497 | - | 634,497 |
| Net investment income | - | 163,748 | (163,748) |
| Expected and actual differences | (1,353,870) | - | (1,353,870) |
| Change in assumptions | (365,496) | - | (365,496) |
| Contributions from employer | - | 724,102 | (724,102) |
| Benefit payments | (462,520) | (462,520) | - |
| Administrative expenses | - | (5,332) | 5,332 |
| Other | - | (13) | 13 |
| | <u> </u> | <u> </u> | <u> </u> |
| Ending Balance | <u>\$ 11,373,810</u> | <u>\$ 1,297,708</u> | <u>\$ 10,076,102</u> |

OPEB Plan fiduciary net position as a percentage of total OPEB liability 11%

OPEB Expense and Deferred Inflows of Resources Related to OPEB -

For the year ended December 31, 2019, the Road Commission recognized OPEB expense of \$138,478 for the OPEB Plan in the government-wide financial statements. At December 31, 2019, the Road Commission reported deferred outflows/inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Net difference between projected and actual earnings on OPEB Plan investments | \$ - | \$ 35,232 |
| Changes of assumptions | - | 256,717 |
| Difference between expected and actual experience | - | 1,038,388 |
| | <u> </u> | <u> </u> |
| | <u>\$ -</u> | <u>\$ 1,330,337</u> |

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

| | |
|------|-----------------------------|
| 2020 | \$(545,049) |
| 2021 | (545,049) |
| 2022 | (217,547) |
| 2023 | (22,692) |
| | <u> </u> |
| | <u>\$(1,330,337)</u> |

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Methods and Assumptions -

The total OPEB liability was determined by a valuation done at December 31, 2019 using the entry age normal percent of salary method. The assumptions used in the valuation were based on the results of an experience study from January 1, 2012 - December 31, 2018. The valuation used the following assumptions included in the measurement:

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 - Public General Headcount-weighted 2010 Employee and Healthy Retiree with MP-2018 Mortality Improvement Scale.

Turnover - Nongroup-specific age-based turnover data 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 - Pre-65: 8.50%, graded down by 0.25% per year to 4.50%, Post-65: 7.00%, graded down by 0.25% per year to 4.50%.

Inflation Rate - The expected long-term inflation rate was assumed to equal 2.0 percent.

Payroll Growth Rate - The expected long-term payroll growth rate was assumed to equal 3.50 percent.

Discount Rate - A discount rate of 7.08 percent was used based on the expected rate of return on assets.

Assumption changes since the prior valuation are as follows:

- The mortality table changed from mortality tables from the National Vital Statistics Report, Vol. 66 No. 4, to the Public General 2010 Headcount-weighted Mortality Table for General and Public Safety, annuitant and non-annuitant, sex-distinct with improvement scale MP-2018.
- Healthcare trend rates changed from 3.40% for 2019, fluctuating between 4.40% and 4.90% before decreasing to 4.80% in 2024 to those prescribed under Public Act 202.
- The salary scale changed from 3.00% to 3.50%, which is prescribed under Public Act 202.
- The discount rate changed from 5.00% to 7.08%.
- The calculation method changed from the alternative measurement method to the entry age normal percent of salary method.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Projected Cash Flows -

Based on the assumptions above and that there will be a \$200,000 employer contribution made annually in addition to the benefit payments until the last current active member retires, the OPEB 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 OPEB 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 7.08%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.08%) or one-percentage-point higher (8.08%) than the current rate.

| | 1% Decrease <u>(6.08%)</u> | Current Discount Rate <u>(7.08%)</u> | 1% Increase <u>(8.08%)</u> |
|--------------------|-------------------------------|--|-------------------------------|
| Net OPEB Liability | <u>\$ 11,401,626</u> | <u>\$ 10,076,102</u> | <u>\$ 8,969,973</u> |

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 <u>(2.40-3.90%)</u> | Current Healthcare Cost Trend Rate <u>(3.40-4.90%)</u> | 1% Increase <u>(4.40-5.90%)</u> |
|--------------------|------------------------------------|---|------------------------------------|
| Net OPEB Liability | <u>\$ 8,905,836</u> | <u>\$ 10,076,102</u> | <u>\$ 11,470,681</u> |

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.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 14 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES - (cont'd):

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.

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, 2019, which is recorded in the General Fund. Changes in the balance of claims liability are as follows:

| | 2019 | 2018 |
|------------------------------------|------------|------------|
| Unpaid claims, beginning of year | \$ 40,000 | \$ 40,000 |
| Incurred claims (including IBNR's) | 805,309 | 596,894 |
| Claims Paid | (805,309) | (596,894) |
| Unpaid claims, end of year | 40,000 | 40,000 |
| Less - Current portion | 40,000 | 40,000 |
| Long-term Liabilities | \$ - | \$ - |

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 16 - SUBSEQUENT EVENTS:

In February 2020, the Road Commission awarded a contract for three (3) tandem axle cab and chassis - 2020 International models for the combined amount of \$386,100, including warranties.

Towards the end of December 2019, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. There have been mandates from Federal, State, and local authorities requiring forced closures of non-essential businesses and stay-at-home orders for most states, including Michigan, which could negatively impact the Road Commission's activities and funding. The initial effect is the anticipation of a significant decrease in State funding; however, because the virus is just beginning to impact the service area, it is not possible to estimate the length or severity of this outbreak and hence its financial impact.

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, 2019**

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| Revenues: | | | | |
| Property taxes | \$ 1,251,000 | \$ 1,247,473 | \$ 1,247,474 | \$ 1 |
| Permits | 37,800 | 37,000 | 37,760 | 760 |
| Intergovernmental - | | | | |
| Federal sources | 1,328,284 | 1,536,368 | 1,535,617 | (751) |
| State sources | 6,116,325 | 6,464,996 | 6,632,134 | 167,138 |
| Local sources | 192,940 | 745,000 | 833,883 | 88,883 |
| Charges for services | 1,869,777 | 2,300,000 | 2,505,106 | 205,106 |
| Interest and rents | 3,000 | 3,700 | 3,655 | (45) |
| Other | 50,000 | 60,000 | 24,278 | (35,722) |
| Total Revenues | <u>10,849,126</u> | <u>12,394,537</u> | <u>12,819,907</u> | <u>425,370</u> |
| Expenditures: | | | | |
| Current - | | | | |
| Primary Construction/ capacity improvements | - | 309,000 | 303,811 | 5,189 |
| Primary preservation - structural improvements | 3,135,275 | 2,800,000 | 2,725,513 | 74,487 |
| Local preservation - structural improvements | 502,322 | 1,000,000 | 996,362 | 3,638 |
| Primary maintenance | 2,463,700 | 2,500,000 | 2,310,179 | 189,821 |
| Local maintenance | 2,184,769 | 2,700,000 | 2,721,338 | (21,338) |
| State maintenance | 1,869,777 | 2,300,000 | 2,152,543 | 147,457 |
| Administrative | 510,000 | 490,000 | 479,597 | 10,403 |
| Equipment - net | - | - | 803,178 | (803,178) |
| Capital Outlay - net | (149,000) | (47,000) | (394,765) | 347,765 |
| Debt Service | 323,731 | 318,226 | 318,226 | - |
| Maintenance Advance | 8,552 | - | - | - |
| Total Expenditures | <u>10,849,126</u> | <u>12,370,226</u> | <u>12,415,982</u> | <u>(45,756)</u> |
| Revenues Over Expenditures | - | 24,311 | 403,925 | 379,614 |
| Fund Balance at Beginning of Year | <u>4,774,742</u> | <u>4,774,742</u> | <u>4,774,742</u> | <u>-</u> |
| Fund Balance at End of Year | <u>\$ 4,774,742</u> | <u>\$ 4,799,053</u> | <u>\$ 5,178,667</u> | <u>\$ 379,614</u> |

CHEBOYGAN COUNTY ROAD COMMISSION
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DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|----------------------|
| Total Pension Liability | | | |
| Service Cost | \$ 173,797 | \$ 158,362 | \$ 168,083 |
| Changes in benefits | (3,059) | (5,410) | (12,242) |
| Interest | 1,631,118 | 1,615,690 | 1,569,927 |
| Differences between expected and actual experience | 214,243 | (200,316) | 212,191 |
| Changes in assumptions | - | - | - |
| Benefit payments, including refunds | (1,362,853) | (1,375,435) | (1,321,944) |
| Other | (32,116) | (14,050) | (12,367) |
| | <u>621,130</u> | <u>178,841</u> | <u>603,648</u> |
| Change in total pension liability | | | |
| Total pension liability, beginning of year | <u>20,983,501</u> | <u>20,804,660</u> | <u>20,201,012</u> |
| Total pension liability, end of year | <u>\$ 21,604,631</u> | <u>\$ 20,983,501</u> | <u>\$ 20,804,660</u> |
| Plan Fiduciary Net Position | | | |
| Contributions - Employer | \$ 1,215,245 | \$ 1,187,505 | \$ 1,066,779 |
| Contributions - Member | 40,895 | 38,095 | 29,845 |
| Net investment income | 1,256,801 | (381,225) | 1,153,497 |
| Benefit payments, including refunds | (1,362,853) | (1,375,435) | (1,321,944) |
| Administrative expenses | (21,672) | (18,822) | (18,271) |
| | <u>1,128,416</u> | <u>(549,882)</u> | <u>909,906</u> |
| Net change in plan fiduciary net position | | | |
| Plan fiduciary net position, beginning of year | <u>9,232,303</u> | <u>9,782,185</u> | <u>8,872,279</u> |
| Plan fiduciary net position, end of year | <u>\$ 10,360,719</u> | <u>\$ 9,232,303</u> | <u>\$ 9,782,185</u> |
| Road Commission's Net Pension Liability - Ending | <u>\$ 11,243,912</u> | <u>\$ 11,751,198</u> | <u>\$ 11,022,475</u> |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 47.96% | 44.00% | 47.02% |
| Covered Employee Payroll | \$ 1,327,718 | \$ 1,231,426 | \$ 1,358,613 |
| Road Commission's Net Pension Liability as a Percentage of Covered Employee Payroll | 846.9% | 954.3% | 811.3% |

* GASB Statement No. 68 was implemented for fiscal year December 31, 2015. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

| <u>2016</u> | <u>2015</u> |
|---------------|---------------|
| \$ 172,502 | \$ 177,977 |
| - | - |
| 1,452,926 | 1,465,734 |
| 72,699 | - |
| 1,016,897 | - |
| (1,296,034) | (1,229,200) |
| 58,676 | 16,746 |
| 1,477,666 | 431,257 |
| 18,723,346 | 18,292,089 |
| \$ 20,201,012 | \$ 18,723,346 |
| | |
| \$ 872,808 | \$ 724,576 |
| 13,472 | - |
| 926,220 | (130,146) |
| (1,296,034) | (1,229,200) |
| (18,314) | (19,271) |
| 498,152 | (654,041) |
| 8,374,127 | 9,028,168 |
| \$ 8,872,279 | \$ 8,374,127 |
| | |
| \$ 11,328,733 | \$ 10,349,219 |
| | |
| 43.92% | 44.73% |
| \$ 1,440,708 | \$ 1,488,063 |
| | |
| 786.3% | 695.5% |

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

DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CONTRIBUTIONS

| For the year ended December 31, | Actuarially Determined Contributions (ADC) | Contributions | Contribution excess | Covered payroll | Contributions as a percentage of covered payroll |
|------------------------------------|---|---------------|------------------------|--------------------|--|
| 2019 | \$ 937,332 | \$ 1,215,245 | \$(277,913) | \$ 1,363,177 | 89.15% |
| 2018 | 960,108 | 1,187,505 | (227,397) | 1,327,718 | 89.44% |
| 2017 | 912,327 | 1,066,779 | (154,452) | 1,353,460 | 78.82% |
| 2016 | 755,671 | 872,808 | (117,137) | 1,470,793 | 59.34% |
| 2015 | 724,576 | 724,576 | - | 1,454,072 | 49.83% |

Valuation Date: December 31 two years prior to 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 | 22 years |
| Asset valuation method | 10-year smoothed market value |
| Inflation | 2.5% |
| Salary increases | 3.00% |
| Investment rate of return | 7.75%; For prior to 2017 - 8.00% |
| Retirement age | Replacement Index up to age 70, then 100% |
| Mortality | 50% Male / 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 ended December 31, 2015. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

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

DEFINED BENEFIT OPEB PLAN
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

| | 2019 | 2018 | 2017 |
|---|--------------------------|--------------------------|--------------------------|
| Total OPEB Liability: | | | |
| Service Cost | \$ 93,977 | \$ 215,951 | \$ 212,937 |
| Interest | 634,497 | 864,680 | 833,369 |
| Differences between expected and actual experience | (1,353,870) | (145,760) | (205,655) |
| Changes in assumptions | (365,496) | - | - |
| Benefit payments, including refunds | (462,520) | (488,534) | (524,978) |
| Change in total OPEB liability | (1,453,412) | 446,337 | 315,673 |
| Total OPEB liability, beginning of year | <u>12,827,222</u> | <u>12,380,885</u> | <u>12,065,212</u> |
| Total OPEB liability, end of year | <u>\$ 11,373,810</u> | <u>\$ 12,827,222</u> | <u>\$ 12,380,885</u> |
| Plan Fiduciary Net Position: | | | |
| Employer contributions - | | | |
| Retiree healthcare premiums | \$ 462,520 | \$ 488,534 | \$ 524,978 |
| OPEB Trust Fund | 261,582 | 279,397 | 134,452 |
| Net investment income | 163,748 | (38,097) | 52,921 |
| Benefit payments, including refunds | (462,520) | (488,534) | (524,978) |
| Administrative expenses | (5,332) | (3,712) | - |
| Other | (13) | - | - |
| Net change in plan fiduciary net position | 419,985 | 237,588 | 187,373 |
| Plan fiduciary net position, beginning of year | <u>877,723</u> | <u>640,135</u> | <u>452,762</u> |
| Plan fiduciary net position, end of year | <u>\$ 1,297,708</u> | <u>\$ 877,723</u> | <u>\$ 640,135</u> |
| Road Commission's Net OPEB Liability - Ending | <u>\$ 10,076,102</u> | <u>\$ 11,949,499</u> | <u>\$ 11,740,750</u> |
| Plan Fiduciary Net Position as a Percentage of Total OPEB Liability | 11.41% | 6.84% | 5.17% |
| Covered Employee Payroll | \$ 1,602,177 | \$ 1,536,334 | \$ 1,536,334 |
| Road Commission's Net OPEB Liability as a Percentage of Covered Employee Payroll | 628.90% | 777.79% | 764.21% |

* GASB Statement No. 74 was implemented for fiscal year ended December 31, 2017. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

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

DEFINED BENEFIT OPEB PLAN
SCHEDULE OF CONTRIBUTIONS

| For the year ended December 31, | Actuarially Determined Contributions (ADC) | Contributions | Contribution Deficiency (Excess) | Covered payroll | Contributions as a percentage of covered payroll |
|------------------------------------|---|---------------|--|--------------------|--|
| 2019 | \$ 1,947,523 | \$ 724,102 | \$ 1,223,421 | \$ 1,602,177 | 45.19% |
| 2018 | 817,661 | 767,931 | 49,730 | 1,536,334 | 49.98% |
| 2017 | 829,932 | 659,430 | 170,502 | 1,536,334 | 42.92% |

Valuation Date: December 31, 2019

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry age normal cost method |
| Amortization method | Level percent of payroll |
| Remaining amortization period | 8 years, open; For prior to 2019 - 30 years, open. |
| Asset valuation method | Market value of assets |
| Price Inflation | 2.00% |
| Salary increases | 3.50%; For prior to 2019 - 2.00% |
| Investment rate of return | 7.08%; For prior to 2019 - 7.00% |
| Retirement age | 55 or 60, depending on the applicable bargaining unit |
| Mortality | Public General Headcount-weighted 2010 Employee and Healthy Retiree with MP-2018 Mortality Improvement Scale Prior to 2019 - National Center for 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 | Pre-65: 8.5% graded down by 0.25% per year to 4.5% Post 65: 7% graded down by 0.25% per year to 4.5% Prior to 2019 - Initial trend of 3.40%, 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. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

CHEBOYGAN COUNTY ROAD COMMISSION

A Component Unit of Cheboygan County, Michigan

**DEFINED BENEFIT OPEB PLAN
SCHEDULE OF INVESTMENT RETURNS**

| <u>For the year ended December 31,</u> | <u>Annual money- weighted rate of return, net of investment expenses</u> |
|--|--|
| 2019 | 15.72% |
| 2018 | -5.52% |
| 2017 | 10.52% |

* GASB Statement No. 74 was implemented for fiscal year ended December 31, 2017. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

SUPPLEMENTARY INFORMATION

CHEBOYGAN COUNTY ROAD COMMISSION

A Component Unit of Cheboygan County

DETAIL SCHEDULE OF REVENUES

GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2019

Revenues:

| | |
|--|----------------------|
| Property taxes | \$ 1,247,474 |
| Permits | 37,760 |
| Federal Sources - | |
| Surface Transportation Program (STP) | 1,076,369 |
| Other | 459,248 |
| | <u>1,535,617</u> |
| State Sources - | |
| Motor Vehicle Highway Funds - Act 51 - | |
| Engineering | 10,000 |
| Primary Allocation roads | 3,191,676 |
| Local Allocation roads | 2,849,350 |
| Snow Removal | 209,364 |
| Other | 7,056 |
| Rural Primary | 245,056 |
| Forest Road | 119,632 |
| | <u>6,632,134</u> |
| Local Sources - | |
| City and Village contributions | 13,423 |
| Township contributions | 723,194 |
| Other contributions | 97,266 |
| | <u>833,883</u> |
| Charges for Services - | |
| Trunkline maintenance | 2,015,718 |
| Trunkline nonmaintenance | 486,967 |
| Salvage and other | 2,421 |
| | <u>2,505,106</u> |
| Interest and Rents | 3,655 |
| Other - | |
| Sundry refunds | 143 |
| Proceeds/gain on equipment disposal | 24,135 |
| | <u>24,278</u> |
| Total Revenues | \$ <u>12,819,907</u> |

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County

DETAIL SCHEDULE OF EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

Expenditures:

| | | |
|--|----|--------------|
| Construction/Capacity improvement - | | |
| Primary roads and structures | \$ | 303,811 |
| Preservation/Structural improvements - | | |
| Primary roads and structures | | 2,725,513 |
| Local roads and structures | | 996,362 |
| | | 3,721,875 |
| Maintenance - | | |
| Primary roads and structures, winter maintenance, and traffic control | | 2,310,179 |
| Local roads and structures, winter maintenance, and traffic control | | 2,721,338 |
| | | 5,031,517 |
| State Maintenance - | | |
| Trunkline maintenance | | 1,665,576 |
| Trunkline nonmaintenance | | 486,967 |
| | | 2,152,543 |
| Equipment - | | |
| Direct | | 2,230,037 |
| Indirect | | 809,684 |
| Operating | | 410,790 |
| Less - equipment rental | | (2,647,333) |
| | | 803,178 |
| Administrative - | | |
| Administration | | 707,453 |
| Less - | | |
| State trunkline overhead | | (219,407) |
| Purchase discounts and other | | (8,449) |
| | | 479,597 |
| Capital Outlay - | | |
| Equipment | | 421,836 |
| Less - | | |
| Depreciation | | (816,601) |
| | | (394,765) |
| Debt Service - | | |
| Principal | | 260,675 |
| Interest | | 57,551 |
| | | 318,226 |
| Total Expenditures | \$ | 12,415,982 |

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, 2019

| | <u>Primary</u> | <u>Local</u> | <u>County</u> | <u>Total</u> |
|---|---------------------|-------------------|---------------------|---------------------|
| Revenues: | | | | |
| Property taxes | \$ 1,247,474 | \$ - | \$ - | \$ 1,247,474 |
| Permits | - | - | 37,760 | 37,760 |
| Intergovernmental - | | | | |
| Federal Sources | 1,435,349 | 100,268 | - | 1,535,617 |
| State Sources | 3,672,610 | 2,952,468 | 7,056 | 6,632,134 |
| Local Sources | 16,645 | 810,557 | 6,681 | 833,883 |
| Charges for services | - | - | 2,505,106 | 2,505,106 |
| Interest | - | - | 3,655 | 3,655 |
| Other | - | - | 24,278 | 24,278 |
| Total Revenues | <u>6,372,078</u> | <u>3,863,293</u> | <u>2,584,536</u> | <u>12,819,907</u> |
| Expenditures: | | | | |
| Primary construction/capacity improvements | 303,811 | - | - | 303,811 |
| Preservation/structural improvements | 2,725,513 | 996,362 | - | 3,721,875 |
| Maintenance | 2,310,179 | 2,721,338 | - | 5,031,517 |
| State maintenance | - | - | 2,152,543 | 2,152,543 |
| Administrative - net | 282,737 | 196,860 | - | 479,597 |
| Equipment - net | 210,885 | 367,759 | 224,534 | 803,178 |
| Capital outlay - net | - | - | (394,765) | (394,765) |
| Debt Service - | | | | |
| Principal | - | - | 260,675 | 260,675 |
| Interest | - | - | 57,551 | 57,551 |
| Total Expenditures | <u>5,833,125</u> | <u>4,282,319</u> | <u>2,300,538</u> | <u>12,415,982</u> |
| Revenues over (under) expenditures before optional transfers | 538,953 | (419,026) | 283,998 | 403,925 |
| Optional transfers | (420,000) | 420,000 | - | - |
| Net Changes in Fund Balance | 118,953 | 974 | 283,998 | 403,925 |
| Fund Balance at Beginning of Year | <u>1,468,018</u> | <u>478,018</u> | <u>2,828,706</u> | <u>4,774,742</u> |
| Re-allocation | <u>885,402</u> | <u>200,000</u> | <u>(1,085,402)</u> | <u>-</u> |
| Fund Balance at End of Year | <u>\$ 2,472,373</u> | <u>\$ 678,992</u> | <u>\$ 2,027,302</u> | <u>\$ 5,178,667</u> |