

Region 2

Planning Commission

Serving Hillsdale, Jackson and Lenawee Counties

Financial Statements

(With Supplementary Information)

For the Year Ended September 30, 2018

The logo consists of the letters 'S' and 'K' in a stylized, red, serif font. The 'S' is positioned to the left of the 'K', and they are both rendered in a slightly italicized, elegant script.

SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

Region 2 Planning Commission

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SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

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A VETERAN OWNED BUSINESS

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Region 2 Planning Commission
Jackson, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the *Region 2 Planning Commission*, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Planning Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the **Region 2 Planning Commission**, as of September 30, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note A to the financial statements, in 2018, the **Region 2 Planning Commission** adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. 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 and required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Region 2 Planning Commission's** basic financial statements. The other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2019 on our consideration of the **Region 2 Planning Commission's** control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the **Region 2 Planning Commission's** internal control over financial reporting and compliance.

Smith + Klaczynski PC

Saginaw, Michigan

February 8, 2019

Region 2 Planning Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2018

As management of the Region 2 Planning Commission (R2PC), we offer to readers of the R2PC's financial statements this narrative overview and analysis of the financial activities of the Region 2 Planning Commission for the fiscal year ended September 30, 2018.

Financial Highlights

- Our FY2018 net position increased by \$45,993 compared to the 2017 increase of \$32,022. The increase is a result of lower General Fund planning efforts/expense. Total unrestricted net position is now \$362,737, which may be used for R2PC's ongoing obligations to municipalities and creditors.
- Total FY2018 expenses were equal to \$859,828 compared to FY2017 expenses of \$811,282. The main drivers of this increase include: 1) additional staff hired in May 2017, 2) transition of one staff member from part-time to full-time, and 3) additional State and Local planning efforts. These increases were offset by lower direct costs, which include contractual commitments.
- Total FY2018 revenues were equal to \$905,821 compared to FY2017 revenues of \$843,304. The increase of revenue is due to the following: 1) additional state grant funding, 2) increased federal grant planning, 3) increased municipality planning efforts, and 4) new administrative planning revenue from Leoni Downtown Development Authority.
- Total Budgeted FY2018 expenses were equal to \$1,000,601 compared to actual FY2018 expenses of \$859,828. This variance was due to several reasons including: 1) timing of Regional Prosperity Initiative grant spending, 2) lower planning efforts for State and Municipality projects than budgeted, and 3) lower grant funding awarded for the Jackson Traffic Safety Program.
- Total Budgeted FY2018 revenue was equal to \$1,000,601 compared to actual FY2018 revenue of \$905,822. This variance is also due to the reasons noted above for the expense budget variance.

Overview of the Financial Statements

The Management's Discussion and Analysis is intended to be an introduction to R2PC's basic financial statements. R2PC maintains one proprietary fund. The Enterprise Fund is to report the same type of information as government-wide financial statements. R2PC's basic financial statements are comprised of the following: statement of net position; statement of revenues, expenses and changes in net position; statement of cash flows; and notes to the financial statements.

The *statement of net position* presents R2PC's net position and liabilities with the difference between the two reported as total net position. Over time, the unrestricted portion of the total net position can fluctuate from year to year. Increases or decreases in net position may serve as an indicator of whether the financial position of R2PC is improving or declining. This statement is on page 7 of the audit report.

The *statement of revenues, expenses and changes in net position* is information on revenues and expenses. This statement calculates the change in net position from year to year. A fluctuation in net position (either an increase or decrease) is representative of the current fiscal year. The statement of revenues, expenses, and changes in fund net position is on page 8 of the audit report.

The *statement of cash flows* consists of the operating activities of R2PC. This includes the increase (decrease) in net position and depreciation. The net changes in accounts receivable, accounts payable, accrued expenses (leave balances) and deferred revenue are captured in this table. Any addition to equipment is also included. The statement of cash flows is on page 9 of this audit report.

The *notes to the financial statements* provide additional information which is essential to the full understanding of the data provided in the financial statements. Notes to financial statements provide information regarding the determination of a provisional indirect cost rate and leases. The notes to the financial statements are on pages 10 - 20, with supplementary documentation found on pages 21 – 24 and the other supplementary information is found on pages 25 - 27.

This information provides an indicator of the R2PC’s financial condition for the current fiscal year. The planning, zoning, ordinance, and metropolitan planning are supported by grants, membership and service fees, cash contributed services, and other projects.

Financial Analysis

Statement of Net Position – Total assets of R2PC exceeded total liabilities by \$362,737. The investment of capital assets net of related debt is 0.01%. The R2PC did not incur additional current debt during the fiscal year.

	FY 2017, restated	FY 2018
Current Assets	\$775,251	\$848,305
Investments	101,591	102,410
Capital Assets	3,088	2,058
Total Assets	879,930	952,773
Current Liabilities	497,213	522,233
Non-current Liabilities	65,973	67,803
Total Liabilities	563,186	590,036
Net Position		
Invested capital assets	3,088	2,058
Unrestricted	313,656	360,679
Total Net Position	316,744	362,737

The unrestricted portion of \$360,679 is available to meet R2PC’s ongoing obligations.

Statement of Revenues, Expenses, and Changes in Fund Net Position– During the current fiscal year, R2PC had an increase in net position of \$45,993.

	FY 2017, Restated	FY 2018
Grant Revenue	\$677,017	\$706,005
Membership/Services Fees	163,113	195,908
Other Revenues	3,174	3,908
Total Revenues	843,304	905,821
Expenses	811,282	859,828
Total Expenses	811,282	859,828
Change in Net position	32,022	45,993
Ending Net Position	316,744	362,737

Capital Assets and Debt Administration

Capital Assets - R2PC did not acquire any capital assets during FY 2018. Capital assets belonging to R2PC consist of furniture and equipment. R2PC does not have any land or buildings to depreciate at this time. The capital assets should be capitalized at the total acquisition cost if the cost exceeds \$5,000 and the expected useful life of the asset is more than one year. Depreciation is recorded on a straight-line basis over the estimated useful life of the asset. The adjustment below was to record capital assets with reference to the Commission's Capitalized Fixed Asset policy, which was adopted during FY 2013.

	FY 2017	Additions	Disposals	FY 2018
Current Assets	\$12,248	\$ -	\$ -	\$12,248
Accumulated Depreciation	(9,160)	(1,030)	-	(10,190)
Capital Assets, net	\$ 3,088	(\$1,030)	\$ -	\$2,058

Outstanding Debt – R2PC did not have any outstanding debt for FY 2018.

Other Significant Items

R2PC's budget is prepared annually. A significant portion of the annual budget is the Unified Work Program for the Jackson Area Comprehensive Transportation Study (JACTS), and is approved by MDOT and FHWA. Local agencies, along with MDOT and FHWA participate in the budget process. The provisional indirect cost rate is prorated for the UWP. Costs are estimated (wages, fringes, and indirect costs) for quarterly billing purposes. Adjustments to actual costs incurred are made at the end of the fiscal year.

Local matching cash contributions are required by the FHWA grant. Currently, the City of Jackson, the Jackson County Department of Transportation, and the Jackson Area Transportation Authority provide the matching cash contributions.

Economic Factors and Next Year's Budgets and Rates

The ongoing concerns of R2PC are similar to other municipalities throughout the State of Michigan. R2PC relies on municipal membership dues, and additional zoning, ordinance and planning work as a source of revenue.

Requests for Information

This financial report is designed to provide a general overview of R2PC's finances for those who are interested in municipal government. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Steven M. Duke, Executive Director or LaTasha L. Thompson, CPA, Region 2 Planning Commission, 120 W. Michigan Avenue, Jackson, MI 49201.

Region 2 Planning Commission

Statement of Net Position

September 30, 2018

Assets

Current assets:	
Cash and cash equivalents	\$ 650,255
Due from other governments	186,822
Prepaid items	11,228
Total current assets	<u>848,305</u>
Investments	102,410
Capital assets being depreciated, net	2,058
Total assets	<u>952,773</u>

Liabilities

Current liabilities:	
Accounts payable	27,941
Due to other governments	262,243
Accrued expenses	12,186
Unearned revenue	219,863
Total current liabilities	<u>522,233</u>
Non-current liabilities:	
Accrued compensated absences	9,322
Net OPEB obligation	58,481
Total non-current liabilities	<u>67,803</u>
Total liabilities	<u>590,036</u>

Net Position

Net investment in capital assets	2,058
Unrestricted	360,679
Total net position	<u>\$ 362,737</u>

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

Region 2 Planning Commission

Statement of Revenues, Expenses and Changes in Fund Net Position

For the Year Ended September 30, 2018

Revenues

Grants:	
Federal	\$ 337,061
State	273,469
Local	95,475
Membership and service fees	195,908
Other revenues	3,908
Total revenues	<u>905,821</u>

Expenses

Salaries and wages	219,409
Employee fringe benefits	77,885
Other direct costs	359,016
Indirect costs	203,518
Total expenses	<u>859,828</u>

Increase (decrease) in net position 45,993

Net position

Beginning of year, as restated	<u>316,744</u>
End of year	<u><u>\$ 362,737</u></u>

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

Region 2 Planning Commission

Statement of Cash Flows

For the Year Ended September 30, 2018

Cash flows from operating activities:	
Receipts from customers / grantors	\$ 1,064,810
Payments to employees	(298,915)
Payments to suppliers	<u>(577,248)</u>
Net cash provided by (used in) operating activities	188,647
Cash flows from investing activities	
Purchase of investments	<u>(819)</u>
Net increase (decrease) in cash and cash equivalents	187,828
Cash and cash equivalents - beginning of year	<u>462,427</u>
Cash and cash equivalents - end of year	<u><u>\$ 650,255</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating income (loss)	\$ 45,993
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation expense	1,030
Decrease (increase) in assets:	
Accounts receivable	114,144
Prepaid items	630
Increase (decrease) in liabilities:	
Accounts payable	(16,374)
Due to other governments	50,584
Accrued expenses	(1,051)
Unearned revenue	(5,739)
Accrued compensated absences	(437)
Net OPEB obligation	<u>(133)</u>
Net cash provided by (used in) operating activities	<u><u>\$ 188,647</u></u>

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

Region 2 Planning Commission

Notes to Financial Statements

For the Year Ended September 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The *Region 2 Planning Commission* (the “*Planning Commission*”) was established under Act 281 of 1945, the Michigan Regional Planning Commission Act, as amended. The Planning Commission is a voluntary association of local units of government serving Hillsdale, Jackson, and Lenawee Counties. The primary purpose of the Planning Commission is to serve as the planning, research and advisory arm of the participating governmental units.

The Planning Commission’s financial reporting entity is comprised of the special purpose government. In determining the financial reporting entity, the Planning Commission complies with the provisions of GASB Statement No. 14, as amended by GASB Statement No. 39, “*The Financial Reporting Entity*” and includes all component units, if any, of which the Planning Commission appoints a voting majority of the units’ board; the Planning Commission is either able to impose its will on the unit or a financial benefit or burden relationship exists. There are no agencies, organizations or activities that meet these criteria.

Accounting Policies, Measurement Focus and Basis of Presentation

The accounting policies adopted by the Planning Commission conform to accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental entities.

The Planning Commission reports as a business-type activity, as defined by the Governmental Accounting Standards Board Statement No. 34, with programs and projects.

The economic resources measurement focus and the accrual basis of accounting are used in preparing the financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Assets, Liabilities and Equity

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposits in demand and certificates of deposits with original maturities of 90 days or less.

Region 2 Planning Commission

Notes to Financial Statements

For the Year Ended September 30, 2018

Due From Other Governments

The Planning Commission uses the reserve method of accounting for losses arising from uncollectible receivables. The Planning Commission considers recording an allowance for doubtful accounts, which represents an estimate of the losses expected. The allowance is based upon historical trends in collections and write-offs, and management's judgment of the probability of collecting amounts due. The year-end balance in due from other governments consists of the following:

Due from other governments	\$	186,822
Allowance for doubtful accounts		<u>-</u>
	\$	<u>186,822</u>

Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

Capital Assets

Capital assets, which include office furniture and equipment, are reported in the financial statements. Capital assets are defined by the Planning Commission as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation is recorded using the straight-line method over the following estimated useful lives:

Furniture and equipment	3 to 10 years
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Due to Other Governments

Membership fees and other amounts that have been collected from counties, cities, villages and townships before related services have been performed by the Planning Commission are classified as due to other governments.

Accrued Expenses

Wages earned by employees through the end of the fiscal year that were not paid until subsequent to year-end are reported as a current liability in the financial statements.

Region 2 Planning Commission

Notes to Financial Statements

For the Year Ended September 30, 2018

Other Postemployment Benefit (OPEB) Costs

The Planning Commission offers healthcare benefits to retirees. The Planning Commission has elected to calculate the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period using the alternative measurement method permitted by GASB Statement No. 75 for employers in plans with fewer than 100 total plan members. The Planning Commission records a net retiree healthcare obligation equal to the difference between the total OPEB liability calculated using the alternative measurement method and the Plan's fiduciary net position. In the proprietary fund, the Planning Commission reports the full accrual cost.

Accrued Compensated Absences

Planning Commission employees earn and accumulate vacation and sick leave in varying amounts based on hours worked and length of service. Upon termination, employees receive payment for all unused vacation and 50% of available sick leave in accordance with established policies. Accordingly, the Planning Commission recognizes the cost of earned compensated absences when the liability is incurred. Unused vacation and sick leave is recorded as a non-current liability in the financial statements.

Equity

Equity is classified as net position and reported as the following components:

Net investment in capital assets - Consists of capital assets at historical cost, net of accumulated depreciation.

Unrestricted net position - Consists of all other equity that does not meet the definition of "restricted" or "net investment in capital assets". Amounts that are legally restricted by externally imposed constraints that are placed on the use of resources by grantors, contributors, or laws or regulations of other governments are reported as restricted net position. For the year ended September 30, 2018, the Planning Commission had no restricted net position.

Grant Revenues

Grant revenues consist of amounts earned from reimbursement-based grants. The Planning Commission records receivables and revenue when the related expense is incurred.

Membership and Service Fees Revenue

Membership and service fees consist of amounts earned from membership fees received from the member municipalities. The Planning Commission records revenue when the related expense is incurred for specific projects requested by the applicable member.

Region 2 Planning Commission

Notes to Financial Statements

For the Year Ended September 30, 2018

Use of Estimates

In preparing financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standard

During the year, the Planning Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The objective of this statement is to improve the accounting and financial reporting by State and local governments for postemployment benefits other than pensions. It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. As a result of implementing this statement, the beginning net position of business-type activities was reduced by \$23,590.

NOTE B - DETAILED NOTES ON SELECT TRANSACTIONS / ACCOUNTS

Deposits and Investments

At year-end, the carrying amounts of the Planning Commission's deposits were as follows:

	<u>Carrying Amount</u>
Financial Statement Captions	
Cash and cash equivalents	\$ 650,255
Investments	<u>102,410</u>
	<u>\$ 752,665</u>
Notes to Financial Statements	
Cash on hand	\$ 85
Deposits	650,170
Certificates of deposit	<u>102,410</u>
	<u>\$ 752,665</u>

Deposit and Investment Risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution

Region 2 Planning Commission

Notes to Financial Statements

For the Year Ended September 30, 2018

- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997

The Planning Commission's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Interest Rate Risk

The Planning Commission's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Planning Commission's investment policy does not have specific limits in excess of State law on investment credit risk. At year-end, the Planning Commission had no investments other than certificates of deposit and was therefore, not exposed to credit risk.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Planning Commission's deposits may not be returned. State law does not require and the Planning Commission does not have a policy for deposit custodial credit risk. At year-end, \$403,073 of the Planning Commission's bank balance of \$755,483 was exposed to custodial credit risk because it was not FDIC insured and was not otherwise collateralized.

Concentration of Credit Risk

State law limits allowable investments but does not limit concentration of credit risk. The Planning Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. At year-end, the Planning Commission had no investments other than certificates of deposit and was therefore, not exposed to concentration of credit risk.

Region 2 Planning Commission

Notes to Financial Statements

For the Year Ended September 30, 2018

Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets being depreciated				
Furniture and equipment	\$ 12,248	\$ -	\$ -	\$ 12,248
Accumulated depreciation:				
Furniture and equipment	(9,160)	(1,030)	-	(10,190)
Net capital assets being depreciated	\$ 3,088	\$ (1,030)	\$ -	\$ 2,058

Compensated Absences

The following is a summary of changes in accrued compensated absences for the year:

	Beginning Balance	Additions	Deductions	Ending Balance	Amount Due Within One Year
Accrued compensated absences	\$ 9,759	\$ 31,470	\$ (31,907)	\$ 9,322	\$ -

NOTE C - OTHER INFORMATION

Contributed Services

Contributed services consist of expenses incurred by the Jackson County Department of Transportation, the City of Jackson and Jackson Area Transportation Authority for the FHWA PL program totaling \$64,848.

Defined Contribution Pension Plan

The Planning Commission provides retirement benefits to all of its full-time employees through a 401(k) Defined Contribution Plan. The plan is administered by International City Management Association Retirement Corporation (ICMA-RC). Employees are eligible to participate immediately after the date of hire. Employer contributions are equal to 7.5% - 15% of wages for participating employees before any forfeiture related to non-vested employer contributions for terminated employees/participants. Employees currently contribute to the 401(k) plan through ICMA-RC. Employees become fully vested after five years of service. The total amount contributed to the plan during the year was \$49,993 which was comprised of \$25,295 in employer contributions and \$24,698 in employee contributions.

Retirement Health Savings Plan

The Planning Commission adopted a Retirement Health Savings Plan for the professional planning staff, administered by ICMA RC. The Plan allows for a contribution of 1% of salary from the Planning Commission and a 1% of salary deduction from the staff member. In addition, an amount equal to 50% of an employees' accumulated sick time multiplied by their current

Region 2 Planning Commission

Notes to Financial Statements

For the Year Ended September 30, 2018

hourly rate is invested in the Plan upon separation or retirement from the Planning Commission in accordance with the Planning Commission's Personnel Policy. The total amount contributed to the plan during the year was \$5,614 which was comprised of \$2,814 in employer contributions and \$2,800 in employee contributions.

Indirect Cost Rate

Annually, the Planning Commission determines a provisional indirect cost rate. On a monthly basis throughout the fiscal year, the rate is re-determined based on actual financial data and applied to the Planning Commission's various activities and program elements. The Planning Commission's final indirect cost rate is presented in the accompanying Schedule of Final Indirect Cost Rate on page 27.

Leases

The Planning Commission leases its office space under a long-term lease. The agreement has met the criteria, and is properly recorded as an operating lease. The current fiscal year expense for the lease was \$35,671. Future minimum lease payments under operating leases that have initial lease terms in excess of one year as of September 30, 2018, are as follows:

<u>Fiscal Year Ending September 30</u>	<u>Amount</u>
2019	\$ 36,384
2020	37,112
2021	37,854
2022	38,611
2023	29,391
Total	<u>\$ 179,352</u>

Contingencies, Commitments and Risk Management

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. However, Planning Commission management does not believe such disallowances, if any, will be material to the financial position of the Planning Commission.

The Planning Commission is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The Planning Commission has purchased commercial insurance for these types of claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

During the fiscal year, the Planning Commission received \$180,897 from the Regional Prosperity Initiative grant and subsequently entered into purchase commitments with several contractors to complete the necessary activities. At year-end, the remaining purchase commitments totaled \$45,967.

Region 2 Planning Commission

Notes to Financial Statements

For the Year Ended September 30, 2018

NOTE D POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

General Information About the OPEB Plan

Plan Description

The Planning Commission's defined benefit OPEB plan, Region 2 Planning Commission Retiree Benefits Plan (the "Plan"), provides OPEB to certain retirees who retire from the Planning Commission and meet certain criteria identified in the funding policy. The Plan is a single employer defined benefit OPEB plan administered by the Planning Commission. The benefits are provided under the employee handbook. The Planning Commission Board of Commissioners has been granted the authority and has the ability to amend the benefit terms. The Plan does not issue a publicly available financial report.

Benefits Provided

The Plan provides a \$2,400 annual stipend to Medicare eligible retirees provided they show proof of payment for health insurance.

Employees Covered by the Benefit Term

At September 30, 2018, the following participants were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	1
Inactive plan members entitled to but not yet receiving benefits	-
Active employees	<u>2</u>
Total participants	<u><u>3</u></u>

The Plan is open to new hires.

Contributions

By resolution, the Planning Commission has been granted the authority to establish and amend the contribution requirements to the Plan. The Planning Commission establishes rates based on an actuarially determined rate. For the year ended September 30, 2018, the Planning Commission's annual required contribution was \$3,479. Employees are not required to contribute.

Net OPEB Liability

The Planning Commission's net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined using the alternative measurement method as permitted by GASB Statement 75 for employers in plans with fewer than 100 (one hundred) total plan members.

Salary increases	3.5%
Investment rate of return	not applicable

Region 2 Planning Commission

Notes to Financial Statements

For the Year Ended September 30, 2018

Healthcare cost trend rates not applicable

Mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

Funding Policy

The Planning Commission has no obligation to make contributions in advance of when the insurance premiums or claims are due for payment (in other words, this may be financed on a “pay-as-you-go” basis).

The contribution requirements of the Planning Commission are established by and may be amended by the Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined by the Board of Commissioners.

For the year ended September 30, 2018, the Planning Commission paid retiree benefits of \$2,400.

Annual OPEB Cost and Net OPEB Obligation

The Planning Commission’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 75. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The Planning Commission has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 75 for employers in plans with fewer than 100 (one hundred) total plan members.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The required schedule of funding progress immediately following the notes presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on the types of benefits provided under the substantive plan at the time of each valuation, on the pattern of sharing of benefit costs between the employer and plan members to that point, and, if applicable, the disclosure that the projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Region 2 Planning Commission

Notes to Financial Statements

For the Year Ended September 30, 2018

Actuarial calculations reflect a long-term perspective.

Net OPEB Liability

The net OPEB liability reported at year-end was determined using a measure of the total OPEB liability and the OPEB net position as of September 30, 2018. The September 30, 2018 total OPEB liability was determined by an actuarial valuation performed as of that date.

Changes in the net OPEB liability during the year were as follows:

Changes in OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Beginning balance	\$ 58,614	\$ -	\$ 58,614
Interest	64	-	64
Employer contributions	-	-	-
Net investment income	-	-	-
Benefit payments	(2,400)	-	(2,400)
Administrative expenses	-	-	-
Other	2,203	-	2,203
Net changes	(133)	-	(133)
Ending balance	\$ 58,481	\$ -	\$ 58,481

Actuarial Methods and Assumptions

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

Retirement age for active employees

Based on the historical average retirement age for the covered group, active plan members were assumed to retire at various ages ranging from age 67 to 68.

Mortality

Life expectancies were based on mortality tables from the United States Social Security Administration. The 2014 Period Life Table for males and females was used.

Region 2 Planning Commission

Notes to Financial Statements

For the Year Ended September 30, 2018

Turnover

Non-group-specific age-based turnover data from GASB Statement 75 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.00%. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

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

The following presents the change in the Planning Commission's net OPEB liability, calculated using the discount rate of 3.00%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.00%) or 1% higher (4.00%) than the current rate:

	1% Decrease in Rate to 2.00%	Assumed Discount Rate 3.00%	1% Increase in Rate to 4.00%
Change in Net OPEB Liability	\$ <u>63,601</u>	\$ <u>58,481</u>	\$ <u>53,849</u>



Region 2 Planning Commission

Schedules of Required Supplementary Information

Retiree Healthcare System Schedule of Changes in the Planning Commission's Net OPEB Liability and Related Ratios

Last 10 Fiscal Years Ended September 30

	2018	2009 to 2017*
Total OPEB liability		
Service cost	\$ -	---
Interest	64	---
Changes of benefit terms	-	---
Differences between expected and actual experience	-	---
Changes in assumptions	-	---
Benefit payments	(2,400)	---
Other	2,203	---
Net change in total OPEB liability	(133)	---
Total OPEB liability - beginning	58,614	---
Total OPEB liability - ending	\$ 58,481	---
Plan fiduciary net position		
Contributions - employer	\$ -	---
Contributions - member	-	---
Net investment income (loss)	-	---
Benefit payments, including refunds of member contributions	-	---
Administrative expenses	-	---
Other	-	---
Net change in fiduciary net position	-	---
Fiduciary net position - beginning	-	---
Fiduciary net position - ending	\$ -	---
Net OPEB liability - ending	\$ 58,481	---
Fiduciary net position as a percentage of the total OPEB liability	0.00%	---
Covered-employee payroll	\$ 162,906	---
Net OPEB liability as percentage of covered-employee payroll	0.00%	---

* GASB Statement No. 75 was implemented as of September 30, 2018. Information from 2009 through 2017 is not available. Additional years will be presented on this schedule on a prospective basis.

Region 2 Planning Commission
Required Supplementary Information
Schedule of Employer's Net OPEB Liability
Last 10 Fiscal Years Ended September 30

	2018	2009 to 2017*
Total OPEB liability	\$ 58,481	---
Plan net position	-	---
Net OPEB liability	58,481	---
Plan net position as a percent of total OPEB liability	0.00%	---
Covered payroll	\$ 162,906	---
Net OPEB liability as a percent of covered payroll	0.00%	---

* GASB Statement No. 75 was implemented as of September 30, 2018. Information from 2009 through 2017 is not available. Additional years will be presented on this schedule on a prospective basis.

Region 2 Planning Commission

Schedules of Required Supplementary Information

Retiree Healthcare System Schedule of Planning Commission Contributions

Last 10 Fiscal Years Ended September 30

	<u>2018</u>	<u>2009 to 2017 *</u>
Actuarially determined contribution	\$ 3,479	---
Contributions in relation to the actuarially determined contribution	-	---
Contribution excess (deficiency)	<u>\$ (3,479)</u>	<u>---</u>
Covered-employee payroll	\$ 162,906	---
Contributions as percentage of covered- employee payroll	0.00%	---

GASB Statement No. 75 was implemented as of September 30, 2018. Information from 2009 through 2017 is not available. Additional years will be presented on this schedule on a prospective basis.

Region 2 Planning Commission

Schedule of Revenues, Expenses and Changes in Fund Net Position

For the Year Ended September 30, 2018

	<u>FHWA-PL</u>	<u>Other</u>	<u>Total</u>
Revenues			
Grants:			
Federal	\$ 268,566	\$ 68,495	\$ 337,061
State	-	273,469	273,469
Local	64,848	30,627	95,475
Membership and service fees	-	186,857	186,857
Other revenues	-	12,959	12,959
Total revenues	<u>333,414</u>	<u>572,407</u>	<u>905,821</u>
Expenses			
Salaries and wages	125,419	93,990	219,409
Employee fringe benefits	44,521	33,364	77,885
Other direct costs	47,139	311,877	359,016
Indirect costs	116,335	87,183	203,518
Total expenses	<u>333,414</u>	<u>526,414</u>	<u>859,828</u>
Increase (decrease) in net position	-	45,993	45,993
Net position - beginning of year, as restated	<u>-</u>	<u>316,744</u>	<u>316,744</u>
Net position - end of year	<u>\$ -</u>	<u>\$ 362,737</u>	<u>\$ 362,737</u>

Region 2 Planning Commission

Schedule of Project Element Expenses - Budget and Actual

For the Year Ended September 30, 2018

	FHWA - PL		Remaining Balance	Percentage Expended
	Budget	Actual		
Transportation database management:				
Data monitoring and reporting	\$ 7,295	\$ 5,312	\$ 1,983	73%
Transportation data system	73,282	50,334	22,948	69%
Long-range transportation planning	52,677	66,459	(13,782)	126%
Short-range transportation planning:				
TSM technical assistance	97,984	89,305	8,679	91%
TSM corridor study	2,880	462	2,418	16%
Transportation program management:				
Planning coordination	31,423	48,656	(17,233)	155%
Improvement program	19,842	25,412	(5,570)	128%
Program management	36,799	40,425	(3,626)	110%
Planning work program	5,937	7,049	(1,112)	119%
Total	\$ 328,119	\$ 333,414	\$ (5,295)	102%

Region 2 Planning Commission

Schedule of Final Indirect Cost Rate

For the Year Ended September 30, 2018

Labor and Fringes	Total	Direct	Indirect
Salaries and wages	\$ 290,569	\$ 219,409	\$ 71,160
Employee fringe benefits	103,146	77,886	25,260
Total labor and fringes	<u>\$ 393,715</u>	<u>\$ 297,295</u>	<u>96,420</u>

Indirect Operating Expenses

Supplies	4,510
Professional services	6,179
Training	50
Contractual / consulting	31,252
Telephone	3,546
Postage / shipping	2,141
Travel	4,177
Printing and copying	4,959
Insurance	5,193
Equipment repairs and maintenance	3,802
Office rent	35,671
Publication, dues and subscriptions	1,458
Retirement health insurance	2,400
Postemployment benefit expense	(133)
Warranty fees / licenses	863
Depreciation expense	1,030
Total indirect operating expenses	<u>107,098</u>
Total indirect costs	<u>\$ 203,518</u>

Total Indirect Costs	\$ 203,518
Direct Labor and Fringes	\$ 297,295 = <u>68.46%</u>



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A VETERAN OWNED BUSINESS

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

To the Board of Commissioners
Region 2 Planning Commission
Jackson, Michigan

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 business-type activities of the **Region 2 Planning Commission**, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the **Region 2 Planning Commission's** basic financial statements and have issued our report thereon dated February 8, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **Region 2 Planning Commission's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Region 2 Planning Commission's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Region 2 Planning 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, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Region 2 Planning Commission's* financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are 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, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith + Klaushawitz PC

Saginaw, Michigan

February 8, 2019