

**Montmorency County Road Commission**

**BASIC FINANCIAL STATEMENTS**

**December 31, 2019**

**MONTMORENCY COUNTY ROAD COMMISSION**

**BOARD OF COUNTY ROAD COMMISSIONERS**

Ken Werner  
Chairperson

Ted Orm  
Vice Chairperson

Charles Arbour  
Member

Michael Walker  
Superintendent

Todd Behring  
Managing Director

Tina Whitt  
Payroll Clerk/Secretary

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

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**OFFICES IN  
MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

Board of County Road Commissioners  
Montmorency County Road Commission  
11445 M-32  
Atlanta, Michigan 49709

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, major fund and aggregate remaining fund information of the Montmorency County Road Commission (a component unit of Montmorency County, Michigan) as of and for the year ended December 31, 2019, and related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major fund and aggregate remaining fund information of the Montmorency 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, employee benefit system, and budgetary comparison schedules on pages 4 through 9, pages 32 through 37, and pages 38 through 39, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Montmorency County Road Commission's basic financial statements. The schedules of analysis are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2020 on our consideration of the Montmorency County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Montmorency County Road Commission's internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Montmorency County Road Commission's internal control over financial reporting and compliance.



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

May 14, 2020

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

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### Using This Annual Report

Our discussion and analysis of Montmorency County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2019. This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the road commission's operations in more detail than a government-wide financial statement.

### Overview of the Financial Statements

This annual report consists of five parts—management's discussion and analysis (this section), the basic financial statements, notes to financial statements, required supplementary information, and other information that presents the operating fund allocation between primary, local and county funds. The basic financial statements include two types of statements that present different views of the Road Commission:

The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets, outflows, liabilities and inflows. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net position and how they have changed. "Net Position" is the difference between the assets, outflows, liabilities and inflows. This is one way to measure the Road Commission's financial health or position.

The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

### Reporting the Road Commission as a Whole

#### Government-Wide Statements

The Statement of Net Position and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Position includes all of the Road Commission's assets, liabilities and inflows using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net position and how they have changed. The reader can think of the Road Commission's net position as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net position is one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The Road Commission currently has two fund types, the general operations fund and fiduciary funds. The general operations fund is a governmental fund type. Our analysis of the Road Commission’s major fund begins on this page. The fund financial statements begin on page 12 and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission’s general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission’s services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission is responsible for ensuring that the assets reported in the fiduciary funds are used for their intended purposes. All of the Road Commission’s fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the Road Commission’s government-wide financial statements because the Road Commission cannot use these assets to finance its operations.

**The Road Commission as a Whole**

The Road Commission’s net position was \$23,857,500 at December 31, 2019, a 3.44% increase over 2018. The net position is summarized below.

Net Position

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

Total capital assets were \$21,018,923 at December 31, 2019. The increase in net position is primarily the result of reporting infrastructure of \$11,220,590. The Road Commission has retroactively reported infrastructure assets (assets acquired after 1980) as required by Governmental Accounting Standards Board (GASB) Statement No. 34.

Net position as of years ended December 31, 2019 and 2018 are as follows:

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
Current and Other Assets	\$ 4,691,804	\$ 4,565,018
Capital Assets	<u>21,018,923</u>	<u>20,598,145</u>
Total Assets	<u>25,710,727</u>	<u>25,163,163</u>
Deferred Outflows of Resources	<u>26,153</u>	<u>3,833</u>

**The Road Commission as a Whole (Continued)**

	Governmental Activities	
	2019	2018
Current Liabilities	240,533	231,721
Other Liabilities and Inflows	<u>876,648</u>	<u>1,344,541</u>
<b>Total Liabilities</b>	<u>1,117,181</u>	<u>1,576,262</u>
Deferred Inflows of Resources	<u>762,199</u>	<u>526,339</u>
Net Position:		
Net Investment in Capital Assets	20,829,489	20,308,414
Restricted for County Road	<u>3,028,011</u>	<u>2,755,981</u>
<b>Total Net Position</b>	<u>\$ 23,857,500</u>	<u>\$ 23,064,395</u>

A summary of changes in net position for the years ended December 31, 2019 and 2018 are as follows:

	Governmental Activities	
	2019	2018
Program Revenues:		
Charges for Services	\$ 29,710	\$ 35,409
Operating Grants and Contributions	3,395,634	4,002,439
Capital Grants and Contributions	1,067,045	263,258
Other Revenue	-	7,096
General Revenues:		
Property Taxes	502,060	493,692
Gain (Loss) on Disposal	<u>45,570</u>	<u>6,013</u>
<b>Total Revenues</b>	<u>5,040,019</u>	<u>4,807,907</u>
Expenses:		
Public Works	4,241,791	3,794,183
Interest Expense	<u>5,123</u>	<u>7,205</u>
<b>Total Expenses</b>	<u>4,246,914</u>	<u>3,801,388</u>
Change in Net Position	793,105	1,006,519
Beginning, Net Position - Restated	<u>23,064,395</u>	<u>22,057,876</u>
Ending, Net Position	<u>\$ 23,857,500</u>	<u>\$ 23,064,395</u>

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

# Montmorency County Road Commission

## Management's Discussion and Analysis December 31, 2019

A summary of changes in Operating Fund for the years ended December 31, 2019 and December 31, 2018 is as follows:

	Governmental Fund	
	2019	2018
Revenues:		
County Wide Tax Millage	\$ 502,060	\$ 493,692
Licenses and Permits	26,941	31,945
Federal Sources	142,454	23,208
State Sources	3,807,558	4,080,908
Contributions from Local Units	465,487	161,581
Other Revenue	45,570	9,477
Interest and Rents	47,180	7,096
Charges for Services	<u>2,769</u>	<u>-</u>
Total Revenues	<u>5,040,019</u>	<u>4,807,907</u>
Expenditures:		
Public Works	4,909,150	3,452,928
Capital Outlay	(90,545)	(67,848)
Debt Service	<u>105,420</u>	<u>105,420</u>
Total Expenditures	<u>4,924,025</u>	<u>3,490,500</u>
Excess of Revenues Over (Under) Expenditures	115,994	1,317,407
Fund Balance – January 1	<u>3,936,798</u>	<u>2,619,391</u>
Fund Balance – December 31	<u>\$ 4,052,792</u>	<u>\$ 3,936,798</u>

### Budgetary Highlights

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

The final amended revenue budget for 2019 was \$18,635 lower than the original budget due primarily to federal sources.

The final amended expenditure budget for 2019 was \$1,076,000 lower than the original budget primarily due to the Road Commission decreasing the budget for primary and local road projects. The actual expenditures incurred during 2019 were more than the final amended budget by \$712,025.

**Capital Assets and Debt Administration**

**Capital Assets**

As of December 31, 2019 and December 31, 2018, the Road Commission had invested \$21,018,923 and \$20,598,145 respectively in net capital assets.

As of December 31, 2019 and 2018 the Road Commission had invested in capital assets as follows:

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 47,476	\$ 47,476
Infrastructure and Land Improvements	<u>12,240,924</u>	<u>11,902,773</u>
Total Capital Assets Not Being Depreciated	<u>12,288,400</u>	<u>11,950,249</u>
Capital Assets Being Depreciated		
Buildings	1,999,378	1,999,378
Road Equipment	3,862,562	3,706,403
Other Equipment and Assets	312,116	299,354
Infrastructure and Improvements	<u>11,220,590</u>	<u>11,653,144</u>
Total Capital Assets Being Depreciated	<u>17,394,646</u>	<u>17,658,279</u>
Total Accumulated Depreciation	<u>(8,664,123)</u>	<u>(9,010,383)</u>
Total Net Capital Assets	<u>\$ 21,018,923</u>	<u>\$ 20,598,145</u>
Prior and current year’s major additions included the following:		
Various Resurfacing Projects and Related Costs-Infrastructure	<u>\$ 1,067,045</u>	<u>\$ 263,258</u>
Equipment	<u>\$ 185,916</u>	<u>\$ 185,603</u>

**Debt Administration**

Details of debt are shown in Note 8 to the financial statements.

At the year end, the Road Commission had \$189,434 in installment debt, a decrease of \$100,297 from 2018. Other long-term debt includes accrued vested employee benefits and OPEB liabilities and a State Infrastructure Bank Loan.

## **Economic Factors and Next Year's Budget**

The Board of County Road Commissioners, along with the Road Commission's fiscal and chief administrative officer, considered many factors when setting the calendar year 2020 budget. These factors included the economy, township contributions, interest rates and various other items. We are projecting an increase in Act 51 revenue over the year 2020. Expenses are budgeted to increase primarily due to increases in heavy maintenance expenses using Federal and State dollars.

## **Contacting the Road Commission's Financial Management**

This financial report is designed to provide the public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Montmorency County Road Commission's administrative offices at 11445 M-32, Atlanta, MI 49709 or call 989-785-3334.

## **Basic Financial Statements**

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# Montmorency County Road Commission

## Statement of Net Position December 31, 2019

### ASSETS

Cash and Equivalents	\$ 2,995,992
Receivables:	
Taxes	500,902
Michigan Transportation Fund	607,583
Due from State	89,149
Sundry	815
Inventories:	
Road Materials	355,105
Equipment, Parts and Materials	112,570
Prepaid Items	29,688
Capital Assets (Not Depreciated)	12,288,400
Capital Assets (Net of Accumulated Depreciation)	8,730,523
Total Assets	<u>25,710,727</u>

### DEFERRED OUTFLOWS OF RESOURCES

OPEB items	<u>26,153</u>
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### LIABILITIES

Accounts Payable	121,870
Accrued Liabilities	16,240
Notes Payable - Due within one year	102,423
Notes Payable - Due in more than one year	87,011
Vested Employee Benefits- Due in more than one year	132,116
Other Post Employment Benefits - Due in more than one year	657,521
Total Liabilities	<u>1,117,181</u>

### DEFERRED INFLOWS OF RESOURCES

OPEB items	261,297
Taxes Levied for Subsequent Period	500,902
Total Deferred Inflows of Resources	<u>762,199</u>

### NET POSITION

Net Investment in Capital Assets	20,829,489
Restricted for County Roads	3,028,011
Total Net Position	<u>\$ 23,857,500</u>



# Montmorency County Road Commission

## Statement of Activities For the Year Ended December 31, 2019

Program Expenses:	
Primary Road Maintenance and Preventive Maintenance	\$ 2,392,832
Local Road Maintenance and Preventive Maintenance	1,812,249
Net Equipment Expense	(108,536)
Net Administrative Expense	301,282
Other	(156,036)
Interest Expense	5,123
Total Program Expenses	<u>4,246,914</u>
Program Revenues:	
Charges for Services	29,710
Operating Grants and Contributions:	
State Grants	3,337,968
Contributions from Local Units	10,486
Interest and Other	47,180
Capital Grants and Contributions:	
Federal Grants	142,454
State Grants	469,590
Contributions from Local Units	455,001
Total Program Revenues	<u>4,492,389</u>
Net Program Revenues (Expenses)	<u>245,475</u>
General Revenues:	
Taxes - Real Property	502,060
Gain (Loss) on Disposal	45,570
Total General Revenues	<u>547,630</u>
Change in Net Position	793,105
Net Position - Beginning Balance as Restated	<u>23,064,395</u>
Net Position - Ending Balance	<u><u>\$ 23,857,500</u></u>

# Montmorency County Road Commission

**Balance Sheet**  
**December 31, 2019**

	<u>Governmental</u> <u>Fund Type</u> General <u>Operating Fund</u>
<b>ASSETS</b>	
Cash and Equivalents	\$ 2,995,992
Receivables:	
Taxes	500,902
Michigan Transportation Fund	607,583
Due from State	89,149
Sundry	815
Inventories:	
Road Materials	355,105
Equipment, Parts and Materials	112,570
Prepaid Items	29,688
Total Assets	<u>\$ 4,691,804</u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 121,870
Accrued Liabilities	16,240
Total Liabilities	<u>138,110</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Taxes Levied for Subsequent Period	<u>500,902</u>
<b>FUND BALANCE</b>	
Nonspendable	497,363
Committed	268,000
Restricted	3,287,429
Total Fund Balance	<u>\$ 4,052,792</u>

## Montmorency County Road Commission

### Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Position For the Year Ended December 31, 2019

Total Governmental Fund Balance	\$ 4,052,792
Amounts reported in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	21,018,923
Installment debt - not due and payable in current year and is not reported in the funds.	(189,434)
Vested Employee Benefits Payable are not due and payable in the current period and are not reported in the funds.	(132,116)
Deferred outflows & inflows related to OPEB	(235,144)
Other Post Employment Benefits (OPEB) are not due and payable in the current period and are not reported in the fund statements.	<u>(657,521)</u>
Net Position of Governmental Activities	<u><u>\$ 23,857,500</u></u>

# Montmorency County Road Commission

## Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended December 31, 2019

	Governmental Fund Type
	General Operating Fund
Revenues	
Property Taxes	\$ 502,060
Licenses and Permits	26,941
Federal Sources	142,454
State Sources	3,807,558
Contributions from Local Units	465,487
Charges for Services	2,769
Interest and Rents	47,180
Other Revenue	45,570
Total Revenues	<u>5,040,019</u>
Expenditures	
Public Works	4,909,150
Capital Outlay	(90,545)
Debt Service	105,420
Total Expenditures	<u>4,924,025</u>
Excess of Revenues Over (Under) Expenditures	115,994
Fund Balance - Beginning of Year	<u>3,936,798</u>
<b>Fund Balance - End of Year</b>	<u><u>\$ 4,052,792</u></u>

## Montmorency County Road Commission

### Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities For the Year Ended December 31, 2019

**Net Change in Fund Balance - Total Governmental Funds** \$ 115,994

Amounts reported in the statement of activities are different because:

Governmental funds report capital outlays 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	1,252,961
Deduct - Depreciation expense and retirements	(832,183)

Repayment of installment loan principal and bonded debt is an expenditure in the governmental fund but reduces long-term liabilities in the statement of net position.

Repayment of installment loan principal	100,297
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Vested employee benefits payable do not require the current use of financial resources and are not reported as expenditures in the fund statements.	(793)
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Change in other post employment benefits (OPEB) does not require the current use of financial resources and is not reported as expenditures in the fund statements.	156,829
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**Net Change in Net Position of Governmental Activities** \$ 793,105

# Montmorency County Road Commission

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## Statement of Net Position Fiduciary Fund December 31, 2019

	<u>OPEB Trust</u>	<u>Pension Trust</u>
<b>ASSETS</b>		
Investments at Fair Market Value	<u>\$ 173,649</u>	<u>\$ 2,423,442</u>
<b>NET POSITION</b>		
Restricted for Other Post Employment Benefits and Pension	<u>\$ 173,649</u>	<u>\$ 2,423,442</u>

**Montmorency County Road Commission****Statement of Changes in Fiduciary Net Position  
Fiduciary Fund  
For the Year Ended December 31, 2019**

	<u>OPEB Trust</u>	<u>Pension Trust</u>
<b>ADDITIONS</b>		
Contributions:		
Employer	\$ 179,350	\$ 45,132
Employee	-	42,039
Investment Earnings:		
Interest and Dividends	-	101,652
Net Increase (Decrease) in Fair Value of Investments	10,306	393,343
Total Additions	<u>189,656</u>	<u>582,166</u>
<b>DEDUCTIONS:</b>		
Distributions	49,350	238,220
Administrative Fees	468	21,846
Total Deductions	<u>49,818</u>	<u>260,066</u>
Change in Net Position	139,838	322,100
Net Position Restricted for Other Post Employment Benefits and Pension		
Beginning of Year	<u>33,811</u>	<u>2,101,342</u>
End of Year	<u>\$ 173,649</u>	<u>\$ 2,423,442</u>

## **Notes to Financial Statements**

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

The accounting policies of the Montmorency County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Montmorency County Road Commission.

**A. Reporting Entity**

The Montmorency County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3-member Board of County Road Commissioners elected by the voters of the County. The Road Commission may not issue debt without the County's approval and property tax levies for road purposes are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board Number 61, "The Financial Reporting Entity," as amended for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Montmorency County Road Commission, as a discretely presented component unit of Montmorency County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Montmorency County Road Commission. There is only one governmental fund reported in the government-wide financial statements.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the operating fund (governmental fund) and the trust funds (fiduciary funds). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

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

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

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

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue.

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

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

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

Cash and Equivalents and Investments

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

Inventories

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

Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid insurance is the item recorded for 2019.

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

Property Taxes Receivable

The property tax is levied each December 1<sup>st</sup> on the taxable valuation of property located in the County as of the preceding December 31<sup>st</sup> and is available for road maintenance purposes. The 2019 taxable valuation of \$500,902,284 for the Road Millage amounted to \$500,902 less \$0 for cities and villages of which ad valorem taxes of 1.0 mill was levied. This resulted in a taxes receivable amount of \$500,902.

In the government-wide financial statements, the tax is recorded as revenue when the tax is levied in the current year. Although the County’s 2019 ad valorem tax is levied and collectible December 1, 2019, it is the Road Commission’s policy to recognize revenues from the current tax levy in the subsequent year, when the proceeds of this levy are budgeted and made available for the financing of the Road Commission’s operations in the governmental fund financial statements. The taxes receivable amount is offset to deferred inflows.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by the Montmorency County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

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

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

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Road Commission has OPEB items that qualify for reporting in this category.

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

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and the governmental fund 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 and so will not be recognized as an inflow of resources (revenue) until that time. The Road Commission has OPEB and property taxes that qualify for reporting in this category.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, outflows, liabilities and inflows and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Budgets and Budgetary Accounting - The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 2 of 1968, as amended, in the preparation and execution of its annual general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law. The budgets are amended as appropriate throughout the year and lapse at year end.

Fund Balance Classification

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

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Road Commission has classified Inventories and Prepaid Items as being Nonspendable as these items are not expected to be converted to cash within the next year.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Road Commission has committed future funding for retiree health care benefits.

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

- Assigned: This classification includes amounts that are constrained by the Road Commission’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Road Commission through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

**NOTE 2 - EXCESS EXPENDITURES OVER APPROPRIATIONS**

Public Act 2 of 1968, as amended, Section 16 provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2019, the County Road Commission incurred expenditures in certain areas which were in excess of the amounts budgeted as listed on page 39.

**NOTE 3 - CASH AND EQUIVALENTS**

The balance sheet accounts and types of cash items are presented below:

<u>Balance Sheet Account</u>		<u>Cash Items</u>	
Cash and Equivalents	\$ 2,995,992	Imprest Cash	\$ 200
	<u>                    </u>	Checking & Savings	<u>2,995,792</u>
	<u>\$ 2,995,992</u>		<u>\$ 2,995,992</u>

The Commission has the following fair value measurements as of December 31, 2019:

<u>Investment</u>	<u>Fair Value Balances at 12/31/2019</u>	<u>Quoted Prices (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Equity Securities:				
*Mutual Funds - Pension	\$ 2,423,442	\$ -	\$ 2,423,442	\$ -
*Mutual Funds - OPEB	<u>173,649</u>	<u>-</u>	<u>173,649</u>	<u>-</u>
Total Investments	<u>\$ 2,597,091</u>	<u>\$ -</u>	<u>\$ 2,597,091</u>	<u>\$ -</u>

\*Ratings were not available.

## NOTE 3 - CASH AND EQUIVALENTS (Continued)

Investments – Public Act 152, as amended, authorized the Commission to deposit and invest in the following:

- (a) Bonds and other direct obligations of the United States or its agencies.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the National Credit Union Administration that are eligible to be depository of surplus money belonging to the State under Section 5 or 6 of Act 105, PA 1855, as amended (MCL 21.145 and 21.146).
- (c) Commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase and not more than 50 percent of any fund may be invested in commercial paper at any time.
- (d) United States government or Federal agency obligation repurchase agreements.
- (e) Bankers' acceptance of United States banks.
- (f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- (g) Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
  - (i) The purchase of securities on a when-issued or delayed delivery basis.
  - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
  - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- (h) Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- (i) Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- (j) The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Road commission has trust investments at December 31, 2019.

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

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

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

*Custodial Deposit Credit Risk.* – Custodial deposit credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. As of year end, \$2,707,355 of the Road Commission's bank balance of \$3,209,856 was exposed to credit risk because it was uninsured or uncollateralized.

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

*Custodial investment credit risk.* Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. OPEB and pension investments are pooled with the Custodian portfolios and are unrated and not the name of the Road Commission.

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

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

**NOTE 4 - EQUIPMENT LEASES**

The Road Commission has entered into cancelable operating equipment leases as follows:

Equipment Item	Lease Date	Lease Maturity Date	Annual Lease Payment	Guaranteed Purchase Amount
JD 644KXDW Wheel Loader	08/30/17	08/30/2023	\$ 24,055	\$ 138,280
JD 544KXDW Wheel Loader	10/16/17	10/16/2023	16,441	93,550
JD 544KXDW Wheel Loader	10/16/17	10/16/2023	16,755	95,500
JD 672GP Motor Grader	12/01/17	12/01/2023	23,049	202,100
JD 772GP Motor Grader	12/19/17	12/19/2023	23,641	222,100
JD 772GP Motor Grader	12/21/17	12/21/2023	23,489	217,650

Rent expense for fiscal 2019 was approximately \$127,430.

Subsequent maturities are as follows for lease commitments:

2020	\$127,430
2021	127,430
2022	127,430

# Montmorency County Road Commission

Notes to Financial Statements  
December 31, 2019

## NOTE 5 - CAPITAL ASSETS

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

	Beginning Balances 01/01/19	Additions	Adjustments/ Deductions	Ending Balances 12/31/19
<i>Capital Assets Not Being Depreciated</i>				
Land and Improvements	\$ 47,476	\$ -	\$ -	\$ 47,476
Infrastructure and Land Improvements	11,902,773	338,151	-	12,240,924
Subtotal	<u>11,950,249</u>	<u>338,151</u>	<u>-</u>	<u>12,288,400</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	1,999,378	-	-	1,999,378
Equipment - Road	3,706,403	157,979	1,820	3,862,562
Equipment - Shop	148,879	27,117	15,175	160,821
Equipment - Office	59,600	820	-	60,420
Equipment - Engineering	7,235	-	-	7,235
Depletable Assets	83,640	-	-	83,640
Infrastructure – Bridges	2,035,080	-	-	2,035,080
Infrastructure - Roads	9,618,064	728,894	1,161,448	9,185,510
Subtotal	<u>17,658,279</u>	<u>914,810</u>	<u>1,178,443</u>	<u>17,394,646</u>
<i>Less Accumulated Depreciation</i>				
Buildings	798,076	36,049	-	834,125
Equipment - Road	2,725,487	226,723	1,520	2,950,690
Equipment - Shop	117,180	11,778	15,175	113,783
Equipment - Office	55,617	1,611	-	57,228
Equipment - Engineering	7,235	-	-	7,235
Depletable Assets	27,940	-	-	27,940
Infrastructure – Bridges	1,032,552	50,877	-	1,083,429
Infrastructure – Roads	4,246,296	504,845	1,161,448	3,589,693
Subtotal	<u>9,010,383</u>	<u>831,883</u>	<u>1,178,143</u>	<u>8,664,123</u>
Net Capital Assets Being Depreciated	<u>8,647,896</u>	<u>82,927</u>	<u>(300)</u>	<u>8,730,523</u>
Total Net Capital Assets	<u>\$ 20,598,145</u>	<u>\$ 421,078</u>	<u>\$ (300)</u>	<u>\$ 21,018,923</u>

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

Primary Road Maintenance	\$ 382,383
Local Road Maintenance	173,339
Equipment	226,723
Allocated	47,827
Administrative	<u>1,611</u>
Total Depreciation Expense	<u>\$ 831,883</u>



**NOTE 6 - RISK MANAGEMENT/CONTINGENCIES**

The Montmorency County Road Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may not have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at December 31, 2019.

Montmorency County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between Municipal Corporations (inter-local agreements) to form group self-insurance pools.

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

The Montmorency County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, vehicle and equipment liability, bodily injury, property damage and personal injury liability. The Pool agreement provides that it shall be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance based upon limits determined by the Pool Board of Directors.

The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund. The Road Commission was unable to provide an estimate of additional potential assessments under those arrangements.

State Infrastructure Bank Loan – During fiscal 2017, the Road Commission executed an advance construction contract with the Michigan Department of Transportation for major highway resurfacing and improvements. It was anticipated, at that time, that a continuing financing note would be executed in an amount not to exceed \$1,500,000 and that future federal awards administered by the Department would be utilized to repay any remaining obligation upon completion of the project. Federal award amounts were recognized in fiscal 2017 based on these assurances and the project was completed. During fiscal 2019, the Road Commission received and remitted a payment of approximately \$89,000 and recorded a corresponding receivable from the State of Michigan for reimbursement of the obligation payment. Management is unable to determine the amount of the unpaid obligation as of year end and anticipates federal funding will reimburse this amount.

**NOTE 7 - PENSION PLAN**

Plan Description - Montmorency County Road Commission has established a defined contribution pension plan with the Life and Annuity Insurance Company Great-West covering substantially all employees. Participating employees contribute a portion of their compensation annually and the Commission contributes the remaining amounts necessary to fund the plan according to requirements. The Commission is obligated for 5% of an employee's base salary computed as of January 1 each year. The total employer contribution to the plan for 2019 was \$45,132.

**NOTE 7 - PENSION PLAN (Continued)**

Funding Status and Progress - Not all of the information required by the Governmental Accounting Standards Board disclosure requirements is included below because the year end reports did not contain the necessary information. The following information was provided, however.

Plan Assets at January 1, 2019	\$ 2,101,342
Employer Contributions	45,132
Employee Contributions	42,039
Interest/Dividends	101,652
Net Investment Earnings and Market Value Increase	393,343
Administrative Fees	(21,846)
Distributions / Withdrawals	<u>(238,220)</u>
Plan Assets at December 31, 2019	<u>\$ 2,423,442</u>

**NOTE 8 - LONG-TERM DEBT**

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

	<u>Balance</u> <u>01/01/19</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/19</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Notes Payable					
Huntington Bank	\$ 127,863	\$ -	\$ 44,263	\$ 83,600	\$ 45,201
Huntington Bank	161,868	-	56,034	105,834	57,222
Vested Employee Benefits Payable (1)	<u>131,323</u>	<u>793</u>	<u>-</u>	<u>132,116</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 421,054</u>	<u>\$ 793</u>	<u>\$ 100,297</u>	<u>\$ 321,550</u>	<u>\$ 102,423</u>

(1) Record as a net increase or decrease.

Annual debt service requirements for long-term debt:

<u>Year End December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 102,423	\$ 2,997	\$ 105,420
2021	<u>87,011</u>	<u>839</u>	<u>87,850</u>
Total	<u>\$ 189,434</u>	<u>\$ 3,836</u>	<u>\$ 193,270</u>

In October of 2016, the Road Commission borrowed \$499,955 comprised of two installment loans of \$220,639 and \$279,316 to purchase three trucks. Monthly payments are \$3,877 and \$4,908 respectively, until October 2021. Interest is charged at a rate of 2.1% per annum. The loans are secured by equipment.

Vested Employee Benefits

Road Commission policies provide for the payment of vacation, sick and personal days accumulated. Accrued sick pay at December 31, 2019 was \$81,502 and vacation and personal days accumulated created a liability \$50,614 for a total of \$132,116.

**NOTE 8 - LONG-TERM DEBT (Continued)**

Regular employees may accumulate up to eight hundred (800) hours of sick leave of which fifty (50) hours may be used as personal time, if the employee has an accumulated sick leave balance of more than 750 hours. The employer will pay each employee one hundred percent (100%) for each sick leave hour which he/she would have accumulated in excess of the eight hundred (800) hour limit, such payment to be made in the pay period following the pay period in which such sick leave hours would have accumulated.

A regular employee may accumulate up to two hundred forty (240) hours of vacation credits. The employer will pay each employee one hundred percent (100%) for each vacation credit which he would have accumulated in excess of the 240 hour limit except as follows: Employees with at least 4 months but less than 10 years may accumulate up to 240 hours, employees with at least 10 years but less than 15 years may accumulate up to 264 hours, employees with at least 15 years but less than 20 years may accumulate up to 280 hours, employees with 20 or more years may accumulate up to 296 hours.

**NOTE 9 - OTHER POST EMPLOYMENT BENEFITS**

*Plan Description* – The Montmorency County Road Commission Retiree Health Care Plan is a single employer plan established and administered by the Board and can be amended at its discretion. The retiree health plan does not issue a publicly available report.

*Contributions* – The Montmorency County Road Commission’s OPEB Plan was established and is being funded under the authority of the Commission under agreements with its employee unions. The plan’s funding policy is to distribute benefits from general operating funds on a pay-as-you-go basis, and contributing \$130,000 during 2019 while committing to \$67,000 annually through 2023. There are no long-term contracts for contributions to the plan. The plan has no legally required reserves.

*Employees Covered by Benefit Terms*

As of December 31, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	13
Inactive employees entitled to but not yet receiving benefits	-
Active employees	<u>18</u>
 Total participants covered by OPEB Plan	 <u><u>31</u></u>

*Total OPEB Liability and Trust Assets* - The Road Commission’s total OPEB liability of \$831,170 was measured as of December 31, 2019, and was determined by an actuarial valuation as of that date. As of December 31, 2019, there was \$173,649 in assets in the Road Commission’s OPEB trust.

*Actuarial assumptions and other inputs* - The total OPEB liability was determined by an actuarial valuation as of December 31, 2019 and the following actuarial assumptions:

Inflation	1.80%
Salary Increases	3.50%
Investment rate of return	6.30% including inflation
20 year Aa municipal bond rate	3.26%
Mortality	2010 Public General Employees and Healthy Retirees with MP-2019 mortality improvement scale.

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

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return (expected returns, net of retirement plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the retirement plan’s target asset allocation as of December 31, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Large Cap US	25.00%	7.75%	US Fixed Income	2.00%	3.30%
Mid Cap US	7.00%	8.10%	Int’l Fixed Income	2.00%	4.20%
Small Cap US	5.00%	7.30%	Inflation-Linked Income	2.00%	5.10%
Int’l Equities	20.00%	6.70%	High Yield Fixed Income	3.00%	7.00%
Emerging Market Equities	10.00%	8.30%	Limited Partnerships	3.00%	3.30%
Short Term Fixed Income	10.00%	3.10%	Commodities	2.00%	3.30%

The sum of each target allocation times its long-term expected real rate is 6.30%

*Discount Rate* - The discount rate used to measure the total OPEB liability was 6.30%. The projection of cash flows used to determine the discount rate assumed that the Road Commission will make contributions to the OPEB trust of \$67,000 annually, through 2023, pursuant to their Corrective Action Plan in addition to paying retiree benefits from general operating funds. Based on this assumptions, the retirement plan’s fiduciary net position was projected to be sufficient to make projected future benefit payments of current plan members. There is no cross-over point or depletion date. The discount rate that yields the same present value of benefits is equal to the expected Real Rate of Return, plus inflation.

	<b>Total OPEB Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net OPEB Liability</b>
<b>Balances at December 31, 2018</b>	<u>\$ 1,057,595</u>	<u>\$ 33,811</u>	<u>\$ 1,023,784</u>
Service cost	26,664	-	26,664
Interest	31,788	-	31,788
Experience (gains)/losses	29,265	-	29,265
Change in plan terms	-	-	-
Change in actuarial assumptions	(264,792)	-	(264,792)
Contributions to OPEB trust	-	130,000	(130,000)
Contributions/benefit paid from general operating funds	-	49,350	(49,350)
Net investment income	-	10,306	(10,306)
Benefit payments including refunds of employee contributions	(49,350)	(49,350)	-
Administrative expense	-	(468)	468
<b>Net changes</b>	<u>(226,425)</u>	<u>139,838</u>	<u>(366,263)</u>
<b>Balances as December 31, 2019</b>	<u>\$ 831,170</u>	<u>\$ 173,649</u>	<u>\$ 657,521</u>

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

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

	<b>Discount</b>		
	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 906,162	\$ 831,170	\$ 765,499
Plan Fiduciary Net Position	<u>173,649</u>	<u>173,649</u>	<u>173,649</u>
Net OPEB Liability	<u>\$ 732,513</u>	<u>\$ 657,521</u>	<u>\$ 591,850</u>

	<b>Trend</b>		
	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 819,170	\$ 831,170	\$ 844,754
Plan Fiduciary Net Position	<u>173,649</u>	<u>173,649</u>	<u>173,649</u>
Net OPEB Liability	<u>\$ 645,521</u>	<u>\$ 657,521</u>	<u>\$ 671,105</u>

*OPEB Expense*

Components of Road Commission’s OPEB Expense for the fiscal year ending December 31, 2019 are as follows:

Service Cost	\$ 26,664
Interest on Total OPEB Liability	31,788
Experience (Gains)/Losses	949
Changes of Assumptions	(30,724)
Projected Earnings on OPEB Plan Investments	(6,901)
Investment Earnings (Gains)/Losses	277
Administrative Expenses	<u>468</u>
Total OPEB Expense	<u>\$ 22,521</u>

Deferred Outflows and Inflows of Resources Related to OPEB Plan

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Experience (Gains)/Losses	\$ 26,002	\$ 17,119
Changes in Assumptions	-	244,178
Investment Earnings (Gains)/Losses	<u>151</u>	<u>-</u>
Total	<u>\$ 26,153</u>	<u>\$ 261,297</u>

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

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

<u>Year Ended December 31:</u>	
2020	\$ (29,498)
2021	(29,498)
2022	(29,497)
2023	(30,456)
2024	(29,775)
Thereafter	(86,420)

**NOTE 10 - FEDERAL GRANTS**

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2019, the federal aid received and expended by the Road Commission was \$142,454 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the Road Commissions perform the work and would be subject to single audit requirements if they expended \$750,000 or more. For 2019, Local Force Account projects amounted to zero.

**NOTE 11 - SUBSEQUENT EVENT**

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of local units of government. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. Therefore, the Commission expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

## **Required Supplementary Information**

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# Montmorency County Road Commission

## Employee Benefit System Required Supplementary Information Changes in the OPEB Liability For the Year Ended December 31, 2019

	2018	2019
<b>Total OPEB Liability - Beginning of Year</b>	\$ 1,078,268	\$ 1,057,595
Service cost	23,063	26,664
Interest	33,988	31,788
Change in actuarial assumptions	(11,314)	(264,792)
Experience (gains) losses	(21,747)	29,265
Benefits payments, including refunds of member contributions	(44,663)	(49,350)
<b>Total OPEB Liability - End of Year</b>	1,057,595	831,170
<b>Plan fiduciary net position</b>		
Contributions - employer	44,663	179,350
Net investment income	(2,259)	10,306
Benefits payments, including refunds of member contributions	(44,663)	(49,350)
Administrative expense	(182)	(468)
<b>Net change in plan fiduciary net position</b>	(2,441)	139,838
<b>Plan fiduciary net position - Beginning of Year</b>	36,252	33,811
<b>Plan fiduciary net position - End of Year</b>	33,811	173,649
<b>Net OPEB liability - End of Year</b>	\$ 1,023,784	\$ 657,521
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	3.20%	20.89%
<b>Covered Payroll</b>	\$ 1,019,524	\$ 1,073,227
<b>Net OPEB liability as a percentage of covered payroll</b>	100.42%	61.27%
<b>Contributions:</b>		
Actuarially determined contribution	\$ 92,844	\$ 91,004
Employer contribution	(44,663)	(179,350)
Contribution deficiency/(excess)	\$ 48,181	\$ (88,346)
<b>Covered Payroll</b>	\$ 1,019,524	\$ 1,073,227
<b>Actuarially determined contribution as percentage of covered payroll</b>	9.11%	8.48%



# Montmorency County Road Commission

## Employee Benefit System Required Supplementary Information State of Michigan Public Acts 530 and 202 Information For the Year Ended December 31, 2019

### Financial Information

Assets (Fiduciary Net Position)	\$ 173,649
Liabilities (Total OPEB Liability)	831,170
Funded ratio for the plan year	20.89%
Actuarially recommended contribution (ARC)	91,004
Is ARC calculated in compliance with No. Letter 2018-3?	Yes

### Membership

Active members	18
Retirees and beneficiaries	13
Premiums paid on behalf of the retirants	\$ 49,350

### Actuarial Assumptions

Actuarially assumed rate of investment return	6.30%
Discount rate	6.30%
Amortization method used for funding unfunded liability	Level percent
Amortization period used for funding unfunded liability	16 years
Is each division closed to new employees	No
Healthcare trend assumption	8.50%

### Uniform Assumptions

Actuarial value of assets using uniform assumptions	\$ 173,649
Actuarial accrued liability using uniform assumptions	833,686
Funded ratio using uniform assumptions	20.83%
Actuarially determined contribution (ADC) using uniform assumptions	\$ 91,004

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

Retiree insurance premiums for the year	\$ 49,350
Normal cost as a percent of covered payroll	2.56%
Covered payroll for employees hired after June 30, 2018	22,314
Normal cost for employees hired after June 30, 2018	571
Minimum required contribution under PA 202	\$ 49,921

**Employee Benefit System  
Required Supplementary Information  
Assumptions and Methods for Calculation of Actuarially Determined Contributions  
For the Year Ended December 31, 2019**

**Valuation Date** December 31, 2019  
**Measurement Date** December 31, 2019

**Actuarial Methods**

Cost method Entry Age Normal (level percentage of compensation)  
Asset valuation method Equal to market value of assets

**Actuarial Assumptions**

**Discount rate - 6.30%**

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

**20-year Aa Municipal Bond Rate - 3.26%**

Rationale - S&P Municipal Bond 20-year high grade rate index

**Payroll inflation - 3.50%**

Rationale - Employer experience and expectations

**Return on plan assets - 6.30%**

Rationale - Based on plan investment experience

**Mortality rates - 2010 Public General Employees and Health Retirees, headcount weighted  
with improvement scale MP-2019**

Rationale - Based on industry studies applicable to public employers

**Monthly per capita claims costs**

Medical for retiree or spouse, see rates below:

Age	Rate
60	883.30
61	914.54
62	935.05
63	960.76
64	976.38

Rationale - age graded premiums in effect

Medicare support - \$350 per month pre-paid quarterly

**Inflation rates**

Medical:

Pre-65 - 8.5%, Medicare - 7.0%, both graded down 0.25% per year to 4.5%

Rationale - Per Uniform Assumptions published under PA 202 and consistent with national trends

**Employee Benefit System  
Required Supplementary Information  
Assumptions and Methods for Calculation of Actuarially Determined Contributions  
For the Year Ended December 31, 2019**

**Marital assumptions** - N/A; no coverage provided to spouses or dependents

Rationale - consistent with plan provisions

**Utilization** - 100% of future retirees are expected to receive contributions towards healthcare costs

Rationale - consistent with experience

**Termination rates**

Rationale - Based on employer experience

Age	Rate	Age	Rate
20	7.8%	35	3.2%
25	6.8	40	2.2
30	4.7	45	1.6

**Retirement assumptions**

Rationale - Based on employer experience

Age	Rate	Age	Rate
55-61	5%	66	30%
62	15	67	40
63-64	10	68	50
65	20	69	90
		70	100

**Data Collection**

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

**Assumption changes since prior valuation**

- Incorporated public employer mortality tables based on recent national studies
- Trend Table prescribed by Public Act 202
- Discount rate lowered from 3.00% to 6.30%

**Montmorency County Road Commission**

**Employee Benefit System  
Required Supplementary Information  
Schedule of Amortization of Deferred Outflows/Inflows of Resources  
For the Year Ended December 31, 2019**

**Schedule of Difference between Actual and Expected Experience**

Year	Difference between expected and actual experience	Recognition period (Years)	Amount Recognized in Year Ended December 31,						Thereafter	Deferred Outflows of Resources	Deferred Inflows of Resources
			2019	2020	2021	2022	2023	2024			
2018	(21,747)	9.40	\$ (2,314)	\$ (2,314)	\$ (2,314)	\$ (2,314)	\$ (2,314)	\$ (2,314)	\$ (5,549)	\$ -	\$ (17,119)
2019	29,265	8.97	3,263	3,263	3,263	3,263	3,263	3,263	9,687	26,002	-
Net recognized in OPEB expense			<u>\$ 949</u>	<u>\$ 949</u>	<u>\$ 949</u>	<u>\$ 949</u>	<u>\$ 949</u>	<u>\$ 949</u>	<u>\$ 4,138</u>	<u>\$ 26,002</u>	<u>\$ (17,119)</u>

**Schedule of Changes in Assumptions**

Year	Changes in assumptions	Recognition period (Years)	Amount Recognized in Year Ended December 31,						Thereafter	Deferred Outflows of Resources	Deferred Inflows of Resources
			2019	2020	2021	2022	2023	2024			
2018	(11,314)	9.40	\$ (1,204)	\$ (1,204)	\$ (1,204)	\$ (1,204)	\$ (1,204)	\$ (1,204)	\$ (2,886)	\$ -	\$ (8,906)
2019	(264,792)	8.97	(29,520)	(29,520)	(29,520)	(29,520)	(29,520)	(29,520)	(87,672)	-	(235,272)
Net recognized in OPEB expense			<u>\$ (30,724)</u>	<u>\$ (30,724)</u>	<u>\$ (30,724)</u>	<u>\$ (30,724)</u>	<u>\$ (30,724)</u>	<u>\$ (30,724)</u>	<u>\$ (90,558)</u>	<u>\$ -</u>	<u>\$ (244,178)</u>

**Schedule of Differences between Projected and Actual Earnings on OPEB Plan Investments**

Year	Difference between projected and actual earnings on OPEB assets	Recognition period (Years)	Amount Recognized in Year Ended December 31,						Thereafter	Deferred Outflows of Resources	Deferred Inflows of Resources
			2019	2020	2021	2022	2023	2024			
2018	4,791	5.0	\$ 958	\$ 958	\$ 958	\$ 959	\$ -	\$ -	\$ -	\$ 2,875	\$ -
2019	(3,405)	5.0	(681)	(681)	(681)	(681)	(681)	-	-	-	(2,724)
Net recognized in OPEB expense			<u>\$ 277</u>	<u>\$ 277</u>	<u>\$ 277</u>	<u>\$ 278</u>	<u>\$ (681)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,875</u>	<u>\$ (2,724)</u>

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

Total Deferred Outflow/(Inflow) of Resources	Amount Recognized in Year Ended December 31,					
	2020	2021	2022	2023	2024	Thereafter
	\$ (29,498)	\$ (29,498)	\$ (29,497)	\$ (30,456)	\$ (29,775)	\$ (86,420)

## Montmorency County Road Commission

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**Employee Benefit System  
Required Supplementary Information  
Summary of Plan Provisions  
For the Year Ended December 31, 2019**

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

**Benefit Eligibility**

Age 60 with 15 years of service

**Benefit**

Retirees will receive health insurance benefits until attaining age 65; Upon reaching age 65, the Road Commission will pay each eligible retiree \$350 per month, to be pre-paid quarterly, for well-being - to be reviewed on March 31, 2022.

Spouse and dependents - Retiree spouses and children are not eligible for coverage though the Road Commission

**Changes since prior valuation for roll-forward valuation** - The payment will be reviewed on March 31, 2022 instead of annually on September 1st

# Montmorency County Road Commission

## Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues - Budget and Actual For the Year Ended December 31, 2019

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes	\$ 494,000	\$ 502,400	\$ 502,060	\$ (340)
Licenses and Permits	30,000	27,000	26,941	(59)
Federal Sources				
STP Funds	549,900	-	142,454	142,454
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Allocation	3,508,000	3,508,000	3,649,862	141,862
Snow Removal	34,000	49,150	49,144	(6)
Other	-	205,815	-	(205,815)
Forest Road	98,550	98,550	98,552	2
Contributions from Local Units				
Townships	230,000	455,100	455,001	(99)
Other	2,500	46,400	10,486	(35,914)
Charges for Services				
Salvage Sales	4,000	2,800	2,769	(31)
Interest and Rents	7,500	48,100	47,180	(920)
Other Revenue				
Loss on Equipment Disposals	5,000	1,500	(300)	(1,800)
Other	-	-	45,870	45,870
<b>Total Revenues</b>	<b>\$ 4,973,450</b>	<b>\$ 4,954,815</b>	<b>\$ 5,040,019</b>	<b>\$ 85,204</b>

# Montmorency County Road Commission

## Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures - Budget and Actual For the Year Ended December 31, 2019

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road:				
Preservation - Structural Improvements	\$ 170,000	\$ 86,000	\$ 241,088	(155,088)
Maintenance	2,400,000	1,850,000	1,873,903	(23,903)
Local Road:				
Preservation - Structural Improvements	600,000	869,000	962,503	(93,503)
Maintenance	1,500,000	1,340,000	1,638,910	(298,910)
Administrative Expense - Net	300,000	260,000	301,282	(41,282)
Equipment Expense - Net	-	(270,000)	(108,536)	(161,464)
Capital Outlay - Net	200,000	(110,000)	(90,545)	(19,455)
Debt Service:				
Principal	110,000	179,000	100,297	78,703
Interest	8,000	8,000	5,123	2,877
Total Expenditures	5,288,000	4,212,000	<u>\$ 4,924,025</u>	<u>\$ (712,025)</u>
Fund Balance - January 1, 2019	<u>3,936,798</u>	<u>3,936,798</u>		
Total Budget	<u>\$ 9,224,798</u>	<u>\$ 8,148,798</u>		

## **Other Information**

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# Montmorency County Road Commission

## Analysis of Changes in Fund Balance For the Year Ended December 31, 2019

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 2,351,922	\$ 2,122,362	\$ 565,735	\$ 5,040,019
Total Expenditures	2,110,303	2,694,193	119,529	4,924,025
Excess of Revenues Over (Under) Expenditures	241,619	(571,831)	446,206	115,994
Optional Transfers	(500,000)	500,000	-	-
Fund Balance - January 1, 2019	626,094	326,030	2,984,674	3,936,798
Fund Balance - December 31, 2019	<u>\$ 367,713</u>	<u>\$ 254,199</u>	<u>\$ 3,430,880</u>	<u>\$ 4,052,792</u>

# Montmorency County Road Commission

## Analysis of Revenues For the Year Ended December 31, 2019

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes	\$ -	\$ -	\$ 502,060	\$ 502,060
Licenses and Permits	-	26,941	-	26,941
Federal Sources				
STP Funds	142,454	-	-	142,454
State Sources				
Michigan Transportation Fund				
Engineering	5,940	4,060	-	10,000
Allocation	2,167,883	1,481,979	-	3,649,862
Snow Removal	-	49,144	-	49,144
Forest Road	-	98,552	-	98,552
Contributions from Local Units				
Townships	-	455,001	-	455,001
Other	-	-	10,486	10,486
Charges for Services				
Salvage Sales	-	2,769	-	2,769
Interest and Rents	35,762	3,916	7,502	47,180
Other Revenue				
Gain (Loss) on Equipment Disposals	(117)	-	(183)	(300)
Other	-	-	45,870	45,870
Total Revenues	<u>\$ 2,351,922</u>	<u>\$ 2,122,362</u>	<u>\$ 565,735</u>	<u>\$ 5,040,019</u>

# Montmorency County Road Commission

## Analysis of Expenditures For the Year Ended December 31, 2019

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation - Structural Improvements	\$ 241,088	\$ -	\$ -	\$ 241,088
Maintenance	1,873,903	-	-	1,873,903
Local Road				
Preservation - Structural Improvements	-	962,503	-	962,503
Maintenance	-	1,638,910	-	1,638,910
Administrative Expense - Net	135,105	166,177	-	301,282
Equipment Expense - Net	(31,669)	(73,397)	(3,470)	(108,536)
Capital Outlay - Net	(108,124)	-	17,579	(90,545)
Debt Service				
Principal	-	-	100,297	100,297
Interest	-	-	5,123	5,123
Total Expenditures	<u>\$ 2,110,303</u>	<u>\$ 2,694,193</u>	<u>\$ 119,529</u>	<u>\$ 4,924,025</u>

# **Report on Compliance**

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

**KINROSS OFFICE**

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**MEMBER AICPA  
DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN  
MICHIGAN & WISCONSIN**

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

Board of County Road Commissioners  
Montmorency County Road Commission  
11445 M-32  
Atlanta, Michigan 49709

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, major fund and aggregate remaining fund information of the Montmorency County Road Commission (a component unit of Montmorency County, Michigan), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Montmorency County Road Commission's basic financial statements and have issued our report thereon dated May 14, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Montmorency County Road Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Montmorency County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Montmorency County Road Commission's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies, listed as 2019-001 and 2019-002.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Montmorency County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2019-001.

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

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

### **Purpose of this Report**

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



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

May 14, 2020

*Significant Deficiencies – Noncompliance with State Statutes*

**Expenditures in Excess of Appropriations—Budgetary Funds**

***Finding 2019-001***

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

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

The Road Commission’s 2019 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2019 expenditures exceeded the board’s approved budget allocations for general fund activity.

During the fiscal year ended December 31, 2019, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 39 of the financial statements.

*Effect:* Condition’s violate State Statutes.

*Cause:* Unknown.

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

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

- *Contact Person(s) Responsible for Correction:*  
Todd Behring, Managing Director

***Significant Deficiencies - Internal Control***

**Segregation of Duties**

***Finding 2019-002***

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

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

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

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

*Planned Corrective Action:* The Board has implemented compensating controls to reduce the risks discussed above such as dual signature checks and account reviews.

- *Contact Person(s) Responsible for Correction:*  
Todd Behring, Managing Director





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

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**MEMBER MACPA**

**OFFICES IN  
MICHIGAN & WISCONSIN**

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

Board of County Road Commissioners  
Montmorency County Road Commission  
11445 M-32 West  
Atlanta, Michigan 49709

We have audited the financial statements of the governmental activities, major fund and aggregate remaining fund information of the Montmorency County Road Commission (a component unit of the County of Montmorency, Michigan) for the year ended December 31, 2019, and have issued our reports thereon dated May 14, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

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

As stated in our engagement letter dated March 2, 2020, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

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

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

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters during March 25, 2020.

### **Significant Audit Findings**

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

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

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- Vested Employee Benefits are based on current rates which may differ from rates used at time of distribution.
- Management's estimate of the Annual Required Contribution for OPEB Obligations, and Actuarial Accrued Liability and Actuarial Value of Assets was based on actuarial assumptions and estimates.

The financial statement disclosures are neutral, consistent and clear.

### **Difficulties Encountered in Performing the Audit**

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

### **Corrected and Uncorrected Misstatements**

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

### **Disagreement with Management**

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

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated May 14, 2020.

### **Management Consultations with Other Independent Accountants**

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

### **Other Audit findings or Issues**

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

### **Comments and Recommendations**

#### **Information Technology (Prior Year)**

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

Status: Corrected, Thatch Computer Consulting performs system scans.

#### **Check Copies (Prior Year)**

Due to changes in bank practices, the Road Commission does not receive canceled checks. The Road Commission should contact the bank to obtain "imaged" checks to assure compliance with state retention policies and to assure proper clearing of amounts by the bank.

Status: No change.

#### **Capitalization Policy (Prior Year)**

The Commission is required to develop a capitalization policy and guidelines for infrastructure and capital assets. A threshold of \$5,000 for infrastructure and \$1,000 for other capital assets should be sufficient for accurate reporting.

Status: No change.

### **Policies (Prior Year)**

The Commission currently does not have a policy for ACH or EFT payments. Due to the increasing number of payments made in this manner, it is recommended that the Commission adopt a policy regarding these items.

Status: No change.

### **Uniform Administrative Requirements (Prior Year)**

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

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

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

Status: No change.

### **Prepaid Leases (Prior Year)**

During fiscal 2017, the Road Commission established annual operating lease payments for several pieces of equipment. Due to the varying payment dates of the annual payments, a prepaid lease asset should be established and amortized.

Status: No change.

### **Stockpile Inventories (Prior Year)**

To improve road material physical count of inventories, the Board should implement specific cross section procedures to accurately report stockpile quantities. This would provide greater control and reporting over road material bulk quantities. This could be accomplished by cross section software or subcontracted to an outside engineer.

Status: The Road Commission did utilize the “Soil Map” software application, however, documentation as to estimate bulk amounts, date, and location was not retained.

### **Transparency Reporting (Prior Year)**

Michigan Public Act 84 of 2015 requires units of government to provide specific finances, unfunded liabilities, debt service, performance dash board, and other information. The Road Commission has not updated its website for this required data for the most recent fiscal year. The Board should provide this data in accordance with state statute.

Status: No change.

### **Board Clerk Appointment – Organizational Meeting**

The board has not formally appointed a Road Commission “Clerk” to the board in several years. As part of the organizational meeting each year, the Board should consider appointing a “Clerk” or Secretary to the Board to assist in executing board approved documents, certifying board actions and other official duties in Accordance Section 224.9 of Public Act 283 of 1909. Additionally, at the first meeting of the calendar year, the Board should elect officers, appoint legal counsel, approve bank accounts and signors and other organizational tasks in accordance with “Robert’s Rules of Order” for board procedures.

### **General Appropriations Act**

The expenditures of funds in excess of appropriations are contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended. Our examination of procedures used by the Road Commission to adopt and maintain operating budgets for the Road Commission’s budgetary fund revealed instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, (the Uniform Budgeting and Accounting Act). The Board did not properly enact a general appropriations act as required by law. Additionally, for the budget implemented, the board’s actual expenditures exceeded the budget for several line items. The Board should implement the appropriate corrective actions in accordance with the statute.

### **Contributions to Medical Benefit Plans**

Public Act 270 of 2013 set limits on the amount a Road Commission can contribute to a medical benefit plan. The Michigan Department of Treasury publishes the limits annually based on types of medical coverage. Excess coverage must be deducted from employee payroll to comply with the statute. The Road Commission has not established monitoring calculations to determine compliance with the Act. Therefore, the Board may be violating this law. The Board should establish procedures for compliance and determine appropriate corrective actions if needed.

### **Pension and OPEB Reporting – Form 5572**

Public Act 202 of 2017 required governments to prepare additional reporting for pension and OPEB plans using Form 5572 (due 6 months after the end of your fiscal year). A memo was issued September 25, 2018 by Treasury regarding the application of uniform assumptions. For the purpose of reporting Form 5572, Treasury required uniform assumptions to be included on Form 5572 for fiscal years ending 2019, if the audited financial statements were based on an actuarial valuation issued after December 31, 2018. Reporting of pension and OPEB liabilities under the uniform assumptions is required no later than fiscal year end ending 2020 in all other cases. The full memo can be found at the following address:

[https://www.michigan.gov/documents/treasury/FY\\_2020\\_Uniform\\_Assumptions-Treasurer\\_Approved\\_669313\\_7.pdf](https://www.michigan.gov/documents/treasury/FY_2020_Uniform_Assumptions-Treasurer_Approved_669313_7.pdf)

Uniform assumptions will be used by Treasury to increase comparability of pension and OPEB plans from one municipality to the next. Treasury recommends all actuarial valuations issued after December 31, 2018 include the provisions of the uniform assumptions. It is important to consider whether using the uniform assumptions for the measurement of your municipality’s pension or OPEB liabilities are appropriate under GAAP, or whether the liabilities should be calculated using two sets of assumptions. If using two sets of assumptions is appropriate, both amounts will be reported to Treasury.

Assumptions	Uniform Assumptions	Change from Fiscal Year 2019
Investment Rate of Return	Maximum of 7.00%	None
Discount Rate	Blended discount rate calculated using GASB Statements No. 68 and 75 methodology  For periods in which project plan assets are Sufficient to make Projected Benefit Payments: <u>Maximum of 7.00%</u>  For period in which projected plan assets are Not Sufficient to make Projected Benefit Payments: 3.50%	Increased the blended rate from 3% to 3.50% for periods in which plan assets are <u>not</u> sufficient to make project benefit payments
Salary Increase	A minimum of 3.50% or based on an actuarial experience study conducted with in the last five years	None
Mortality Table	A version of the Pub-2010 mortality tables with future mortality improvement projected generationally using Scale MP-2018 or based on an actuarial experience study conducted within the last five years	Changed from RP-2014 it <b>Pub-2010</b> tables; Generational mortality improvement using <b>Scale MP-2018</b>
Health Care Inflation (for Medical and Drug)	<b>Non-Medicare:</b> Initial rate of 8.25% decreasing .25% per year to a 4.50% long-term rate  <b>Medicare:</b> Initial rate of 6.50% decreasing .25% per year to a 4.50% long-term rate	<b>Non-Medicare:</b> Initial rate reduce form 8.50% to 8.25%  <b>Medicare:</b> Initial rate reduced from 7.00% to 6.50%
Amortization of the Unfunded Actuarial Accrued Liability	Local governments must amortize the unfunded actuarial accrued liability (UAAL) over a maximum closed period of  <ul style="list-style-type: none"> <li>● Pension systems: 19 years</li> <li>● Retiree Health Care Systems: 29 years</li> </ul> Closed plans must use a level-dollar amortization method  Open plans may use a level-dollar or percent of pay amortization method	<b>Pension:</b> Closed period reduced from 20 years to 19 years  <b>Health Care:</b> Closed period reduced from 30 years to 29 years

### Single Approach for Reporting Leases (Prior Year)

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

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

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

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

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

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

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

The full text of Statement 87 is available on the GASB website, [www.gasb.org](http://www.gasb.org).

Status: Effective for fiscal year ended 2021.

#### **Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period**

*Effective for fiscal years beginning after December 15, 2019 (fiscal year 2021).* This Statement establishes accounting requirements for interest cost incurred before the end of a construction period.

Such interest cost includes all interest that was previously accounted for in accordance with the requirements of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statement prepared using the economic resources measurement focus.

#### **Employee Withholding Forms (Prior)**

Due to the significant changes recently enacted with the 2019 Tax Cuts and Jobs Act, the Board should consider having employees update their Form W4 – Employee’s Withholding Allowance Certificate. Tax Rate, credit and deduction changes have impacted federal income tax withheld from gross pay.

Status: Implemented.

#### **Disbursements (Prior)**

It was noted during our tests of disbursements, that a retirement check was printed quarterly and stamped at a local bank “for deposit only”, rather than a hand written endorsement by the payee. Conversations with the Clerk indicated that the retiree pension checks do not all print automatically or disburse though direct deposit; therefore, this type of check, was endorsed and deposited for the retiree.

To improve controls for these disbursements, payments should be issued and mailed directly to retirees. This reduces the possibility of an incorrect deposit occurring and places the responsibility with the retiree not the Clerk for deposit.

Status: Corrected, all payments are mailed.

### **Debit Card Policy (Prior)**

During our review of debit card usage and procedures, we noted that the Board has not adopted a debit card policy. The Michigan Department of Treasury recommends that debit card practices follow the procedures outlined in Public Act 266 of 1995. The Board should implement a policy in accordance with the statute which includes a review of transactions, required documentation, authorizations, custody and protection procedures. Additionally, we noted that meals are not documented as a governmental purpose. Meals that are not part of overnight travel should have an indication of how the expenditure was related to the public purpose and not for personal use. All receipts should be initialed as to authorization and the purpose indicated in accordance with state law.

Status: Unchanged.

### **Public Act 202 of 2017 (Prior)**

Public Act 202 of 2017 requires local units of government with employee retiree healthcare plans to provide adequate funding. The Road Commission established a retiree healthcare program which is not adequately funded at 40% of the actuarially determined total liability. The Road Commission is not in compliance with Statute and must receive an approved waiver from the Michigan Department of Treasury or adequately fund this plan. A trust in accordance with Public Act 115 should be established as well.

Status: Corrective action plan implemented.

### **Other Matters**

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

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

### **Conclusion**

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

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



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

May 14, 2020