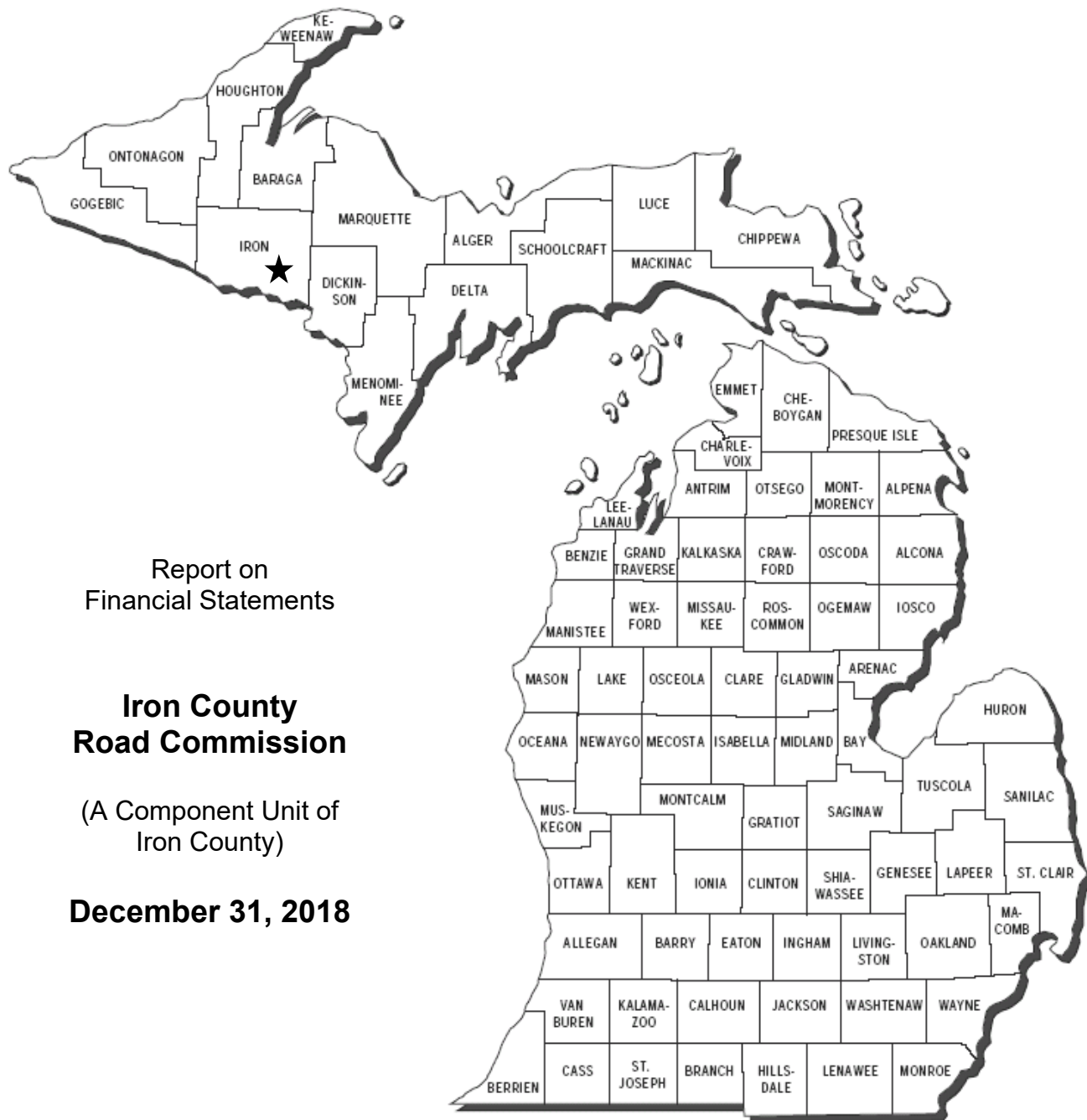


STATE OF MICHIGAN

Gretchen Whitmer, Governor

DEPARTMENT OF TREASURY

Rachel Eubanks, State Treasurer



Report on
Financial Statements

Iron County Road Commission

(A Component Unit of
Iron County)

December 31, 2018

IRON COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

(June 27, 2019)

Dan Germic
Chairperson

Ernie Schmidt
Vice Chairperson

Chuck Battan
Member

Sue Clisch
Member

Ron Frailing
Member

Douglas Tomasoski
Superintendent of Operations

Lisa Powell, CPA
Finance Director / Clerk

COUNTY POPULATION--2010
11,817

STATE EQUALIZED VALUATION--2018
\$677,576,334



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

June 27, 2019

Board of County Road Commissioners
Iron County Road Commission
800 W Franklin Street
Iron River, MI 49935

Independent Auditor's Report

Dear Board Members:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Iron County Road Commission, a component unit of Iron County, Michigan, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Iron County 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 of 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 and major fund of the Iron County Road Commission, Iron County, Michigan, as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note L to the basic financial statements, in 2018, the Road Commission adopted the new accounting guidance of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which establishes accounting and financial reporting standards for defined postemployment benefit other than pensions provided to the employees of governmental employers through other postemployment benefit plans. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages one through ten, the budgetary comparison information, pension trend data, and other post-employment benefits trend data in Exhibits G through H as well as Schedules 1 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Iron County Road Commission's basic financial statements. The accompanying supplementary and related information presented in Exhibits I through K is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary and related information presented in Exhibits I through K is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary and related information presented in Exhibits I through K is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2019, on our consideration of the Iron County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Iron County Road Commission's internal control over financial reporting and compliance.

Sincerely,



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Community Engagement and Finance Division

IRON COUNTY ROAD COMMISSION

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IRON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2018

Our discussion and analysis of the Iron County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the year ended December 31, 2018. This discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts: Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds 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 Road Commission's assets and liabilities. 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 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. The two government-wide statements report the Road Commission's net position and how it has changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

Reporting the Road Commission as a Whole

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

The two statements mentioned above report the Road Commission's net position and changes in them. The reader can think of the Road Commission's net position (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases and decreases in the Road Commission's net position are one indicator of whether its financial health is improving or deteriorating.

IRON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2018

Report of the Road Commission's Major Fund

The fund financial statements begin with Exhibit C and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operating Fund, in which all of the Road Commission's activities are accounted. The General Operating Fund is a governmental type fund.

The governmental fund focuses 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 as a Whole

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

Total net position increased by \$44,241 from the prior year. The net investment in capital assets decreased by \$487,352, primarily as a result of recording the infrastructure additions of \$787,049, less depreciation of \$1,386,116 and the decrease in notes payable due to new borrowings of \$240,000 offset by the current year principal payments of \$314,726. Unrestricted net position increased by \$531,593, mainly due to the implementation of GASB Statement No. 75 relating to OPEB.

IRON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2018

Net position as of the year ended December 31, 2018, compared to the prior year, are as follows:

	12/31/2017 Governmental Activities	12/31/2018 Governmental Activities	Variance	Percentage
Current and Other Assets	\$ 4,045,367	\$ 4,383,498	\$ 338,131	8.36%
Net Capital Assets	<u>22,830,090</u>	<u>22,268,012</u>	<u>(562,078)</u>	<u>-2.46%</u>
Total Assets	<u>26,875,457</u>	<u>26,651,510</u>	<u>(223,947)</u>	<u>-0.83%</u>
Deferred Outflows of Resources	<u>50,201</u>	<u>549,386</u>	<u>499,185</u>	<u>994.37%</u>
Other Liabilities	1,147,021	822,526	(324,495)	-28.29%
Long-Term Liabilities	<u>12,196,554</u> *	<u>12,851,676</u>	<u>655,122</u>	<u>5.37%</u>
Total Liabilities	<u>13,343,575</u>	<u>13,674,202</u>	<u>330,627</u>	<u>2.48%</u>
Deferred Inflow of Resources				
Pension Plan	100,968	-	(100,968)	-100.00%
Unavailable Revenue--Property Taxes	<u>206,494</u>	<u>207,832</u>	<u>1,338</u>	<u>0.65%</u>
Total Deferred Inflow of Resources	<u>307,462</u>	<u>207,832</u>	<u>(99,630)</u>	<u>-32.40%</u>
Net Position				
Net Investment in Capital Assets	20,975,679	20,488,327	(487,352)	-2.32%
Unrestricted	<u>(7,701,058)</u> *	<u>(7,169,465)</u>	<u>531,593</u>	<u>6.90%</u>
Total Net Position	<u>\$ 13,274,621</u>	<u>\$ 13,318,862</u>	<u>\$ 44,241</u>	<u>0.33%</u>

*Restated for GASB Statement No. 75 relating to other post employment benefits.

IRON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2018

A summary of changes in net position for the year ended December 31, 2018, compared to the prior year, are as follows:

	<u>2017</u>	<u>2018</u>	<u>Difference</u>	<u>Percent</u>
Program Revenue				
Federal Grants	\$ 295,282	\$ 148,372	\$ (146,910)	-49.75%
State Grants	3,351,235	4,139,103	787,868	23.51%
Contributions from Local Units	839,735	37,949	(801,786)	-95.48%
Charges for Services	1,782,773	1,428,143	(354,630)	-19.89%
Investment Earnings	12,132	20,392	8,260	68.08%
General Revenues				
Taxes	209,545	211,910	2,365	1.13%
Gain on Equipment Disposal	-	12,000	12,000	100.00%
Total Revenue	<u>6,490,702</u>	<u>5,997,869</u>	<u>(492,833)</u>	<u>-7.59%</u>
Expenses				
Primary Roads				
Routine and Preventive Maintenance	770,160	1,162,159	391,999	50.90%
Local Road				
Routine and Preventive Maintenance	1,584,689	1,609,451	24,762	1.56%
State Trunkline Maintenance	1,650,443	1,420,670	(229,773)	-13.92%
Net Equipment Expense	96,707	201,316	104,609	108.17%
Net Administrative Expense	345,037	363,024	17,987	5.21%
Net Capital Outlay	(10,620)	-	10,620	-100.00%
Infrastructure Depreciation Expense	1,310,174	1,417,255	107,081	8.17%
Compensated Absences	13,873	6,710	(7,163)	51.63%
Pension Expense	588,477	(229,352)	(817,829)	138.97%
Other Post Employment Benefits	-	(50,243)	(50,243)	-100.00%
Interest Expense	48,343	52,638	4,295	8.88%
Total Expenses	<u>6,397,283</u>	<u>5,953,628</u>	<u>(443,655)</u>	<u>-6.94%</u>
Change in Net Position	<u>93,419</u>	<u>44,241</u>	<u>(49,178)</u>	<u>-52.64%</u>
Ending Net Position	<u>\$ 13,274,621</u> *	<u>\$ 13,318,862</u>	<u>\$ 44,241</u>	<u>0.33%</u>

*Adjusted for GASB Statement No. 75 for other post employment benefits.

IRON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2018

The Road Commission's Fund

The Road Commission's General Operating Fund is used to control the expenditures of Michigan Transportation Fund (MTF) monies, distributed to the county, which are earmarked by law for road and highway purposes.

For the year ended December 31, 2018, the fund balance of the General Operating Fund increased \$258,708 as compared to an increase of \$451,620 in the fund balance for the year ended December 31, 2017. Total operating revenues were \$5,985,869, which was an overall decrease of \$504,833 as compared to the prior year. This change in revenues resulted mainly from a decrease in township contributions and a decrease in trunkline maintenance revenues offset by an increase in state grants due to increased supplemental funding from the state during 2018.

Total expenditures were \$5,979,161, a decrease of \$305,144 as compared to the prior year. This change in expenditures is due primarily to the overall decrease in primary and local road heavy and routine maintenance of \$366,000.

IRON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2018

A summary of changes in the General Operating Fund is as follows:

	12/31/17 Operating Fund	12/31/18 Operating Fund	Variance	Percent
Revenues				
Taxes	\$ 209,545	\$ 211,910	\$ 2,365	1.13%
Federal Grants	295,282	148,372	(146,910)	-49.75%
State Grants	3,351,235	4,139,103	787,868	23.51%
Contributions from Local Units	839,735	37,949	(801,786)	-95.48%
Charges for Services	1,766,958	1,411,941	(355,017)	-20.09%
Interest and Rents	12,132	20,392	8,260	68.08%
Other Revenue	15,815	16,202	387	2.45%
Total Revenues	<u>6,490,702</u>	<u>5,985,869</u>	<u>(504,833)</u>	<u>-7.78%</u>
Expenditures				
Public Works	6,023,897	5,543,669	(480,228)	-7.97%
Capital Outlay	48,978	68,128	19,150	39.10%
Debt Service	211,430	367,364	155,934	73.75%
Total Expenditures	<u>6,284,305</u>	<u>5,979,161</u>	<u>(305,144)</u>	<u>-4.86%</u>
Excess of Revenues Over / (Under) Expenditures	206,397	6,708	(199,689)	-96.75%
Other Financing Sources (Uses)				
Installment Lease Proceeds	245,223	240,000	(5,223)	-2.13%
Proceeds from the Disposal of Capital Assets	-	12,000	12,000	100.00%
Total Other Financing Sources (Uses)	<u>245,223</u>	<u>252,000</u>	<u>12,000</u>	<u>4.89%</u>
Net Change in Fund Balance	451,620	258,708	(187,689)	-41.56%
Fund Balance - Beginning of Year	<u>2,612,744</u>	<u>3,064,364</u>	<u>451,620</u>	<u>17.29%</u>
Fund Balance - End of Year	<u>\$ 3,064,364</u>	<u>\$ 3,323,072</u>	<u>\$ 258,708</u>	<u>8.44%</u>

IRON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2018

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's 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 original revenue budget for 2018 was \$6,622,681, which was \$25,500 less than the final amended revenue budget for the year. This was mainly due to an increase in state grants due to additional state supplemental funding, offset by a decrease in federal grants.

The Road Commission's original expenditures were projected at \$6,622,681, which was \$730,457 more than the final amended budget expenditures. This decrease was mainly due to decreases in anticipated primary and local projects.

IRON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2018

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2018, the Road Commission had \$22,268,012 invested in capital assets, as follows:

	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>Total Percentage Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 26,568	\$ 26,568	0.00%
CIP - Buildings	-	23,209	100.00%
CIP - Infrastructure	84,244	780,960	827.02%
Subtotal	<u>110,812</u>	<u>830,737</u>	<u>649.68%</u>
Capital Assets Being Depreciated			
Buildings	3,339,348	3,384,380	1.35%
Road Equipment	4,909,869	5,204,786	6.01%
Shop Equipment	94,582	94,582	0.00%
Office Equipment	68,445	73,475	7.35%
Engineer's Equipment	25,958	25,958	0.00%
Infrastructure - Bridges	3,686,308	3,686,308	0.00%
Infrastructure - Roads	25,453,520	25,543,853	0.35%
Subtotal	<u>37,578,030</u>	<u>38,013,342</u>	<u>1.16%</u>
Total Capital Assets	37,688,842	38,844,079	3.07%
Total Accumulated Depreciation	<u>(14,858,752)</u>	<u>(16,576,067)</u>	<u>11.56%</u>
Total Net Capital Assets	<u>\$ 22,830,090</u>	<u>\$ 22,268,012</u>	<u>-2.46%</u>

The Road Commission reported capital asset additions during the current year in the amount of \$1,207,646 as follows:

Various Resurfacing Projects and Related Land/Right-of-Way	\$ 787,049
Buildings	68,241
Road Equipment	347,326
Other Equipment	5,030
Total Additions	<u>\$ 1,207,646</u>

Additional information on capital assets can be found in Note D to the financial statements.

IRON COUNTY ROAD COMMISSION

MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2018

Debt

The Road Commission currently has long-term debt in the amount of \$1,978,706, a net decrease of \$68,015 from the prior year. The long-term debt represents bonds, installment-purchase agreements and compensated absences payable at December 31, 2018. The Road Commission entered into one new installment purchase agreement during 2018 for the purchase of equipment; all other equipment was acquired with Road Commission funds.

The outstanding debt of the Road Commission at December 31, 2018 was as follows:

	Balances 12/31/17	Balances 12/31/18
MTF Refunding Bonds, Series 2012	\$ 1,495,000	\$ 1,415,000
2018 First Bank	-	240,000
2017 First Bank	245,223	124,685
2016 Daimler Truck Financial	114,188	-
Vested Employee Benefits	192,310	199,021
Total	\$ 2,046,721	\$ 1,978,706

More detailed information about the Road Commission’s long-term liabilities is presented in Note E to the financial statements.

Economic Factors and Next Year’s Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2019 budget. One major factor is the continued increase in MTF revenues due to the new road funding. It is projected that approximately 42% of its revenue will be collected from the fuel tax, 25% of its revenues from township and private sources, 2% from the local millage, 10% from state and federal aid, and 14% from State Trunk-line.

The budgeted revenues for 2019 are \$9,011,430 and projected 2019 expenditures are \$9,011,430.

The Board realizes, and the reader should understand that there are not sufficient funds available to repair and/or rebuild every road in Iron County’s transportation system; therefore, the Board attempts to spend the public’s money wisely and equitably considering the best interest of the citizens of Iron County as we move into a more aggressive maintenance program as opposed to construction.

IRON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2018

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Iron County Road Commission's administrative office at: 800 West Franklin Street, Iron River, MI, 49935.

IRON COUNTY ROAD COMMISSION
STATEMENT OF NET POSITION
December 31, 2018

EXHIBIT A

ASSETS

Cash	\$ 2,673,452
Accounts Receivable	
Taxes Receivable	207,832
Michigan Transportation Fund	452,906
State Trunkline Maintenance	190,946
Due from State--Other	202,131
Due on County Road Agreements	25,068
Sundry Accounts	888
Inventories	
Road Materials	505,788
Equipment Parts and Materials	93,059
Prepaid Expenses	22,400
Unamortized Bond Discount	9,028
Capital Assets--Depreciating	830,737
Capital Assets--Non-depreciating	21,437,275
Total Assets	<u>26,651,510</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows--Pension Investments	470,662
Deferred Outflows--Pension Experience	78,724
Total Deferred Outflows of Resources	<u>549,386</u>

LIABILITIES

Current Liabilities	
Accounts Payable	150,177
Due to State of Michigan	73,345
Accrued Liabilities	40,362
Unearned Revenue--Forest Road Funds	213,420
Other Accrued Liabilities	17,384
Installment Purchase Agreements--Due in One Year	242,838
Bonds--Due in One Year	85,000
Non-current Liabilities	
State Advances	357,906
Installment Purchase Agreements--Due in More Than One Year	121,847
Bonds--Due in More Than One Year	1,330,000
Vested Employee Benefits Payable--Due in More than One Year	199,021
Other Post Employment Benefits Payable	3,261,663
Net Pension Liability	7,581,239
Total Liabilities	<u>13,674,202</u>

DEFERRED INFLOWS OF RESOURCES

Unavailable Revenue--Property Taxes	207,832
Total Deferred Inflows of Resources	<u>207,832</u>

NET POSITION

Net Investment in Capital Assets	20,488,327
Unrestricted	(7,169,465)
Total Net Position	<u>\$ 13,318,862</u>

The Notes to Financial Statements are an integral part of this Statement.

IRON COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended December 31, 2018

EXHIBIT B

Program Expenses	
Primary Road Routine and Preventive Maintenance	\$ 1,162,159
Local Road Routine and Preventive Maintenance	1,609,451
State Trunkline Maintenance	1,420,670
Net Equipment Expense	201,316
Net Administrative Expense	363,024
Infrastructure Depreciation	1,417,255
Compensated Absences	6,710
Pension Expense	(229,352)
Other Post Employment Benefits	(50,243)
Interest Expense	52,638
	<hr/>
Total Program Expenses	5,953,628
	<hr/>
Program Revenue	
Charges for Services	
Charges for Services	1,418,435
Licenses and Permits	9,708
Operating Grants and Contributions	
Michigan Transportation Funds	3,282,713
Investment Earnings	20,392
Capital Grants and Contributions	
Federal Grants	148,372
State Grants	856,390
Contributions	37,949
	<hr/>
Total Program Revenue	5,773,959
	<hr/>
Net Program Revenue	(179,669)
	<hr/>
General Revenue	
Taxes	211,910
Gain on Equipment Disposal	12,000
	<hr/>
Total General Revenue	223,910
	<hr/>
Change in Net Position	44,241
	<hr/>
Net Position	
Beginning of Year	14,943,439
Restatement of Net Position (Note K)	(1,668,818)
	<hr/>
Restated Net Position--Beginning of Year	13,274,621
	<hr/>
End of Year	\$ 13,318,862
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this Statement.

IRON COUNTY ROAD COMMISSION
 BALANCE SHEET--GOVERNMENTAL FUND
 December 31, 2018

EXHIBIT C

<u>ASSETS</u>	<u>General Operating Fund</u>
Cash	\$ 2,673,452
Accounts Receivable	
Taxes Receivable	207,832
Michigan Transportation Fund	452,906
State Trunkline Maintenance	190,946
Due from State--Other	202,131
Due on County Road Agreements	25,068
Sundry Accounts	888
Inventories	
Road Materials	505,788
Equipment Parts and Materials	93,059
Prepaid Expenses	22,400
Bond Discount	9,028
	<hr/>
Total Assets	<u>\$ 4,383,498</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</u>	
Liabilities	
Accounts Payable	\$ 150,177
Due to State	73,345
Accrued Interest	17,384
Accrued Liabilities	40,362
Unearned Revenue--Forest Road Funds	213,420
Advances from State	
State Trunkline Equipment Purchase	249,572
State Trunkline Maintenance	108,334
	<hr/>
Total Liabilities	<u>852,594</u>
Deferred Inflows of Resources	
Unavailable Revenue--Property Taxes	207,832
	<hr/>
Total Deferred Inflows of Resources	<u>207,832</u>
Fund Balance	
Fund Balance	
Non-spendable:	
Inventory	598,847
Prepaid Expenses	22,400
Restricted for Road Operations	2,701,825
	<hr/>
Total Fund Balance	<u>3,323,072</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 4,383,498</u>

The Notes to Financial Statements are an integral part of this Statement.

IRON COUNTY ROAD COMMISSION
 RECONCILIATION OF THE GOVERNMENTAL FUND
 BALANCE SHEET TO THE STATEMENT OF NET POSITION
 December 31, 2018

EXHIBIT D

Total Governmental Fund Balance	\$ 3,323,072
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	22,268,012
Long-term liabilities are not due and payable in the current period and are not reported in the fund.	(1,978,706)
Net pension liability is not due and payable in the current period and is not reported in the funds.	(7,581,239)
Certain pension contributions and changes in pension plan net position are reported as deferred outflows of resources and deferred inflows of resources in the statement of net position, but are reported as expenses in the governmental funds.	549,386
The liability for other post employment benefits is not due and payable in the current period and is not reported in the funds.	<u>(3,261,663)</u>
Net Position of Governmental Activities	<u><u>\$ 13,318,862</u></u>

The Notes to Financial Statements are an integral part of this Statement.

IRON COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Fiscal Year Ended December 31, 2018

EXHIBIT E

	General Operating Fund
Revenues	
Taxes	\$ 211,910
Licenses and Permits	9,708
Federal Grants	148,372
State Grants	4,139,103
Contributions from Local Units	37,949
Charges for Services	1,411,941
Interest	20,392
Other Revenue	6,494
	<hr/>
Total Revenues	5,985,869
	<hr/>
Expenditures	
Public Works	5,543,669
Capital Outlay	68,128
Debt Service	367,364
	<hr/>
Total Expenditures	5,979,161
	<hr/>
Excess of Revenues Over (Under) Expenditures	6,708
	<hr/>
Other Financing Sources	
Installment Purchase Proceeds	240,000
Proceeds from the Disposal of Capital Assets	12,000
	<hr/>
Total Other Financing Sources	252,000
	<hr/>
Net Change in Fund Balance	258,708
	<hr/>
Fund Balance--January 1, 2018	3,064,364
	<hr/>
Fund Balance--December 31, 2018	\$ 3,323,072
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this Statement.

IRON COUNTY ROAD COMMISSION
 RECONCILIATION OF THE GOVERNMENTAL
 FUND STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE TO THE
 STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended December 31, 2018

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ 258,708

Amounts reported for governmental activities 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 as depreciation expense. This is the amount
 by which capital outlays exceeded depreciation in the current period. (562,078)
 Equipment retirement is recorded as an expenditure credit in governmental
 funds, but not recorded as an expense in the Statement of Activities.

Lease proceeds provide current financial resources to governmental funds,
 but entering into lease agreements increases long-term liabilities in the 74,726
 Statement of Net Position. Repayment of notes/leases payable is an
 expenditure in governmental funds, but reduces the long-term liabilities in the
 Statement of Net Position.

Some expenses reported in the Statement of Activities do not require the use
 of current financial resources and, therefore, are not reported as expenditures
 in governmental funds (increase in compensated absences, OPEB). 43,533

Increase in pension liability reported in the statement of activities does not require the
 use of resources, and therefore, is not reported in the fund statements until it comes
 due for payment. 229,352

Change in Net Position of Governmental Activities \$ 44,241

The Notes to Financial Statements are an integral part of this Statement.

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2018

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Iron 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 Road Commission.

Reporting Entity

The Road Commission, which was established pursuant to the County Road Law, (MCL 224.1), is governed by an elected 5-member Board of County Road Commissioners. The Road Commission may not issue debt without the approval of the County Board of Commissioners. Property taxes, as approved by the county electors, would be levied under the taxing authority of the county. The taxes would be included as part of the county's total tax levy as well as reported in the County Road Fund.

In accordance with generally accepted accounting principles and the Governmental Accounting Standards Board (GASB) Statement No. 61, "*The Financial Reporting Entity*," these financial statements present the Road Commission for financial reporting purposes. The criteria established by GASB 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 Iron County Road Commission, a discretely presented component unit of Iron County.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund (MTF) monies distributed to the county, which are earmarked by law for road and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission General Operating Fund.

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all non-fiduciary activities of the Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Position presents the Road Commission's assets and liabilities with the difference being reported as either net investment in capital assets or restricted net position. All of the net position that is not related to capital assets is classified as restricted due to legal constraints.

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2018

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the General Operating Fund (governmental fund). The General 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.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

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. Property taxes are recognized as revenue in the year for which they are levied. 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. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

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 Road Commission 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 compensated absences and claims and judgments, are recorded only when payment is due.

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2018

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Michigan Transportation Funds, grants, permits, township contributions and interest associated with the current period are all considered to be susceptible to accrual and have been recognized as revenue of the current period. All other revenue items are considered to be available only when cash is received by the Road Commission.

Bank Deposits and Investments

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

Inventories and Prepaid Items

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

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

Property Taxes

The property tax is levied on each December 1 on the taxable valuation of property located in the county as of the preceding December 31. The 2018 taxable valuation of Iron County amounted to \$508,224,278 less \$92,560,787 for cities on which ad valorem taxes of .5 (1/2) mills were levied for the Road Commission for snow removal and road construction purposes for a total of \$207,832. The Taxes receivable at December 31, 2018 amounted to \$207,832.

The County's 2017 ad valorem tax was levied and collectible on December 1, 2017. It is the county's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of the levy are budgeted and made available for financing operations. The 2017 tax levy for the Road Commission operations was recorded as revenue during the fiscal year ended December 31, 2018 totaling \$211,910 for all taxes received.

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at cost or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other 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
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

Deferred Outflows / Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element 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. In this category deferred outflows of resources related to the defined benefit pension plan. The deferred outflows of resources result from two transactions: 1) the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings; and 2) the recognition of experience changes related to the OPEB plan.

The deferred inflow of resources accounts for the resources (revenues) received, but not yet earned. The deferred inflows of resources reported in the government-wide and governmental fund financial statements are for unavailable revenues related to property taxes levied during the year that are intended to finance future periods, unearned revenue related to forest roads and for the net difference between expected and actual experience related to the pension plan. These amounts are deferred and recognized as inflows of resources (revenues) in the period that the amounts become available.

Use of Estimates

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

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

For the purpose of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Balance Classifications

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Road Commission classifies governmental fund balances as follows:

- Non-spendable – includes fund balance amounts that cannot be spent either because (a) it is not in spendable form or (b) because it is legally or contractually required to be maintained intact. For the Road Commission, the non-spendable balance reflects the inventory on hand of \$598,847 and prepaid expenses of \$22,400.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation. The remaining Road Commission Funds are restricted as they can only be used in accordance with Public Act 51 of 1951.
- Unassigned - Expenditures incurred for a specific purpose might exceed the amounts in the fund that are restricted to that purpose and a negative residual balance for that purpose may result. The negative residual amount should be classified as unassigned fund balance.

When the Road Commission incurs an expenditure for which various fund classifications can be used, it is the policy of the Road Commission to use restricted or committed funds first, unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending.

The Road Commission does not have a formal minimum balance policy.

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended (MCL 141.421), which requires the Board of County Road Commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (superintendent / manager) and clerk prepare and submit a proposed operating budget to the Board of County Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year and is approved by the Board. The Board has authorized the chief administrative officer to amend the Road Commission's budget when necessary, without increasing the overall budget, by transferring funds between expenditure cost centers. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the fund financial statements.

Budget Violations

Public Act 2 of 1968, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. The following activities exceeded the final amended budget:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road Preservation / Structural Improvements	\$ 755,370	\$ 775,282	\$ (19,912)
Primary Road Routine and Preventive Maintenance	1,121,570	1,158,254	(36,684)
Local Road Preservation / Structural Improvements	11,188	11,767	(579)
Local Road Routine and Preventive Maintenance	1,540,566	1,607,848	(67,282)
Primary Road Structures Preservation / Structural Improvements	3,619	3,905	(286)
Local Road Structures Preservation / Structural Improvements	1,464	1,603	(139)
Equipment Expense--Net	(129,232)	201,316	(330,548)

The Board will monitor budgeted amounts to actual year-to-date revenues and expenditures with a budget amendment being processed if necessary just prior to the end of the fiscal year to ensure expenditures will not exceed amounts authorized.

NOTE C--CASH AND INVESTMENTS

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

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE C--CASH AND INVESTMENTS (Continued)

The Road Commission has designated three banks for the deposit of Road Commission funds.

The investment policy adopted by the Board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$2,673,252
Petty Cash and Cash on Hand	<u>200</u>
Total	<u>\$2,673,452</u>

The bank balance of the Road Commission's deposits is \$2,686,981, of which \$750,000 is covered by Federal depository insurance. The remaining \$1,936,981 is uncollateralized.

Non-negotiable certificates of deposits that are placed by the depositors directly with financial institutions and that are subject to a penalty if redeemed before maturity are treated as bank deposits. Because non-negotiable certificates of deposits are deposits, no interest rate risk or credit risk disclosures are required, which are limited to investments.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Road Commission's investment policy does not contain specific provisions to limit the Road Commission's exposure to interest rate risk.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Road Commission's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE D--CAPITAL ASSETS

Following is a summary of the changes in capital assets at December 31, 2018:

	<u>01/01/2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/2018</u>
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 26,568	\$ -	\$ -	\$ 26,568
CIP - Buildings	-	23,209	-	23,209
CIP - Infrastructure	84,244	719,673	22,957	780,960
Subtotal	<u>110,812</u>	<u>742,882</u>	<u>22,957</u>	<u>830,737</u>
Capital Assets Being Depreciated				
Buildings	3,339,348	45,032	-	3,384,380
Road Equipment	4,909,869	347,326	52,409	5,204,786
Shop Equipment	94,582	-	-	94,582
Office Equipment	68,445	5,030	-	73,475
Engineers' Equipment	25,958	-	-	25,958
Infrastructure--Bridges	3,686,308	-	-	3,686,308
Infrastructure--Roads	25,453,520	90,333	-	25,543,853
Total	<u>37,578,030</u>	<u>487,721</u>	<u>52,409</u>	<u>38,013,342</u>
Less Accumulated Depreciation				
Buildings	1,546,911	108,149	-	1,655,060
Road Equipment	4,140,024	271,945	52,409	4,359,560
Shop Equipment	87,631	1,321	-	88,952
Office Equipment	66,813	1,927	-	68,740
Engineers' Equipment	25,692	266	-	25,958
Infrastructure--Bridges	518,942	73,726	-	592,668
Infrastructure--Roads	8,472,739	1,312,390	-	9,785,129
Total	<u>14,858,752</u>	<u>1,769,724</u>	<u>52,409</u>	<u>16,576,067</u>
Net Capital Assets Being Depreciated	<u>22,719,278</u>	<u>(1,282,003)</u>	<u>-</u>	<u>21,437,275</u>
Total Net Capital Assets	<u>\$ 22,830,090</u>	<u>\$ (539,121)</u>	<u>\$ 22,957</u>	<u>\$ 22,268,012</u>

Depreciation expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 273,537
Indirect Equipment	72,247
Net Administrative Expense	
Office Equipment	6,685
Infrastructure Depreciation	<u>1,417,255</u>
Total Depreciation Expense	<u>\$ 1,769,724</u>

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE E--LONG-TERM DEBT

The changes in long-term debt of the Road Commission may be summarized as follows:

	<u>Balance</u> <u>01/01/2018</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance</u> <u>12/31/2018</u>	<u>Due in</u> <u>One Year</u>
<u>Bonds Payable</u>					
MTF Refunding Bonds - 2012	\$ 1,495,000	\$ -	\$ (80,000)	\$ 1,415,000	\$ 85,000
Installment Purchase Agreements					
First Bank					
December 2018--Truck	-	240,000	-	240,000	118,153
December 2017--Truck	245,223	-	(120,538)	124,685	124,685
Daimler Truck Financial					
November 2016--Truck	114,188	-	(114,188)	-	-
Vested Employee Benefits					
Vacation Benefits	24,811	75,691	(74,570)	25,932	-
Sick Leave Benefits	167,499	26,368	(20,778)	173,089	-
Totals	<u>\$ 2,046,721</u>	<u>\$342,059</u>	<u>\$ (410,074)</u>	<u>\$ 1,978,706</u>	<u>\$ 327,838</u>

Annual Debt Service Requirements to maturity for long-term debt are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual</u> <u>Total</u>
2019	\$ 327,838	\$ 52,223	\$ 380,061
2020	206,847	43,037	249,884
2021	85,000	38,238	123,238
2022	90,000	35,687	125,687
2023	95,000	32,988	127,988
2024 - 2028	505,000	120,987	625,987
2029 - 2032	470,000	38,225	508,225
Total	<u>\$ 1,779,685</u>	<u>\$ 361,385</u>	<u>\$ 2,141,070</u>

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE E--LONG-TERM DEBT (Continued)

Bond Payable – Michigan Transportation Fund Refunding Bonds, Series 2012

On April 3, 2012, Michigan Transportation Fund Refunding Bond, Series 2012 in the amount of \$1,880,000 were issued for the purpose of refunding the Michigan Transportation Bonds, Series 2003. Semi-annual payments are due on February 1st and August 1st for a term of 20 years with a variable interest rate between 1.20% and 3.25%. February 1st payments consist of interest only and August 1st payments consist of principal and interest. Final payment is due on August 1, 2032.

The annual requirements to meet the monthly installment payments on the bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2019	\$ 85,000	\$ 41,722	\$ 126,722
2020	85,000	39,980	124,980
2021	85,000	38,238	123,238
2022	90,000	35,687	125,687
2023	95,000	32,988	127,988
2024 - 2028	505,000	120,987	625,987
2029 - 2032	<u>470,000</u>	<u>38,225</u>	<u>508,225</u>
Total	<u>\$ 1,415,000</u>	<u>\$ 347,827</u>	<u>\$ 1,762,827</u>

Equipment Installment-Purchase Agreements

The annual requirements to meet the monthly installment payments on various pieces of equipment acquired by lease-purchase or loan agreements are as follows:

First Bank

December 2018 Installment-Purchase--2019 Western Star Truck

Terms: 7 consecutive payments of \$31,500 at 3.95% interest, secured by the equipment.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Maturity Year</u>	<u>Principal Outstanding 12/31/2018</u>	<u>Interest Payable if Held to Maturity</u>	<u>Annual Total</u>
12/18	240,000	2019	\$ 118,153	\$ 7,847	\$ 126,000
		2020	<u>121,847</u>	<u>3,057</u>	<u>124,904</u>
		Total	<u>\$ 240,000</u>	<u>\$ 10,904</u>	<u>\$ 250,904</u>

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE E--LONG-TERM DEBT (Continued)

First Bank

December 2017 Installment-Purchase--2018 Western Star Truck

Terms: 7 quarterly payments of \$31,834.59 at 3.35% interest, secured by the equipment.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Maturity Year</u>	<u>Principal Outstanding 12/31/2018</u>	<u>Interest Payable if Held to Maturity</u>	<u>Annual Total</u>
12/17	245,223	2019	\$ 124,685	\$ 2,654	\$ 127,339
		Total	<u>\$ 124,685</u>	<u>\$ 2,654</u>	<u>\$ 127,339</u>

Vested Employee Vacation Benefits

Vacation benefits are earned in varying amounts based on length of service. The annual vacation benefits earned by each employee are credited at the beginning of the year. Employees may carry over a maximum of ten (10) days of vacation into the next year. An employee leaving the services of the Road Commission will be paid all unused vacation carried over to January 1st up to a maximum of ten (10) days, plus any vacation earned, on a prorated basis to the end of the month of separation, in accordance with the vacation policy.

Employee Sick Leave Benefits

Each full time employee shall earn sick leave at the rate of 8 hours for each month of employment in which the employee is compensated for at least eighteen (18) days, with unlimited accumulation. Upon permanent separation from employment, employees shall be paid for all accumulated sick leave at the employee's prevailing rate of pay up to a maximum of 720 hours and at 50% of the employee's prevailing rate of pay for the remaining hours up to a maximum of 2,080 hours. Employees hired on or after September 13, 2011 will not be paid for any unused sick leave at the end of service. Those employees with unused sick leave will be capped at 1,040 hours. Any sick leave earned in excess of 1,040 hours in any calendar year will be paid at the employee's rate of pay on December 31 of that year.

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE F--EMPLOYEES' RETIREMENT SYSTEM

General Information about the Pension Plan

Plan Description: The Road Commission's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the MERS website at www.mersofmich.com.

Benefits Provided:

Table 2	2017 Valuation	2017 Valuation
	01 - Comm/Sal/Non-Un <u>Closed to new hires, Div 12</u>	10 - Union <u>Closed to new hires, Div 12</u>
Benefit Multiplier:	2.50% Multiplier (80% max)	2.50% Multiplier (80% max)
Normal Retirement Age:	60	60
Vesting:	10 years	10 years
Early Retirement (Unreduced):	55/20	55/20
Early Retirement (Reduced):	50/25 55/15	50/25 55/15
Final Average Compensation:	3 years	3 years
COLA for Future Retirees	2.50% (Non-Compound)	2.50% (Non-Compound)
COLA for Current Retirees	2.50% (Non-Compound)	2.50% (Non-Compound)
Employee Contributions:	0%	0%
Act 88:	Yes (Adopted 8/11/1969)	Yes (Adopted 8/11/1969)
	11 - Hourly Non-Union <u>Closed to new hires, Div 12</u>	12 - Non-Un after 10/14 & Un after 10/11: <u>Open Division</u>
Benefit Multiplier:	2.50% Multiplier (80% max)	1.70% Multiplier (no max)
Normal Retirement Age:	60	60
Vesting:	10 years	10 years
Early Retirement (Unreduced):	55/20	n/a
Early Retirement (Reduced):	50/25 55/15	50/25 55/15
Final Average Compensation:	3 years	5 years
COLA for Future Retirees	2.50% (Non-Compound)	n/a
COLA for Current Retirees	2.50% (Non-Compound)	n/a
Employee Contributions:	0%	0%
Act 88:	Yes (Adopted 8/11/1969)	Yes (Adopted 8/11/1969)

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE F--EMPLOYEES' RETIREMENT SYSTEM

Employees covered by benefit terms: At the December 31, 2017 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	46
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>21</u>
Total employees covered by MERS Plan	<u><u>69</u></u>

Contributions: The Road Commission is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ended December 31, 2018, the Road Commission's contribution rate was \$5,032 monthly for Comm/Sal/Non-Union employees; \$24,139 for Union employees; \$18,517 for Hourly Non-Union and 1.83% monthly for Non-Union after 10/14 and Union after 10/11.

Net Pension Liability

The employer's net pension liability reported at December 31, 2018 was measured as of December 31, 2017, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation performed as December 31, 2017. Update procedures were used to roll forward the total pension liability to the measurement date of December 31, 2018

Actuarial assumptions: The total pension liability in the December 31, 2017 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary Increases	3.75% in the long-term
Investment Rate of Return	7.75%, net of investment expense and administrative expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

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

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE F--EMPLOYEES' RETIREMENT SYSTEM (Continued)

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of the most recent actuarial experience completed in 2015 for the period of January 1, 2009 - December 31, 2013.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2017, for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	55.5%	8.65%
Global Fixed Income	18.5%	3.76%
Real Assets	13.5%	9.72%
Diversifying Strategies	12.5%	7.50%

Discount rate: The discount rate used to measure the total pension liability is 8.00% for the valuation on December 31, 2017. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE F--EMPLOYEES' RETIREMENT SYSTEM (Continued)

<u>Changes in Net Pension Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Net Position</u>	<u>Net Pension Liability</u>
Balances at December 31, 2016	\$12,612,803	\$5,412,073	\$7,200,730
Changes for the Year:			
Service Cost	108,076	-	108,076
Interest	975,547	-	975,547
Difference between expected and actual experience	157,448		157,448
Contributions--Employer	-	1,062,080	(1,062,080)
Net investment income	-	(217,621)	217,621
Benefit payments, including refunds	(945,017)	(945,017)	-
Administrative expense	-	(10,549)	10,549
Other changes	(26,652)	-	(26,652)
Net changes	269,402	(111,107)	380,509
Balances as of December 31, 2017	\$12,882,205	\$5,300,966	\$7,581,239

Sensitivity of the Net Pension Liability to changes in the discount rate: The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.00%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.00%) or 1% higher (9.00%) than the current rate.

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
Net Pension Liability at December 31, 2018		\$ 7,581,239	
Change in Net Pension Liability (NPL)	\$ 1,214,402		\$ (1,046,780)

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE F--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to Pensions

For the year ended December 31, 2018, the Road Commission recognized pension expense of (\$229,352). At December 31, 2018, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Source</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in experience	\$ 78,724	\$ -
Excess (Deficit) Investment Returns	470,662	
	-	-
Total	<u>\$ 549,386</u>	<u>\$ -</u>

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the fiscal year ending December 31, 2019.

Amounts reported as deferred outflows of resources related to pensions will be recognized in the pension expense as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2019	\$ 237,542
2020	69,313
2021	96,442
2022	146,089

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE G--OTHER POSTEMPLOYMENT BENEFITS

Plan Description: The Iron County Road Commission Retiree Medical Plan is a single employer plan established and administered by Iron County Road Commission and can be amended at its discretion. The Road Commission provides post-employment healthcare insurance and life insurance benefits to specified retired employees and/or their spouse. The benefits are provided in accordance with Article 50, Section 9, and Article 51, Section 2, of the union agreement.

Benefits Provided: Healthcare benefits are provided upon retirement as follows: Medical is provided from age 60 with 10 years of service or age 55 with 15 years of service. Employees hired prior to February 1, 1986 will receive benefits for the retiree's lifetime. Employees hired after February 1, 1986 will receive fully paid pre-65 benefits provided for one year. Life Insurance will be provided from age 60 and 10 years of service and hired prior to September 13, 2011. The Road Commission will provide Blue Cross / Blue Shield pre 65 insurance coverage, plan coverage complementary to Medicare and life insurance coverage of \$8,000. No coverage is offered for spouses. If retiring at or after age 60, no retiree contribution is required. If hired prior to February 1, 1986 and retiring prior to age 60, employee contribution shall be ½ of 1% for every month of retirement prior to age 60; for those who retire prior to age 60, coverage and contributions commence at age 60 and end when the retiree reaches age 70.

Employees covered by benefit terms. At the December 31, 2018, the following employees were covered by the benefit terms:

Inactive plan members receiving or entitled to future benefits	23
Covered Spouse	0
Active Plan Participants	<u>21</u>
Total Participants	<u><u>44</u></u>

Contributions. The Iron County Road Commission Retiree Medical Plan was established and is being funded under the authority of the Road Commission and under agreements with the unions representing various classes of employees. The plan's funding policy is to pay expected plan benefits from general operating funds on a "pay-as-you-go" basis. Active participants do not make contributions to pre-fund the Plan. There are no long-term contracts for contributions to the plan. The plan has no legally required reserves. During the year, the Road Commission contributed \$173,802 for the benefit.

Net OPEB Liability. The Road Commission's net OPEB liability was measured as of December 31, 2018. The December 31, 2018 total OPEB liability was determined by an actuarial valuation performed as of December 31, 2018.

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE G--OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of December 31, 2018 and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	N/A; plan is not pre-funded
Salary increases	3.5%
Investment rate of return	N/A; plan is not pre-funded
20-year Aa Municipal bond rate	3.0%
Mortality	RP-2014 adjusted 2006 Total Data Set, Headcount-weighted, MP-2018 with no pre-retirement mortality

As the plan is not pre-funded, no long-term expected rate of return on plan investments was determined.

Discount Rate. The discount rate used to measure the total OPEB liability was 3.0%. Because the plan does not have a dedicated OPEB trust, there are not assets projected to be sufficient to make projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the “depletion date”), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total OPEB Liability. December 31, 2018 is the first year of required compliance with GASB 75, so there is no required discount rate change to disclose.

Changes in Net OPEB Liability

<u>Changes in Net OPEB Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balance at December 31, 2017	\$ 3,311,906	\$ -	\$ 3,311,906
Changes for the Year:			
Service Cost	26,028	-	26,028
Interest	97,531	-	97,531
Contributions - Employer	-	173,802	(173,802)
Benefit Payments, Including Refunds	<u>(173,802)</u>	<u>(173,802)</u>	<u>-</u>
Net Changes	<u>(50,243)</u>	<u>-</u>	<u>(50,243)</u>
Balance at December 31, 2018	<u>\$ 3,261,663</u>	<u>\$ -</u>	<u>\$ 3,261,663</u>

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE G--OTHER POSTEMPLOYMENT BENEFITS (Continued)

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates.

The following presents the net OPEB liability of the Road Commission, as well as what the Road Commission's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.0%) or 1-percentage-point higher (4.0%) than the current discount rate:

	<u>1% Decrease (2.0%)</u>	<u>Current Discount Rate (3.0%)</u>	<u>1% Increase (4.0%)</u>
Net OPEB liability of the Road Commission	\$ 3,657,490	\$ 3,261,663	\$ 2,931,616

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the Road Commission, as well as what the Road Commission's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Health Care Trend Rate</u>	<u>1% Increase</u>
Net OPEB liability of the Road Commission	\$ 2,936,507	\$ 3,261,663	\$ 3,649,112

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended December 31, 2018, the Road Commission recognized OPEB expense of (\$50,243). At December 31, 2018, the Road Commission did not have any deferred outflows of resources and deferred inflows of resources related to OPEB.

NOTE H--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits claims and participates in the Michigan County Road Commission Self-Insurance Pool (Pool) for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. The Road Commission's maximum deductible for property and liability coverage, and automobile coverage is \$1,000 per occurrence. The maximum liability for the property and liability coverage is \$10,500,000 per occurrence. The automobile coverage provides for limits of liability of \$250,000 per person, \$500,000 per accident and \$1,000,000 in total. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2018

NOTE H--RISK MANAGEMENT(Continued)

The county road commissions in the State of Michigan established and created a trust fund, known as the Pool pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection.

Membership is restricted to road commissions and related road commission activities with the State. The Road Commission became a member of the Pool for liability and property coverage in 1991 and for workers' compensation coverage in 1993. The Pool program operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE I--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2018, the federal grants received and expended by the Road Commission was \$148,372 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit.

Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administrated by the Road Commission. The Road Commission did not have any negotiated projects for fiscal year 2018, and, therefore, a single audit was not required.

NOTE J--STATE TRUNKLINE MAINTENANCE REVENUE

The \$14,026 difference between the State trunkline maintenance revenues of \$1,268,645 and expenditures of \$1,282,671 is primarily due to the billing as a result of the January 1, 2016 through December 31, 2016 State Trunkline audit.

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE K--RESTATEMENT OF NET POSITION

During the current fiscal year, the Road Commission adopted GASB Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Due to this implementation, the government-wide statements now include a net OPEB liability for unfunded OPEB obligations. The statement of net position is restated to record the liability as of January 1, 2018:

	<u>Governmental Activities</u>
Beginning Net Position--January 1, 2018	\$ 14,943,439
Net OPEB Liability	(3,311,906)
Net OPEB Obligation	<u>1,643,088</u>
Restated Beginning Net Position--January 1, 2018	<u>\$ 13,274,621</u>

NOTE L--CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented during the year. This Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligation as a liability for the first time, and to more comprehensibly and comparably measure the annual costs of OPEB benefits. This Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI).

GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73* was also implemented during the year. This Statement addresses issues regarding (1) the presentation of payroll related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

IRON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE M--UPCOMING REPORTING CHANGE

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, Leases, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Road Commission's financial statements for the 2021 fiscal year.

In April 2018, the GASB issued Statements No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. This Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2020 fiscal year.

IRON COUNTY ROAD COMMISSION
SCHEDULE OF CHANGES IN THE ROAD COMMISSION'S
NET PENSION LIABILITY AND RELATED RATIOS*
FOR THE YEAR ENDED DECEMBER 31

SCHEDULE 1

	2018	2017	2016	2015
Total Pension Liability				
Service Cost	\$ 108,076	\$ 100,440	\$ 87,857	\$ 81,979
Interest	975,547	959,506	923,580	892,034
Difference between expected and actual experience	157,448	80,984	96,319	-
Changes in assumptions	-	-	647,163	-
Benefit payments including employee refunds	(945,017)	(954,157)	(946,161)	(956,535)
Other Changes	(26,652)	5,343	(12,133)	18,875
Net Change in Total Pension Liability	269,402	192,116	796,625	36,353
Total Pension Liability--Beginning	12,612,803	12,420,687	11,624,062	11,587,709
Total Pension Liability--Ending	<u>\$ 12,882,205</u>	<u>\$ 12,612,803</u>	<u>\$ 12,420,687</u>	<u>\$ 11,624,062</u>
Plan Fiduciary Net Position				
Contributions--employer	\$ 1,062,080	\$ 900,438	\$ 769,702	\$ 715,164
Net Investment Income	(217,621)	633,114	501,474	(69,679)
Benefit payments including employee refunds	(945,017)	(954,157)	(946,161)	(956,535)
Administrative expense	(10,549)	(10,019)	(9,907)	(10,334)
Net Change in Plan Fiduciary Net Position	(111,107)	569,376	315,108	(321,384)
Plan Fiduciary Net Position--Beginning	5,412,073	4,842,697	4,527,589	4,848,973
Plan Fiduciary Net Position--Ending	<u>\$ 5,300,966</u>	<u>\$ 5,412,073</u>	<u>\$ 4,842,697</u>	<u>\$ 4,527,589</u>
Employer Net Pension Liability	<u>\$ 7,581,239</u>	<u>\$ 7,200,730</u>	<u>\$ 7,577,990</u>	<u>\$ 7,096,473</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	41%	43%	39%	39%
Covered Employee Payroll	\$ 1,034,380	\$ 894,469	\$ 830,390	\$ 785,115
Employer's Net Pension Liability as a percentage of covered employee payroll	733%	805%	913%	904%

Notes to schedule:

There were no benefit changes or changes in assumptions or methods affecting the 2015 valuation.

Above dates are based on measurement date, which may not necessarily tie to the fiscal year.

*10-year schedule as required by GASB Statement No. 68 will be built prospectively upon implementation of the standard.

IRON COUNTY ROAD COMMISSION
 SCHEDULE OF ROAD COMMISSION'S CONTRIBUTIONS
 FOR THE YEAR ENDED DECEMBER 31, 2018

SCHEDULE 2

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarial Determined Contributions	\$ 582,080	\$ 540,440	\$ 475,164	\$ 499,702	\$ 491,842	\$ 474,371	\$ 383,147	\$ 305,858	\$ 372,786	\$ 351,830
Contributions in Relation to the actuarially determined contribution	1,062,080	900,440	715,164	769,702	731,842	714,371	583,147	350,858	372,786	351,830
Contribution deficiency (excess)	\$ (480,000)	\$ (360,000)	\$ (240,000)	\$ (270,000)	\$ (240,000)	\$ (240,000)	\$ (200,000)	\$ (45,000)	\$ -	\$ -
Covered Employee Payroll	\$ 1,034,380	\$ 894,469	\$ 785,115	\$ 830,390	\$ 769,548	\$ 699,417	\$ 673,318	\$ 899,881	\$ 932,667	\$ 966,247
Contributions as a percentage of covered employee payroll	103%	101%	91%	93%	95%	102%	87%	39%	40%	36%

Notes to Schedule:

Actuarial valuation information relative to the determination of contributions:

Valuation Date Actuarially determined contribution rates are calculated as of December 31 each year, which is 18 months prior to the beginning of the fiscal year in which the contributions are required.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	22 years
Asset valuation method	10 year smoothed
Inflation	3 to 4%
Salary Increases	3.75%, including inflation
Investment rate of return	7.75%
Retirement age	Experienced-based tables of rates that are specific to the type of eligibility condition
Mortality	50% Female / 50% Male RP-2014 Annuity Mortality Table

IRON COUNTY ROAD COMMISSION
 SCHEDULE OF CHANGES IN THE ROAD COMMISSION'S
 NET OPEB LIABILITY AND RELATED RATIOS*
 For the Fiscal Year Ending December 31, 2018

SCHEDULE 3

	<u>2018</u>
Total OPEB Liability	
Service Cost	\$ 26,028
Interest	97,531
Difference Between Expected and Actual Experience	-
Changes in Plan Terms	-
Changes in Actuarial Assumptions	-
Benefit payments including employee refunds	<u>(173,802)</u>
Net Change in Total OPEB Liability	<u>(50,243)</u>
Total OPEB Liability beginning	<u>3,311,906</u>
Total OPEB Liability ending	<u>\$ 3,261,663</u>
Plan Fiduciary Net Position	
Contributions-employer	\$ 173,802
Benefit payments including employee refunds	<u>(173,802)</u>
Net Change in Plan Fiduciary Net Position	<u>-</u>
Plan Fiduciary Net Position beginning	<u>-</u>
Plan Fiduciary Net Position ending	<u>\$ -</u>
Employer Net OPEB Liability	<u>\$ 3,261,663</u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	0%
Covered Employee Payroll	\$ 1,116,801
Employer's Net OPEB Liability as a percentage of covered employee payroll	292%

Notes to schedule:

There were no benefit changes or changes affecting the 2018 valuation.

Above dates are based on measurement date, which may not necessarily tie to the fiscal year.

*10-year schedule as required by GASB Statement No. 75 will be built prospectively upon implementation of the standard.

IRON COUNTY ROAD COMMISSION
 SCHEDULE OF ROAD COMMISSION'S CONTRIBUTIONS--OPEB
 For the Fiscal Year Ending December 31, 2018

SCHEDULE 4

	<u>2018</u>
Actuarial Determined Contributions	\$ 384,752
Contributions in relation to the actuarially determined contribution	<u>173,802</u>
Contribution deficiency (excess)	<u><u>\$ 210,950</u></u>
Covered Employee Payroll	\$ 1,116,801
Contributions as a percentage of covered employee payroll	16%

Notes to Schedule

10 year requirement for disclosure The ten year requirement of information will be built prospectively.

Actuarial valuation information relative to the determination of contributions:

Valuation date December 31, 2018
 Measurement Date December 31, 2018

Methods and assumptions used to determine contribution rates:

Actuarial cost method Entry Age Normal (level of percentage of compensation)
 Amortization method Level Percentage of Pay
 Discount Rate 3%, consistent with Uniform Assumptions under Public Act 202 for unfunded plans

20-year Aa Municipal Bond Rate 3.0% - Current bond rate
 Inflation N/A - plan is not pre-funded
 Payroll inflation 3.5%
 Return on plan assets Not applicable - Plan is not funded
 Mortality RPH-2014 adjusted to 2006 Total Data Set, Headcount-weighted, MP-2018 with no
 pre-retirement mortality.

IRON COUNTY ROAD COMMISSION
 REQUIRED SUPPLEMENTARY INFORMATION
 GENERAL OPERATING FUND--SCHEDULE OF
 REVENUES AND OTHER FINANCING SOURCES
 BUDGETARY COMPARISON SCHEDULE
 For the Fiscal Year Ended December 31, 2018

EXHIBIT G

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Property Taxes	\$ 215,000	\$ 211,910	\$ 211,910	\$ -
Licenses and Permits				
Permits	5,000	10,000	9,708	(292)
Federal Grants (Contracted Projects)				
Surface Transportation Program	542,000	148,372	148,372	-
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,509,251	2,509,251	2,180,153	(329,098)
Local Road	900,000	1,028,187	966,541	(61,646)
Snow Removal	95,000	126,019	126,019	-
Economic Development Fund				
Forest Road Funds	213,430	213,430	213,421	(9)
Other--Supplemental Road Funding	-	643,520	642,969	(551)
Contributions from Local Units				
Townships	480,000	12,881	37,949	25,068
Charges for Services				
State Trunkline Maintenance	1,302,000	1,313,496	1,268,645	(44,851)
State Trunkline Non-Maintenance	80,000	136,735	136,735	-
Salvage Sales	3,000	6,293	6,561	268
Interest and Rents				
Interest Earned	12,000	19,593	20,392	799
Other Revenue				
Land Sales	-	6,494	6,494	-
Total Revenues	6,366,681	6,396,181	5,985,869	(410,312)
Other Financing Sources				
Installment Purchase Proceeds	240,000	240,000	240,000	-
Proceeds from the Disposal of Capital Assets	16,000	12,000	12,000	-
Total Other Financing Sources	256,000	252,000	252,000	-
Total Revenues and Other Financing Sources	6,622,681	6,648,181	\$ 6,237,869	\$ (410,312)
Fund Balance--January 1, 2018	3,064,364	3,064,364		
Total Budget	\$ 9,687,045	\$ 9,712,545		

IRON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL OPERATING FUND--SCHEDULE OF
EXPENDITURES--BUDGETARY COMPARISON SCHEDULE
For the Fiscal Year Ended December 31, 2018

EXHIBIT H

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 1,183,000	\$ 755,370	\$ 775,282	\$ (19,912)
Routine and Preventive Maintenance	950,000	1,121,570	1,158,254	(36,684)
Local Road				
Preservation/Structural Improvements	390,000	11,188	11,767	(579)
Routine and Preventive Maintenance	1,105,000	1,540,566	1,607,848	(67,282)
Primary Road Structure				
Routine and Preventive Maintenance	40,000	3,619	3,905	(286)
Local Road Structure				
Routine and Preventive Maintenance	3,000	1,464	1,603	(139)
State Trunkline				
Maintenance	1,200,000	1,512,089	1,282,671	229,418
Non-Maintenance	80,000	137,999	137,999	-
Equipment Expense--Net	(370,000)	(129,232)		
Direct			\$ 1,097,579	
Indirect			499,333	
Operating			229,669	
Less: Equipment Rentals			<u>(1,625,265)</u>	(330,548)
Administrative Expense--Net	260,000	497,320		
Administrative Expense			506,839	
Overhead - State Trunkline			(143,815)	
Purchase Discounts			<u>-</u>	134,296
Contingency	1,550,000	-	-	-
Capital Outlay--Net	(16,000)	72,212		
Capital Outlay			420,597	
Less: Depreciation Credits			(352,469)	
Equipment Retirements			<u>-</u>	4,084
Debt Service				
Principal Payments	192,000	314,726	314,726	-
Interest Payments	55,681	53,333	52,638	695
Total Expenditures	6,622,681	5,892,224	<u>\$ 5,979,161</u>	<u>\$ (86,937)</u>
Fund Balance--December 31, 2018	<u>2,808,364</u>	<u>3,568,321</u>		
Total Budget	<u>\$ 9,431,045</u>	<u>\$ 9,460,545</u>		

IRON COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF CHANGES IN FUND BALANCES
For the Fiscal Year Ended December 31, 2018

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 3,206,640	\$ 1,133,714	\$ 1,645,515	\$ 5,985,869
Total Expenditures	<u>2,195,671</u>	<u>1,862,962</u>	<u>1,920,528</u>	<u>5,979,161</u>
Excess of Revenues Over (Under) Expenditures	1,010,969	(729,248)	(275,013)	6,708
Other Financing Sources (Uses)				
Optional Transfers	(713,749)	713,749		
Installment Purchase Proceeds	-	-	240,000	240,000
Proceeds from the Disposal of Capital Assets	-	-	12,000	12,000
Total Other Financing Sources (Uses)	<u>(713,749)</u>	<u>713,749</u>	<u>252,000</u>	<u>252,000</u>
Net Change in Fund Balance	297,220	(15,499)	(23,013)	258,708
Fund Balance--January 1, 2018	<u>2,223,497</u>	<u>19,999</u>	<u>820,868</u>	<u>3,064,364</u>
Fund Balance--December 31, 2018	<u><u>\$ 2,520,717</u></u>	<u><u>\$ 4,500</u></u>	<u><u>\$ 797,855</u></u>	<u><u>\$ 3,323,072</u></u>

IRON COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF REVENUES
For the Fiscal Year Ended December 31, 2018

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes				
Property Taxes	\$ -	\$ -	\$ 211,910	\$ 211,910
Licenses and Permits				
Permits			9,708	9,708
Federal Grants (Contracted Projects)				
Surface Transportation Funds	148,372	-	-	148,372
State Grants				
Michigan Transportation Fund				
Engineering	6,928	3,072	-	10,000
Allocation	2,180,153	966,541	-	3,146,694
Snow Removal	-	126,019	-	126,019
Economic Development Funds				
Forest Road Funds	213,421	-	-	213,421
Other--Supplemental Road Funding	642,969	-	-	642,969
Contributions from Local Units				
Townships	-	37,949	-	37,949
Charges for Services				
State Trunkline Maintenance	-	-	1,268,645	1,268,645
State Trunkline Non-Maintenance	-	-	136,735	136,735
Salvage Sales	-	-	6,561	6,561
Interest and Rents				
Interest Earned	14,797	133	5,462	20,392
Other Revenue				
Land Sales	-	-	6,494	6,494
Total Revenues	3,206,640	1,133,714	1,645,515	5,985,869
Other Financing Sources				
Installment Purchase Proceeds	-	-	240,000	240,000
Proceeds from the Disposal of Capital Assets	-	-	12,000	12,000
Total Other Financing Sources	-	-	252,000	252,000
Total Revenues and Other Financing Sources	\$ 3,206,640	\$ 1,133,714	\$ 1,897,515	\$ 6,237,869

IRON COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF EXPENDITURES
For the Fiscal Year Ended December 31, 2018

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 775,282	\$ -	\$ -	\$ 775,282
Routine and Preventive Maintenance	1,158,254	-	-	1,158,254
Local Road				
Preservation/Structural Improvements	-	11,767	-	11,767
Routine and Preventive Maintenance	-	1,607,848	-	1,607,848
Primary Road Structures				
Routine and Preventive Maintenance	3,905	-	-	3,905
Local Road Structures				
Routine and Preventive Maintenance	-	1,603	-	1,603
State Trunkline Maintenance	-	-	1,282,671	1,282,671
State Trunkline Non-Maintenance	-	-	137,999	137,999
Equipment Expense--Net (Per Exhibit J)	60,588	76,362	64,366	201,316
Administrative Expense--Net (Per Exhibit J)	197,642	165,382	-	363,024
Capital Outlay--Net (Per Exhibit J)	-	-	68,128	68,128
Debt Service				
Principal Payments	-	-	314,726	314,726
Interest Payments	-	-	52,638	52,638
Total Expenditures	<u>\$ 2,195,671</u>	<u>\$ 1,862,962</u>	<u>\$ 1,920,528</u>	<u>\$ 5,979,161</u>



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

June 27, 2019

Board of County Road Commissioners
Iron County Road Commission
800 W Franklin St
Iron River, MI 49935

Independent Auditor's Report

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements Performed in Accordance With *Government
Auditing Standards*

Dear Commissioners:

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 and the major fund of the Iron County Road Commission, Iron County, Michigan, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Iron County Road Commission's basic financial statements, and have issued our report thereon dated June 27, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Iron County Road Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in circumstance 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 Iron County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Iron 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as Finding 2018-001 that we consider to be significant deficiencies in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iron 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, non-compliance 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 non-compliance or other matters, described in the accompanying Schedule of Findings and Responses as Finding 2018-002 that is required to be reported under *Government Auditing Standards*.

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 results of that testing, not to provide an opinion on the effectiveness of the Iron County Road Commission'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 Iron County Road Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Community Engagement and Finance Division



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

Board of County Road Commissioners
Iron County Road Commission
800 W Franklin St
Iron River, MI 49935

RE: Report to Those Charged With Governance

Dear Commissioners:

We have audited the financial statements of the governmental activities and the major fund of the Iron County Road Commission, Iron County, Michigan, for the fiscal year ended December 31, 2018, and have issued our report thereon dated June 27, 2019. Professional standards require that we provide you with information related to our audit.

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

As stated in the engagement letter dated December 17, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. 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 Iron County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Iron 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.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described in professional standards, is to evaluate the presentation of supplementary information in relation to the financial statements as a whole and to report on whether the supplementary Iron County Road Commission information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the

form, content, and methods of preparing the information to determine that the information complies with the 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 supplementary information to the underlying accounting records used to prepare the financial statements or the financial statements themselves.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on May 13, 2019, with management.

Significant Results of the Audit

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Iron County Road Commission are described in Note A to the financial statements. As described in Note L, during the fiscal year ended December 31, 2018, the Road Commission implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement of net position now includes additional information related to the postemployment benefits other than pension in the government-wide statements and more detailed information in the notes to the financial statements. We noted no transactions entered into by the Iron County 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 estimate affecting the governmental activities in the government-wide statements relates to depreciation, the net pension liability, and the liability related to other post-employment benefits. Management's estimate of the depreciation is based on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. For the pension, estimates and assumptions are determined by MERS and its actuary, based on the Road Commission's negotiations with its bargaining units and resolutions of the Board of County Road Commissioners. For retiree healthcare, the estimates and assumptions are based on actuarial techniques. We evaluated the key factors and assumptions used to develop the

depreciation in determining that it is reasonable in relation to the financial statements, taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no 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 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 the financial statements taken as a whole.

Disagreements 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 the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 27, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Iron County Road Commission'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 Iron County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Iron County Road Commission's Board of County Road Commissioners and management of the Iron County Road Commission and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, appearing to read 'CJ Vaughn', written over a light gray rectangular background.

Cary Jay Vaughn, CPA, CGFM

Audit Manager

Community Engagement and Finance Division

IRON COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES For the Fiscal Year Ended December 31, 2018

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.

SIGNIFICANT DEFICIENCIES

Disbursement Procedures

Finding 2018-001

Condition: We noted the following weaknesses during the testing of the internal controls over the cash disbursement process:

- 1) All vendor invoices did not have administrative approval indicated on the invoice.

Criteria: The Uniform Accounting Procedures Manual states: Each local unit must establish and maintain an adequate system of internal control which includes, in part, the following:

- Appropriate documentation (supporting invoices) must be attached to check copies for all disbursements. Note: For all disbursements for which an invoice cannot be obtained (e.g., Trust and Agency Fund disbursements, internal rent payments), supporting vouchers must be attached. Vouchers must describe the payment to be made, indicate account number to be charged, and be signed by the person approving the disbursement;

Recommendation: We recommend the Road Commission implement the above criteria to improve the internal controls over the cash disbursement process:

- 1) Administrative approval must be indicated on each claim.

Views of Responsible Official and Planned Corrective Action: The system of internal controls that oversees the procurement and approval processes will be reviewed by all personnel involved and updated to cover the lack of administrative approval found on several sampled invoices.

IRON COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended December 31, 2018

NONCOMPLIANCE WITH STATE STATUTES

Our review and study for compliance with State statutes and regulations revealed the following noncompliance procedures:

Violation of Public Act 2 of 1968

Finding 2018-002

Condition: During the fiscal year ended December 31, 2018, expenditures were incurred in excess of amounts appropriated in the amended budgets as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road Preservation / Structural Improvements	\$ 755,370	\$ 775,282	\$ (19,912)
Primary Road Routine and Preventive Maintenance	1,121,570	1,158,254	(36,684)
Local Road Preservation / Structural Improvements	11,188	11,767	(579)
Local Road Routine and Preventive Maintenance	1,540,566	1,607,848	(67,282)
Primary Road Structures Preservation / Structural Improvements	3,619	3,905	(286)
Local Road Structures Preservation / Structural Improvements	1,464	1,603	(139)
Equipment Expense--Net	(129,232)	201,316	(330,548)

Criteria: The expenditure of funds in excess of appropriations is contrary to the provisions of Section 17 of Public Act 2 of 1968.

Directive: We direct that the Road Commission develop budgetary control procedures which will ensure that expenditures will not exceed amounts authorized in the General Appropriations Act or amendments thereof.

Management's Response: Our budget estimates are reviewed and amended as needed to abide by the PA 2 of 1968, certainly toward the end of projects and the end of year. The last budget amendments are processed just prior to the actual end of the year, without all the final year end information. We estimate the amount of manpower and equipment which are anticipated to be deployed in weekend and overtime situations at year end during a winter storm event, we consider MDOT project expenses that are not yet received, and we do extensive comparisons to prior years.

Our mission statement of "The Iron County Road Commission is responsible for providing a road system that is reasonable safe and convenient for the traveling public" remains a top priority, along with the various State and Local regulatory rules. It is not a responsible policy to over budget just to get a pass on this finding and it is felt that the current year's unfavorable budget variances are within reasonable amounts.

Therefore, the budget will continue to be reviewed to compare budgeted amounts to actual year to date revenues and expenditures with budget amendments being processed, just prior to the end of the fiscal year to ensure expenditures will not exceed amounts authorized.