

2014 CITIZEN'S GUIDE TO CHEBOYGAN COUNTY'S FINANCIAL HEALTH



Table of Contents

Key Terms 3

Overview 4

How Governments Use Your Money 5

 Services Provide by Cheboygan County 5

 Revenue Sources 6

How Taxpayer Money Is Spent:

Government Expenditures 7-8

Cheboygan County’s Fiscal Health 9

 Reserves and Major Fund Balances 9

 Debt Levels 9

 Pension and Other Retiree Benefits 10-11

How This Report Was Developed 12

KEY TERMS

There are a few key terms that may be helpful when reading this report. They include:

- **Budget deficit/surplus.** If there is less money received than paid out in a given fiscal year, there is a **budget deficit** or shortfall. If there is more money received than paid out during the fiscal year, a **budget surplus** exists.
- **Debt.** Just like a homeowner takes out a mortgage, governments can borrow money to pay for certain types of projects. There can be both short-term debt (paid back within the fiscal year) and long-term debt. Debt can be either **general obligation** debt, meaning that the County pays back the debt with regular tax collections and other revenues, or **special revenue** debt, which is paid off over time with revenue from specified sources beyond the usual taxes and service fees.
- **Fiscal year (FY).** The 12-month period of time during which budgets are allocated or finances are planned. The County's fiscal year runs from January 1 to December 31.
- **Fund balance.** Once all the bills for the year have been paid out of a certain fund, whatever is left over is called the fund balance. When a fund balance is less than zero, you'll see the number shown with parentheses around it. Budget deficits cause fund balances to decrease, while budget surpluses cause them to increase.
- **Reserved/Restricted funds.** Some funds are considered to be "reserved" or "restricted" for a specific purpose, and cannot be spent for anything else.

Overview

Shortly after taking office, Governor Rick Snyder issued a report called **DOLLARS AND SENSE: HOW THE STATE OF MICHIGAN SPENDS YOUR MONEY**. This document reduced the State audit from hundreds of pages down to 14 pages to provide a summary of the State's fiscal condition. As part of the State's Revenue Sharing Program the State has requested that local units of government provide a similar document to increase the transparency of governmental revenues, expenditures and operations. This report represents your County government's fulfillment of that request providing an assessment of the financial health of Cheboygan County. This report provides information on:

- How taxes and fees are collected and used;
- The impact of budget decisions-borrowing, debt levels, budget reserves; and
- The impact of long-term employee liabilities for retirement cost.

Information for this report is provided by Cheboygan County's Annual Audit for year ending December 31, 2013 available by accessing the following link:

[Cheboygan County 2013 Financial Audit](#).

How Cheboygan County Spends Your Money

SERVICES PROVIDED BY CHEBOYGAN COUNTY

Cheboygan County provides many services to the public. The following is a condensed list of services provided to meet the needs of Cheboygan County residents, businesses and visitors. A complete list of service areas provided by Cheboygan County can be viewed by accessing the following link to the [Cheboygan County Budget document](#).

- *Courts including Circuit, District, Probate, and Juvenile*
- *Prosecuting Attorney*
- *Drug Enforcement*
- *Equalization*
- *Clerks/Elections/Vital Records*
- *Register of Deeds*
- *Sheriff Road Patrol/Jail*
- *Emergency Services*
- *Treasury/Investments*
- *Administration/Fiscal Services/IT*
- *Michigan State University Agricultural Services*
- *Community Development/Economic Development*

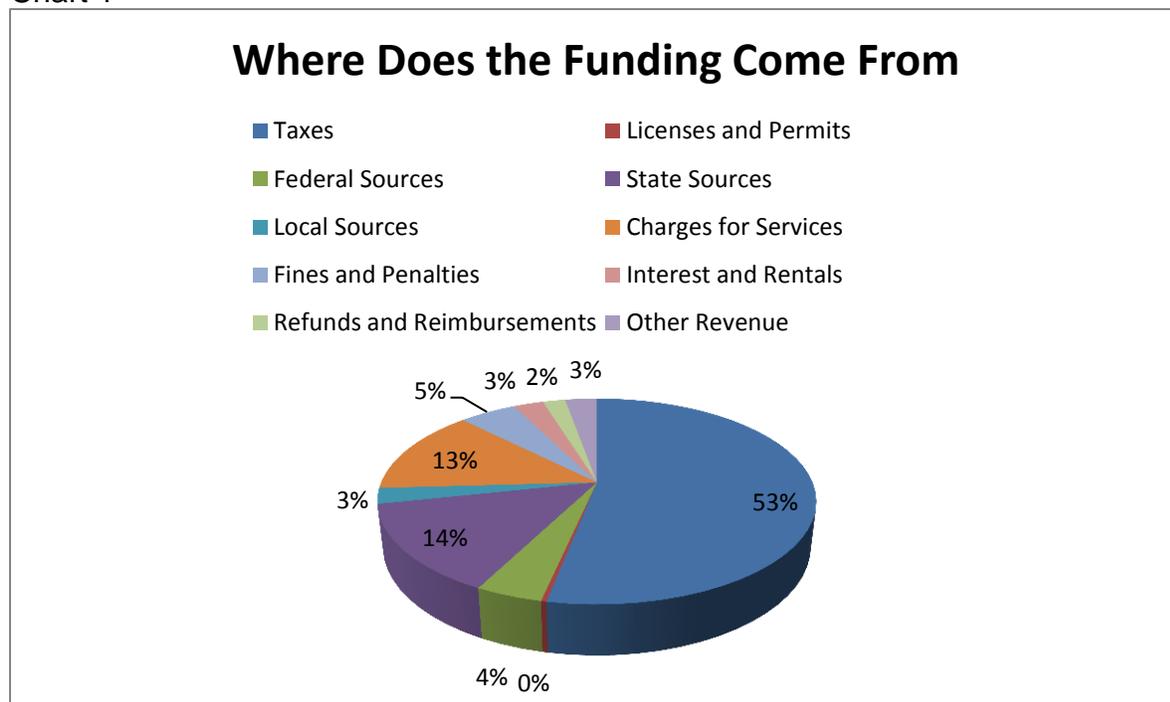
REVENUE SOURCES

Cheboygan County collects revenue from a variety of sources with property taxes as well as charges for services representing the primary revenue sources for the County. Table/Chart 1 below provides a detail of these revenue sources collected in 2013. It includes all funds of the primary government; however, excludes the Road Commission Component Unit.

Table 1

General Fund	Other General Funds	All Other Governmental Funds	Proprietary Funds	2013 Revenue	Where Does the Funding Come From
\$ 7,688,362	\$ -	\$ 963,874	\$ -	Taxes	\$ 8,652,236
\$ 54,354	\$ -	\$ -	\$ -	Licenses and Permits	\$ 54,354
\$ 79,575	\$ -	\$ 59,830	\$ 143,168	Federal Sources	\$ 682,573
\$ 80,963	\$ -	\$ 093,811	\$ 617,389	State Sources	\$ 2,292,163
\$ 110,200	\$ 5,600	\$ 282,406	\$ 3,303	Local Sources	\$ 401,509
\$ 1,062,436	\$ -	\$ 42,400	\$ 1,087,834	Charges for Services	\$ 2,192,670
\$ 32,903	\$ -	\$ 785,430	\$ -	Fines and Penalties	\$ 818,333
\$ 61,337	\$ -	\$ 3,915	\$ 365,708	Interest and Rentals	\$ 430,960
\$ 227,209	\$ -	\$ 95,154	\$ -	Refunds and Reimbursements	\$ 322,363
\$ 69,767	\$ 180	\$ 364,614	\$ 21,888	Other Revenue	\$ 456,449
\$ 9,967,106	\$ 5,780	\$ 4,091,434	\$ 2,239,290	Total Revenue	\$ 16,303,610

Chart 1



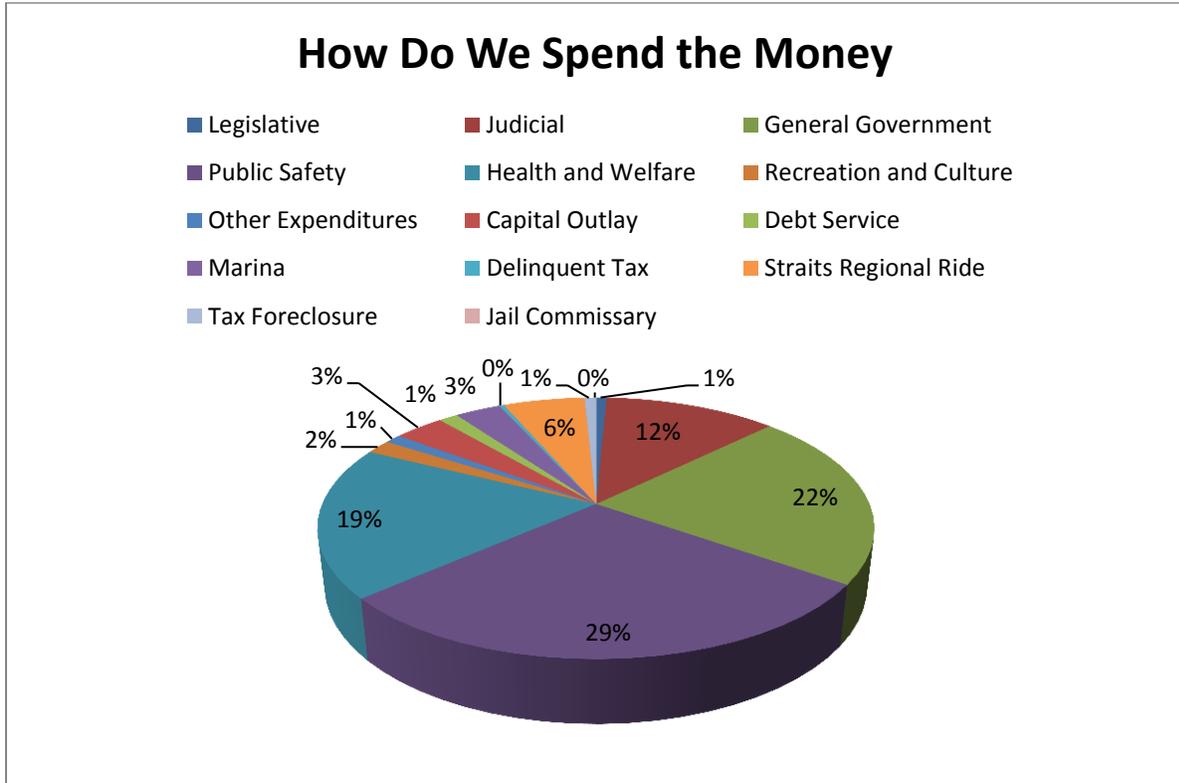
EXPENDITURES

Table/Chart 2 indicates service area expenditures by percentage. It includes all funds of the primary government; however, excludes the Road Commission Component Unit.

Table 2

General Fund	Other General Funds	All Other Governmental Funds	Proprietary Funds	2013 Expenditures	How Do We Spend the Money
\$ 120,622	\$ -	\$ -	\$ -	-	Legislative \$ 120,622
\$ 1,424,597	\$ -	\$ 562,061	\$ -	-	Judicial \$ 1,986,658
\$ 2,976,982	\$ 83,587	\$ 576,156	\$ -	-	General Government \$ 3,636,725
\$ 4,071,766	\$ -	\$ 709,189	\$ -	-	Public Safety \$ 4,780,955
\$ 462,835	\$ 8,408	\$ 2,640,125	\$ -	-	Health and Welfare \$ 3,111,368
\$ 110,170	\$ -	\$ 180,742	\$ -	-	Recreation and Culture \$ 290,912
\$ 184,885	\$ -	\$ -	\$ -	-	Other Expenditures \$ 184,885
\$ 19,491	\$ 402,758	\$ 152,439	\$ -	-	Capital Outlay \$ 574,688
\$ 5,988	\$ -	\$ 212,969	\$ -	-	Debt Service \$ 218,957
\$ -	\$ -	\$ -	\$ 524,668	Marina	\$ 524,668
\$ -	\$ -	\$ -	\$ 56,919	Delinquent Tax	\$ 56,919
\$ -	\$ -	\$ -	\$ 937,973	Straits Regional Ride	\$ 937,973
\$ -	\$ -	\$ -	\$ 122,898	Tax Foreclosure	\$ 122,898
\$ -	\$ -	\$ -	\$ 10,000	Jail Commissary	\$ 10,000
\$ 9,377,336	\$ 494,753	\$ 5,033,681	\$ 1,652,458	Total Expenditures	\$ 16,558,228

Chart 2



The following web-link provides access to the [County's Citizens Guide Graphs](#) providing additional financial information.

Cheboygan County's Fiscal Health

In order to continue operating with a balanced budget and to maintain adequate reserves, Cheboygan County has utilized the following measures to maintain fiscal stability and achieve efficiencies in operations:

1. Reduced the number of employees
2. Consolidated services and positions
3. Collaborated service delivery with neighboring counties
4. Conservatively managed employee wages and fringe benefits
5. Established new fees and reviewed adequacy of existing fees

RESERVES AND MAJOR FUND BALANCES

General Fund Reserves. According to the Government Finance Officers Association, it is considered good practice to keep a minimum of 15%-25% of annual operating expenditures in unrestricted fund balance to cover cash flow shortfalls due to delayed funding and to cover unexpected and unforeseen expenses or unanticipated drops in revenue. This is equivalent to the General Funds' savings account. At the end of fiscal year 2013, Cheboygan County's General Funds reserve had a balance of \$7,260,777, an increase of \$183,495 over 2012 reserve balance representing 66% of annual operating cost.

DEBT LEVELS

Governments do not always have the cash on hand to pay for large projects like new buildings or major infrastructure improvements. Like households, governments may borrow to pay for larger expenditures. Governments can also borrow money to meet short-term cash flow needs.

At the end of fiscal year 2013, Cheboygan County did not have any short-term debt. Cheboygan County has borrowed money for larger equipment purchases in the past where the benefits of the equipment will be seen for more than five years. Currently the County does not have any debt related to larger equipment purchases. The County may also borrowed money for larger building improvement and renovation projects and for infrastructure projects related to County operations. Currently the County does not have any debt associated with building or infrastructure projects. The County's primary strategy for financing building and infrastructure capital improvement projects is to use Tax Revolving Loan Fund reserves and Courthouse Preservation Fund reserves for improvements when feasible.

PENSION AND OTHER RETIREMENT BENEFITS

Cheboygan County provides pension benefits to employees through the Municipal Employee's Retirement System of Michigan "MERS". The County has been a member of MERS since 1970. The County provides current employees and retirees a Defined Benefit Plan where a specified monthly benefit is paid upon retirement based on years of service, average annual compensation over the last five years of employment and a benefit multiplier. The County does not provide for automatic cost of living increase (COLA) during retirement.

Each year the County receives an actuarial report which outlines the pension obligation cost for the coming year and the unfunded pension obligations. The report uses actuarial assumptions to determine the amount the County and employees must invest into the plan each year as well as to identify the funding ratio of the plan for a given year.

REQUIRED INVESTMENT PERCENTAGES 2015

Beginning January 1, 2015 the following contribution percentages will be required by the County for each Division.

DIVISION	PERCENTAGE OF PAYROLL
GENERAL	14.91%
ELECTED/APPOINTED	11.85%
SHERIFF POLC	14.88%
SHERIFF GELC	14.28%

General and Elected/Appointed Divisions are required to invest 3.5% of their gross wages into the pension system. Sheriff Department Divisions are required to invest 3% of their gross wages into the pension system.

The County invested \$671,114 into the MERS pension system in 2013.

UNFUNDED PENSION LIABILITY

Unfunded pension liability is defined as the difference between the estimated cost of future benefits, and assets that have been set aside to pay for them. Currently the County has assets to cover 80% of future retirement benefit cost as identified in the County's annual MERS Actuarial Report. The County's unfunded accrued liability as of December 31, 2013 is \$4,524,731. Table 3 identifies the County's accrued liability and funding percentage as of December 31, 2013.

Table 3

ACTUARIAL ACCRUED LIABILITIES AS OF DECEMBER 31, 2013

Division	Actuarial Accrued Liability	Valuation Assets ¹	Percent Funded	Unfunded (Overfunded) Accrued Liabilities
01 - General				
Active Members	\$ 5,054,785	\$ 2,549,583	50.4%	\$ 2,505,202
Vested Former Members	212,292	212,292	100.0%	0
Retirees And Beneficiaries	4,731,638	4,731,638	100.0%	0
Pending Refunds	<u>38,043</u>	<u>38,043</u>	100.0%	<u>0</u>
Total	\$ 10,036,758	\$ 7,531,556	75.0%	\$ 2,505,202
02 - Sheriff				
Active Members	\$ 1,174,449	\$ 552,857	47.1%	\$ 621,592
Vested Former Members	348,686	348,686	100.0%	0
Retirees And Beneficiaries	2,737,534	2,737,534	100.0%	0
Pending Refunds	<u>11,978</u>	<u>11,978</u>	100.0%	<u>0</u>
Total	\$ 4,272,647	\$ 3,651,055	85.5%	\$ 621,592
10 - Elected/Apntd				
Active Members	\$ 2,679,688	\$ 2,276,673	85.0%	\$ 403,015
Vested Former Members	709,429	709,429	100.0%	0
Retirees And Beneficiaries	1,298,805	1,298,805	100.0%	0
Pending Refunds	<u>12,249</u>	<u>12,249</u>	100.0%	<u>0</u>
Total	\$ 4,700,171	\$ 4,297,156	91.4%	\$ 403,015
20 - Sheriff POLC				
Active Members	\$ 3,061,687	\$ 2,066,765	67.5%	\$ 994,922
Vested Former Members	0	0	0.0%	0
Retirees And Beneficiaries	496,056	496,056	100.0%	0
Pending Refunds	<u>0</u>	<u>0</u>	0.0%	<u>0</u>
Total	\$ 3,557,743	\$ 2,562,821	72.0%	\$ 994,922
Total Municipality				
Active Members	\$ 11,970,609	\$ 7,445,878	62.2%	\$ 4,524,731
Vested Former Members	1,270,407	1,270,407	100.0%	0
Retirees and Beneficiaries	9,264,033	9,264,033	100.0%	0
Pending Refunds	<u>62,270</u>	<u>62,270</u>	100.0%	<u>0</u>
Total Participants	\$ 22,567,319	\$ 18,042,588	80.0%	\$ 4,524,731

The primary factors leading to the County's current unfunded pension liabilities are:

- Returns lower than projected from pension investments.
- Increase in benefit factors over the life of the pension benefit.
- COLA increases to retirees over the life of the pension benefit.
- Increase in the number of retirees reaching retirement age and collecting benefits.

The County has taken action to control long-term pension liabilities by increasing the amount of funds invested into the pension system as recommend by MERS to eliminate the deficit over the next 20 years as well as not issuing additional COLA increases for retirees collecting pensions.

HOW THIS REPORT WAS DEVELOPED

The goal of this report is to provide the public with an easy to read document identifying information concerning County revenues, expenditures, major fund balance reserves, debt and unfunded pension liabilities.

The data for this report came from the County's Audited Financial Statements as of December 31, 2013 as well as the County's annual MERS Actuarial Report.