# Mid-Michigan District Health Department

## Financial Statements

## September 30, 2018

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# Independent Auditors' Report

Board of Public Health
Mid-Michigan District Health Department
Stanton, Michigan

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Mid-Michigan District Health Department (the Department), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Department'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.

**Auditors' 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 auditors' 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 each major fund of the Mid-Michigan District Health Department, as of September 30, 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.

## Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended September 30, 2018, the Department adopted GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

## Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, municipal employees' retirement system schedules and other post-employment benefit schedules, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2019 on our consideration of the Mid-Michigan District Health Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Mid-Michigan District Health Department's 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 Mid-Michigan District Health Department's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Alma, Michigan
March 21, 2019

# Mid-Michigan District Health Department
## Management's Discussion and Analysis
## September 30, 2018

This section of the annual financial statements, titled Management's Discussion and Analysis, represents the administration's review of the Department's financial performance during the fiscal year ended September 30, 2018, and is a requirement of GASB 34. The Management's Discussion and Analysis is intended to be read in conjunction with the Department's financial statements.

Generally accepted accounting principles (GAAP) according to GASB 34 require the reporting of two types of financial statements: Government-wide financial statements and Fund Level financial statements.

### Financial Highlights

- The assets and deferred outflows of resources of the Department exceeded its liabilities and deferred inflows of resources at September 30, 2018 by $481,267 at the government-wide level. Of this amount, $(40,326) (unrestricted deficit) may be used to meet the Department's ongoing obligations.
- The Department's total net position decreased $446,440 as a result of this year's operations.
- As of September 30, 2018, the Department's governmental fund reported an ending fund balance of $2,386,075, a decrease of $65,865.
- As of September 30, 2018, the unassigned fund balance was $222,688.

### Overview of the Financial Statements

The Department's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements:** The government-wide financial statements provide information about the activities of the entire Department. They present an overall view of the Department's finances for the fiscal year ending September 30, 2018.

The statement of net position presents information on all of the Department's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The statement of activities presents information showing how the Department's net position changed during fiscal year 2017/2018. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows.

All of the Department's offices are supported by intergovernmental revenues, governmental grants, donations, fees and charges for services, interest, and local contributions. The governmental activities of the Department are all considered health and sanitation programs.

The government-wide financial statements include only financial information related to the Department.

**Fund Financial Statements:** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Department operates with one fund, which is considered a governmental fund.

**Governmental funds:** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Such information may be useful in evaluating the Department's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Department's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Department adopts an annual appropriated budget for its General Operating Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with this budget.

The basic financial statements can be found starting on page 3-1 of this report.

**Notes to the Financial Statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 3-7 of this report.

**Required Supplementary Information:** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgeted revenues and expenditures on page 4-1, and information related to the defined pension plan and retired employees' health care plans starting on page 4-2.

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Department, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $481,267. A comparative analysis of data with the previous fiscal year is as follows:

| | ***2018*** | ***2017*** |
|---|---|---|
| **Current and other assets** | $3,193,394 | $3,240,936 |
| **Capital assets** | 427,543 | 429,698 |
| **Total assets** | 3,620,937 | 3,670,634 |
| **Deferred outflow of resources** | 515,790 | 904,518 |
| **Current liabilities** | 706,146 | 504,170 |
| **Noncurrent liabilities** | 2,477,300 | 3,059,312 |
| **Total liabilities** | 3,183,446 | 3,563,482 |
| **Deferred inflow of resources** | 472,014 | 83,963 |
| **Net position** | | |
| **Investment in capital assets** | 332,650 | 429,698 |
| **Restricted for** | | |
| **Dental Clinic** | 95,209 | 95,209 |
| **Medicaid cost based reimbursement** | 93,734 | 181,767 |
| **Unrestricted** | (40,326) | 221,033 |
| **Total net position** | $481,267 | $927,707 |

Unrestricted net position (the part of net position that can be used to finance day-to-day operations) decreased by $261,359. The main reason for the large decrease relates to a decrease in the deferred outflows related to the net pension liability based on the actuarial calculations. Net position invested in capital assets decreased by $97,048. The current level of unrestricted net position for the governmental activities stands at a deficit of $40,326.

The following table shows the changes of net position for the years ended September 30, 2018 and 2017.

| | *2018* | *2017* |
|---|---|---|
| **Program revenues** | | |
| **Charges for services** | $1,469,636 | $1,676,463 |
| **Operating grants and contributions** | 3,362,097 | 2,956,019 |
| **General revenue** | | |
| **County appropriations** | 1,329,302 | 1,344,464 |
| **Interest** | 27,241 | 10,713 |
| **Gain on Capital Assets** | 108 | 40 |
| **Total revenues** | 6,188,384 | 5,987,699 |
| **Program expenses** | 6,634,824 | 6,440,858 |
| **Change in net position** | $(446,440) | $(453,159) |

Total expenses increased 3.01% over the previous fiscal year and revenue increased 3.35%.

**Financial Analysis of the Department's Fund**

As noted earlier, the Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Fund:** The focus of the Department's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Department's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Department's governmental fund reported a total ending fund balance of $2,386,075, a decrease of $65,865 in comparison with the prior year Certain constraints have been placed on fund balance at September 30, 2018. Of the total fund balance, $1,784,365, or 75% of the total, has been committed for the general operating fund. Committed fund balances are amounts that are constrained for certain purposes that have been approved by the Board of Public Health. Commitments of fund balance can be established, modified, or rescinded by a resolution from the Board of Public Health. The restricted and non-spendable fund balances total $379,022 and the unassigned fund balance is $222,688. As a measure of liquidity, it may be useful to compare committed and unassigned fund balance to the total fund expenditure. Committed and unassigned fund balance represents 32% of the total fund expenditures.

## Governmental Fund Budgetary Highlights

Over the course of the year, the Department's Board of Public Health may amend the budget to take into account events that occur during the year. For the year ended September 30, 2018, budget amendments primarily increased and decreased licenses and permits, intergovernmental, and charges for services revenue and certain expenditure line items, especially those related to the approved capital expense projects by amounts necessary to maintain consistency with actual activities for the fiscal year. In total, the Department's amended expenditure budget changed from $6,213,097 to $6,447,247, which represented a small increase in the overall agency budget, however, the actual expenditures came in at $6,343,009 which was a little more than the original budget but under the final budget.

## Capital Asset and Debt Administration

**Capital Assets:** The Department's investment in capital assets as of September 30, 2018, amounts to $427,543 (net of accumulated depreciation). More information is reported in footnote 5.

**Long-term Obligations:** The Department has long-term obligations related to compensated absences (e.g., unused vacation and personal leave). The total obligation for compensated absences and related payroll taxes at September 30, 2018, was $290,641.

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

For the fiscal year ending September 30, 2019, close monitoring of the Federal and State budget actions will continue to be important related to lack of economic increases and/or further possible cuts in funding provided through State grant agreements including those that originate at the federal level and other State funding mechanisms such as Essential Local Public Health Services, Medicaid Cost, and Rated Based Reimbursement funding supplements. The Department continues to closely monitor Environmental Health permit applications activity and Community Health and Education charge for services to determine if there are any significant changes in activity. The Department is focusing efforts on increasing reimbursement by billing commercial insurances for services provided in Community Health and Education Division. The Department's operating budget could be significantly impacted by changes in State funding, permit activity and billing reimbursement, therefore, will be monitored closely.

## Requests for Information

This financial report is designed to provide a general overview of the Department's finances for all those with an interest in the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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**Mid-Michigan District Health Department**
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# Mid-Michigan District Health Department
## Statement of Net Position
## September 30, 2018

| | Governmental Activities |
|---|---|
| **Assets** | |
| Cash | $ 58,516 |
| Cash on deposit with fiscal agent | 2,513,409 |
| Receivables | |
| Accounts | 58,846 |
| Contracts | 88,760 |
| Due from other units of government | |
| Federal and state | 271,848 |
| Local | 11,936 |
| Inventories | 76,510 |
| Prepaid items | 113,569 |
| Contracts receivable, net of current portion | 94,893 |
| Capital assets, net of accumulated depreciation | 332,650 |
| Total assets | 3,620,937 |
| **Deferred Outflows of Resources** | |
| Deferred amount relating to net pension liability | 515,790 |
| Total assets and deferred outflows of resources | 4,136,727 |
| **Liabilities** | |
| Accounts payable | 119,171 |
| Accrued wages | 124,580 |
| Accrued liabilities | 109,399 |
| Due to others | 18,063 |
| Due to other units of government | 258,423 |
| Unearned revenue | 76,510 |
| Noncurrent liabilities | |
| Compensated absences due within one year | 290,641 |
| Total OPEB liability | 173,530 |
| Net pension liability | 2,013,129 |
| Total liabilities | 3,183,446 |
| **Deferred Inflows of Resources** | |
| Deferred amount relating to net pension liability | 453,749 |
| Deferred amount relating to total OPEB liability | 18,265 |
| Total deferred outflows of resources | 472,014 |
| Total liabilities and deferred inflows of resources | 3,655,460 |
| **Net Position** | |
| Net investment in capital assets | 332,650 |
| Restricted for | |
| Dental clinic | 95,209 |
| Medicaid cost based reimbursement | 93,734 |
| Unrestricted (deficit) | (40,326) |
| Total net position | $ 481,267 |

See Accompanying Notes to the Financial Statements

# Mid-Michigan District Health Department
## Statement of Activities
## For the Year Ended September 30, 2018

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Position |
|---|---|---|---|---|
| Governmental activities | | | | |
| Health and welfare | | | | |
| Community health and education | $ 3,762,821 | $ 738,329 | $ 2,589,014 | $ (435,478) |
| Environmental health | 1,245,339 | 520,326 | 639,835 | (85,178) |
| Administration | 1,626,664 | 210,981 | 133,248 | (1,282,435) |
| Total governmental activities | $ 6,634,824 | $ 1,469,636 | $ 3,362,097 | (1,803,091) |
| General revenues | | | | |
| Interest | | | | 27,241 |
| County appropriations | | | | 1,329,302 |
| Gain on sale of capital assets | | | | 108 |
| Total general revenues | | | | 1,356,651 |
| Change in net position | | | | (446,440) |
| Net position - beginning of year | | | | 927,707 |
| Net position - end of year | | | | $ 481,267 |

See Accompanying Notes to the Financial Statements

# Mid-Michigan District Health Department
## Governmental Fund
## Balance Sheet
## September 30, 2018

| | General Operating Fund |
|---|---|
| **Assets** | |
| Cash | $ 58,516 |
| Cash on deposit with fiscal agent | 2,513,409 |
| Receivables | |
| Accounts | 58,846 |
| Contracts | 183,653 |
| Due from other units of government | |
| Federal and state | 271,848 |
| Local | 11,936 |
| Inventories | 76,510 |
| Prepaid items | 113,569 |
| Total assets | $ 3,288,287 |
| **Liabilities** | |
| Accounts payable | $ 119,171 |
| Accrued wages | 124,580 |
| Accrued liabilities | 109,399 |
| Due to others | 18,063 |
| Due to other units of government | 258,423 |
| Unearned revenue | 76,510 |
| Total liabilities | 706,146 |
| **Deferred Inflows of Resources** | |
| Unavailable revenue - charges for services | 12,413 |
| Unavailable revenue - lease revenue | 183,653 |
| Total deferred inflows of resources | 196,066 |
| **Fund Balances** | |
| Non-spendable | |
| Inventories | 76,510 |
| Prepaid items | 113,569 |
| Restricted for | |
| Dental clinic | 95,209 |
| Medicaid cost based reimbursement | 93,734 |
| Committed | 1,784,365 |
| Unassigned | 222,688 |
| Total fund balances | 2,386,075 |
| Total liabilities, deferred inflows of resources, and fund balances | $ 3,288,287 |

See Accompanying Notes to the Financial Statements

# Mid-Michigan District Health Department
## Governmental Fund
## Reconciliation of Fund Balances of Governmental Fund to Net Position of Governmental Activities
## September 30, 2018

| | | |
|---|---|---|
| **Total fund balances for governmental fund** | $ | 2,386,075 |
| Total net position for governmental activities in the statement of net position is different because: | | |
| Capital assets net of accumulated depreciation used in governmental activities are not financial resources and therefore are not reported in the funds. | | 332,650 |
| Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds. | | 196,066 |
| Certain liabilities are not due and payable in the current period and are not reported in the funds. | | |
| Compensated absences | | (290,641) |
| Deferred outflows of resources resulting from net pension liability | | 515,790 |
| Deferred inflows of resources resulting from net pension liability | | (453,749) |
| Deferred inflows of resources resulting from total OPEB liability | | (18,265) |
| Long-term liabilities applicable to governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. | | |
| Total OPEB liability | | (173,530) |
| Net pension liability | | (2,013,129) |
| **Net position of governmental activities** | $ | 481,267 |

See Accompanying Notes to the Financial Statements

# Mid-Michigan District Health Department
## Governmental Fund
## Statement of Revenues, Expenditures and Changes in Fund Balances
## For the Year Ended September 30, 2018

| | General Operating Fund |
|---|---|
| **Revenues** | |
| Licenses and permits | $ 689,171 |
| Intergovernmental | |
| Federal and state | 2,948,410 |
| Local | |
| Other | 486,450 |
| County | 1,329,302 |
| Charges for services | 780,465 |
| Interest income | 27,241 |
| Other revenue | 15,997 |
| Total revenues | 6,277,036 |
| **Expenditures** | |
| Current | |
| Health and welfare | |
| Salaries and wages | 3,261,102 |
| Fringe benefits | 1,265,311 |
| Supplies and materials | 492,018 |
| Contractual services | 344,407 |
| Communications | 68,177 |
| Travel and training | 182,758 |
| Insurance | 35,303 |
| Building and equipment lease and rentals | 500,854 |
| Printing and advertising | 92,377 |
| Postage | 29,215 |
| Other | 71,487 |
| Total expenditures | 6,343,009 |
| Deficiency of revenues over expenditures | (65,973) |
| **Other financing sources** | |
| Sale of fixed assets | 108 |
| Net change in fund balance | (65,865) |
| Fund balance - beginning of year | 2,451,940 |
| Fund balance - end of year | $2,386,075 |

See Accompanying Notes to the Financial Statements

# Mid-Michigan District Health Department
## Governmental Fund
## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Fund to the Statement of Activities
## For the Year Ended September 30, 2018

| | | |
|---|---|---|
| **Net change in fund balances - total governmental fund** | $ | (65,865) |
| Total change in net position reported for governmental activities in the statement of activities is different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. | | |
| Depreciation expense | | (97,048) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds. | | |
| Financing lease | | (88,760) |
| Expenses are recorded when incurred in the statement of activities. | | |
| Compensated absences | | (4,653) |
| The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions. | | |
| Net change in net pension liability | | 584,816 |
| Net change in the deferred inflows of resources related to the net pension liability | | (369,786) |
| Net change in the deferred outflows of resources related to the net pension liability | | (388,728) |
| The statement of net position reports the total OPEB liability and deferred outflows of resources and deferred inflows related to the total OPEB liability and OPEB expense. However, the amount recorded on the governmental funds equals actual OPEB contributions. | | |
| Net change in total OPEB liability | | 1,849 |
| Net change in the deferred inflows of resources related to the total OPEB liability | | (18,265) |
| **Change in net position of governmental activities** | $ | (446,440) |

See Accompanying Notes to the Financial Statements

## Note 1 - Summary of Significant Accounting Policies

### Reporting entity

The Mid-Michigan District Health Department (the Department) is a joint venture between Montcalm, Gratiot and Clinton Counties, and was established to provide public health services.

The Board of Public Health is represented by and provides services to Montcalm, Gratiot and Clinton Counties. Each County provides annual appropriations. The current funding formula approved by the Board of Public Health requires Montcalm, Gratiot and Clinton Counties to provide approximately 36, 27, and 37 percent, respectively, of the total County appropriations. The percentages are calculated annually based on the formula in the intergovernmental agreement. In addition, the treasury function for the Department rests with the Montcalm County Treasurer.

### Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General appropriations and other items not properly included among program revenues are reported instead as *general revenues.* Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all county appropriations.

Separate financial statements are provided for governmental funds. The Department only has one fund reported in the fund financial statements.

### Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues susceptible to accrual include state and federal grants and interest income. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues related to grants are considered available if collected within 180 days due to the State of Michigan's slow payment. 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.

The government reports the following major governmental fund:

> The General Operating Fund is used to account for all financial resources of the Department, which includes expenditures primarily for specified health related purposes.

**Assets, liabilities, and net position or equity**
Cash – Cash is considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Cash on deposit with fiscal agent – Cash on deposit with the Montcalm County Treasurer.

Receivables – Receivables consist of amounts due from governmental units for various grant programs and accounts receivable for charges for services to clients and other organizations.

The Department has recognized the revenue related to charges for services at the time the services are performed and billed to the extent such amounts are estimated to be received. Contractual adjustments by third-party payers are treated as a reduction to revenues.

Inventories – Inventories are valued at cost, on a first-in, first-out basis. Donated vaccine inventory consists of vaccines received from the State of Michigan and is stated at fair value as of the date of donation. Vaccine inventory received from the State of Michigan that is on hand at year-end has been reported as unearned revenue. They are reported as expenditures at the time individual inventory items are used.

Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the Department follows the consumption method, and they therefore are capitalized as prepaid items in both government-wide and fund financial statements.

Capital assets – Capital assets are reported in the government-wide financial statements. Capital assets are defined by the Department 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 reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the Department values these capital assets at the estimated fair value of the item at the date of its donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

| | |
|---|---|
| Equipment | 5 - 20 years |
| Leasehold improvements | 10 years |

Deferred outflows of resources – The Department reports deferred outflows of resources as a result of pension and OPEB earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions and experience differences relating to the net pension liability and total OPEB liability are deferred and amortized over the expected remaining services lives of the employees and retirees in the plan. The Department also reported deferred outflows of resources for pension and OPEB contributions made after the measurement date. This amount will reduce net pension liability the total OPEB liability in the following year.

Due to others – The Department serves as the fiduciary on monies that are to be used for specific purposes. For example, other agencies have provided funding for a dental center expansion. Until all of the funds are raised and the project begins, these funds could possibly be paid back to the other agencies.

Unearned revenue – The governmental fund reports unearned revenue in connection with resources that have been received but not yet earned. The Department records unearned revenue in connection with the inventory previously discussed.

Compensated absences – It is the Department's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Leave time is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Pensions – For purposes 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 positon 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 to 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.

Other post-employment benefits (OPEB) – For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the Department that is applicable to a future reporting period. For the governmental fund this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. The Department reports deferred inflows of resources as a result of pension and OPEB earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions and experience differences relating to the net pension liability and total OPEB liability are deferred and amortized over the expected remaining services lives of the employees and retirees in the plan.

Fund Equity – In the fund financial statements fund balance is reported in the following categories:

Non-spendable – assets that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts constrained on use imposed by the Department's highest level of decision-making, its Board of Public Health. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Public Health.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Public Health, the budget or finance committee, or delegated official. The Board of Public Health has not anyone the authority to assign funds.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

The following amounts have been committed for the general operating fund:

| | | |
|---|---|---|
| Behavioral Risk Factor Survey (BRFS) | $ | 11,522 |
| Equipment | | 489,494 |
| Facility development | | 124,580 |
| Health insurance | | 160,000 |
| Retirement | | 608,830 |
| Self-insurance bonds | | 13,950 |
| Training | | 35,000 |
| Unemployment | | 55,000 |
| Vacation and sick leave | | 285,989 |
| | $ | 1,784,365 |

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Department's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the Department's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

**Use of Estimates**
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, deferred inflows and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Adoption of New Accounting Standards**
Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

**Upcoming Accounting and Reporting Changes**
Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending September 30, 2019.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending September 30, 2020.

Statement No. 87, *Leases* increases the usefulness of the financial statements by requiring 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. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities. The requirements of this Statement are effective for the fiscal year ending September 30, 2021.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities should be included when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending September 30, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending September 30, 2021.

The Department is evaluating the impact that the above GASBs will have on its financial reporting.

## Note 2 - Budget Accountability

### Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Operating Fund. All annual appropriations lapse at fiscal year end. Any revisions that alter the total expenditures of an activity must be approved by the Board of Public Health.

**Note 3 - Cash**

At year end deposits were reported in the financial statements in the following categories:

| | Cash and Cash Equivalents | Cash on Deposit with Fiscal Agent | Total |
|---|---|---|---|
| Governmental activities | $ 58,516 | $ 2,513,409 | $ 2,571,925 |

The breakdown between deposits and investments is as follows:

| | |
|---|---|
| Bank deposits (checking and savings accounts) | $ 57,526 |
| Cash on deposit with fiscal agent | 2,513,409 |
| Petty cash and cash on hand | 990 |
| | $ 2,571,925 |

*Interest rate risk* – The Department does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates.

*Credit risk* – State statutes and the Department's investment policy authorize the Department to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Department is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; 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 any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

*Concentration of credit risk* – The government has no policy that would limit the amount that may be issued in any one issuer.

*Custodial credit risk – deposits* – In the case of deposits, this is the risk that in the event of bank failure, the Department's deposits may not be returned to it. The Department does not have a policy for custodial credit risk. As of year end, the bank deposits were not exposed to custodial credit risk. The cash on deposit with Montcalm County is part of the County pooled cash and investments. As a result, the insured and uninsured amounts related to these funds cannot be determined.

## Note 4 - Long-term Contracts Receivable

The Department entered into agreements on June 1, 2009 and February 1, 2011 with Michigan Community Dental Clinics, Inc. (MCDC) to lease office space and equipment and turnover the Department's dental services to MCDC. In return, MCDC is paying the Department a sum of money ($561,600 and $346,957) over a period of 10 years. The amounts attributable to these long-term contracts receivable have been recorded at the fund level as contracts receivable and deferred inflows of resources. The following is a summary of future annual revenue from MCDC for the agreements:

| Year Ending September 30, | Equipment Lease | Office Lease | Equipment Lease | Office Lease | Total |
|---|---|---|---|---|---|
| 2019 | $ 24,000 | $ 29,160 | $ 12,000 | $ 23,600 | $ 88,760 |
| 2020 | 4,000 | 4,860 | 12,000 | 23,600 | 44,460 |
| 2021 | - | - | 12,000 | 23,600 | 35,600 |
| 2022 | - | - | 5,000 | 9,833 | 14,833 |
| | $ 28,000 | $ 34,020 | $ 41,000 | $ 80,633 | $ 183,653 |

## Note 5 - Capital Assets

Capital assets activity for the current year is as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Governmental activities** | | | | |
| Capital assets being depreciated | | | | |
| Equipment | $ 1,072,296 | $ - | $ - | $ 1,072,296 |
| Leasehold improvements | 208,496 | - | - | 208,496 |
| Total capital assets being depreciated | 1,280,792 | - | - | 1,280,792 |
| Less accumulated depreciation for | | | | |
| Equipment | 688,048 | 76,442 | - | 764,490 |
| Leasehold improvements | 163,046 | 20,606 | - | 183,652 |
| Total accumulated depreciation | 851,094 | 97,048 | - | 948,142 |
| Net capital assets being depreciated | 429,698 | (97,048) | - | 332,650 |
| Governmental activities capital assets, net | $ 429,698 | $ (97,048) | $ - | $ 332,650 |

Depreciation expense was charged to programs of the primary government as follows:

| | |
|---|---|
| **Governmental activities** | |
| Community health and education | $ 57,876 |
| Environmental health | 9,023 |
| Administration | 30,149 |
| Total governmental activities | $ 97,048 |

## Note 6 - Leases

### Operating Leases

On June 2, 2011, the Department entered into a lease agreement with Clinton County to lease office space located in St. Johns, Michigan. The effective date of the new lease is October 1, 2011, until September 30, 2021. Total costs for this lease were $20,100 for the year ended September 30, 2018. Michigan Community Dental Clinics, Inc. (MCDC) is a sub-lessee of the office space. MCDC pays the Department monthly, then the Department pays Clinton County. The future minimum lease payments for this lease are as follows:

| Year Ending September 30, | |
|---|---|
| 2019 | $ 20,100 |
| 2020 | 20,100 |
| 2021 | 20,100 |
| | $ 60,300 |

The Department has entered into a twenty-year, noncancelable long-term lease with NHF Sub Montcalm, a nonprofit organization, for the Montcalm branch office space. Rent expense for the year ended September 30, 2018 amounted to $80,076. During the fiscal year ending September 30, 2017, the Department paid all future minimum lease payments for this lease. Those payments were recorded as prepaid expenditures at September 30, 2017 and will be expensed as follows:

| Year Ending September 30, | |
|---|---|
| 2019 | $ 13,342 |

## Note 7 - Long-Term Debt

Long-term obligations include compensated absences. Compensated absences are liquidated with funds from the general operating fund. Compensated absences are a liability to the Department which are split between current and noncurrent liabilities within the government-wide financial statements based on an estimate of when they will be due and payable. Payments to employees for compensated absences are recorded as expenditures when they are used and payments are actually made to the employees at the fund level.

Long-term obligation activity is summarized as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| **Governmental activities** | | | | | |
| Compensated absences | $ 285,988 | $ 367,531 | $ 362,878 | $ 290,641 | $ 290,641 |

## Note 8 - Risk Management

The Department is a voluntary member of the Michigan Municipal Risk Management Authority which is organized under Public Act 138 of 1982, as amended as a governmental group self-insurance pool. Public Act 138 authorizes local units of government to exercise jointly any power, privilege, or authority which each might exercise separately. The Authority administers a risk management fund providing the Department with loss protection for general liability, property damage, and losses due to crime. Settled claims relating to the insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Department also carries commercial insurance for the risk of loss due to workers' compensation and healthcare professional liability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

## Note 9 - Employee Retirement and Benefit Systems

### Defined benefit pension plan

Plan description – The Department participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer, statewide public employee defined benefit pension plan that covers all employees of the government. The plan was established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917 or on the web at http://www.mersofmich.com.

Benefits provided – Benefits provided include plans with multipliers ranging from 2.00% to 2.25%. Vesting periods range from 6 to 10 years. Normal retirement age is 60 with early retirement at 50 with 25 years of service or 55 with 15 years of service. Final average compensation is calculated based on 5 years. Member contributions range from 2.58% to 3.00%.

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

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 52 |
| Inactive employees entitled to, but not yet receiving benefits | 39 |
| Active employees | 73 |
| | 164 |

Contributions – The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by 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. Employer contributions range from 7.94% to 25.31% based on annual payroll for open divisions. There were no divisions closed to new hires as of December 31, 2017.

Net pension liability – The employer's net pension liability 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 as of that date.

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 include: 1) Inflation 2.5%; 2) Salary increases 3.75% in the long-term; 3) Investment rate of return of 7.75%, net of investment expense, including inflation.

Although no specific price inflation assumptions are needed for the valuation, the 3.75% long-term wage inflation assumption would be consistent with a price inflation of 2.5%.

Mortality rates used were based on the 2014 Group Annuity Mortality Table of a 50% male and 50% female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study.

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 or arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset class | Target Allocation | Long-term expected real rate of return |
|---|---|---|
| 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 8.0%. 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 plans fiduciary net positon 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.

**Changes in Net Pension Liability**

| | |
|---|---|
| **Total Pension Liability** | |
| Service cost | $ 269,282 |
| Interest on the total pension liability | 872,780 |
| Experience differences | (252,527) |
| Other changes | 1 |
| Benefit payments and refunds | (496,671) |
| Net change in total pension liability | 392,865 |
| Total pension liability - beginning | 11,023,442 |
| Total pension liability - ending (a) | $ 11,416,307 |
| **Plan Fiduciary Net Position** | |
| Employer contributions | $ 281,778 |
| Employee contributions | 94,936 |
| Pension plan net investment income | 1,115,288 |
| Benefit payments and refunds | (496,671) |
| Pension plan administrative expense | (17,650) |
| Net change in plan fiduciary net position | 977,681 |
| Plan fiduciary net position - beginning | 8,425,497 |
| Plan fiduciary net position - ending (b) | $ 9,403,178 |
| Net pension liability (a-b) | $ 2,013,129 |
| Plan fiduciary net position as a percentage of total pension liability | 82.37% |
| Covered employee payroll | $ 3,148,825 |
| Net pension liability as a percentage of covered employee payroll | 63.93% |

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 8.0%, as well as what the employer's net pension liability would be using a discount rate that is 1% point lower (7%) or 1% higher (9%) than the current rate.

| | 1% decrease | Current discount rate | 1% increase |
|---|---|---|---|
| Total pension liability | $ 12,840,008 | $ 11,416,307 | $ 10,220,557 |
| Fiduciary net position | 9,403,178 | 9,403,178 | 9,403,178 |
| Net pension liability | $ 3,436,830 | $ 2,013,129 | $ 817,379 |

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions – For the year ended September 30, 2018 the employer recognized pension expense of $468,949. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

| | Deferred outflows of resources | Deferred inflows of resources | Amount to Amortize |
|---|---|---|---|
| Differences in experience | $ 17,776 | $ (264,994) | $ (247,218) |
| Differences in assumptions | 199,373 | - | 199,373 |
| Net difference between projected and actual earnings on plan investments | - | (188,755) | (188,755) |
| Contributions subsequent to the measurement date* | 298,641 | - | - |
| Total | $ 515,790 | $ (453,749) | $ (236,600) |

*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 2019.

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

| Year ended, | |
|---|---|
| 2019 | $ 72,707 |
| 2020 | 44,347 |
| 2021 | (213,798) |
| 2022 | (139,856) |
| | $ (236,600) |

**Note 10 - Other Post-employment Benefits**

Plan description – The Department provides other post-employment benefits (OPEB) to non-union employees who retire at the minimum age of 60 and have at least 20 or more years of continuous service with the Department. The Board of Public Health is responsible for oversight of this Plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits provided – The Department will pay the annual amount equal to the single maximum hard cap under State of Michigan PA 152. Dependents are not eligible for any employer paid insurance and if coverage is elected for dependents, it will be 100% employee paid. Employees who do not meet the above stated criteria will not receive employer paid benefits upon retirement. Coverage ends at the earlier of a retiree attainment of age 65 or death.

Employees covered by benefit terms – At September 30, 2018, the plan membership consisted of the following:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 1 |
| Active employees | 10 |
| | 11 |

The plan is closed to new employees.

Total OPEB liability – The total OPEB liability of $173,530 was measured as of September 30, 2018 and was determined by an actuarial valuation as of September 30, 2017.

Actuarial assumptions – The total OPEB liability was determined by an actuarial valuation as of September 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement.

| | |
|---|---|
| Inflation | Implicit in expected payroll increases |
| Healthcare cost trend rates | Not applicable |
| Salary increases | 3.50% |
| Investment rate of return | Not applicable, plan is not pre-funded |

Mortality rates were based on the RP-2014 adjusted to the 2006 total data set, headcount weighted with MP-2018 improvement.

Discount Rate – The discount rate used to measure the total OPEB liability was 3.00%. 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. The discount rate used for September 30, 2017 was 3.16%.

**Changes in Net OPEB Liability**

| | |
|---|---|
| **Total OPEB Liability** | |
| Service cost | $ 11,933 |
| Interest on the total OPEB liability | 5,919 |
| Experience differences | (6,768) |
| Changes in actuarial assumptions | (12,933) |
| Net change in total OPEB liability | (1,849) |
| Total OPEB liability - beginning | 175,379 |
| Total OPEB liability - ending (a) | $ 173,530 |

Sensitivity of the total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of the Department, as well as what the Department’s total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.0%) or 1% higher (4.0%) than the current discount rate.

| | 1% decrease | Current discount rate | 1% increase |
|---|---|---|---|
| Total OPEB liability | $ 185,294 | $ 173,530 | $ 162,233 |

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates – The following presents the total OPEB liability of the Department, as well as what the Department's total OPEB liability would be if were calculated using healthcare cost trend rates that are 1% lower or 1% higher than the current healthcare cost trend rates:

| | 1% decrease | Current discount rate | 1% increase |
|---|---|---|---|
| Total OPEB liability | $ 153,330 | $ 173,530 | $ 197,006 |

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB – For the year ended September 30, 2018 the employer recognized OPEB expense of $16,416. The employer reported deferred inflows of resources related to OPEB from the following sources:

| | Deferred inflows of resources |
|---|---|
| Differences in experience | $ (6,275) |
| Differences in assumptions | (11,990) |
| Total | $ (18,265) |

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

| Year ended September 30, | |
|---|---|
| 2019 | $ (1,436) |
| 2020 | (1,436) |
| 2021 | (1,436) |
| 2022 | (1,436) |
| 2023 | (1,436) |
| Thereafter | (11,085) |
| | $ (18,265) |

**Note 11 - Deferred Compensation Plan**

The Department offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to substantially all Department employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plans are administered through MetLife Resources, Royal Alliance, and Primary Shareholders Services.

Legislative changes made to 457 plans mandated that no later than January 1, 1999, all existing 457 plan assets must be held in a custodial account, trust, annuity contract for benefit of participants and their beneficiaries.

Once a trust, custodial account, or annuity contract exists, assets are owned or held by the trust, custodian, or insurer for the exclusive benefit of participants and beneficiary, and are not subject to the claims of public employees creditors nor can they be used by the public employee for any purpose other than the payment of benefits to these individuals participating in the plan or their designated beneficiaries. As of September 30, 1999, the Department had implemented changes to be in compliance with these requirements. As a result, the plan assets are not reported in the audited financial statements by the Department because the legislation

eliminated the requirements that Section 457 plan assets legally remain the assets of the sponsoring government.

The Department also offers its employees a tax sheltered annuity plan created in accordance with Internal Revenue Code Section 403(b). The plan, available to substantially all Department employees, permits them to make pre-tax contributions into various investment options. The Department has obtained non-profit exemption status under Internal Revenue Code Section 501(c)(3) thus allowing them to create the 403(b) plan. The plan is administered through MetLife Resources.

**Note 12 - Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Department expects such amounts, if any, to be immaterial.

**Note 13 - Subsequent Event**

Subsequent to year end, the Department remitted a $500,000 payment in excess of the annually determined contribution amount to MERS to reduce the Department's net pension liability.

# Mid-Michigan District Health Department
## Required Supplementary Information
## Budgetary Comparison Schedule
## General Operating Fund
## For the Year Ended September 30, 2018

| | Budgeted Amounts | | | Actual Over (Under) Final |
|---|---|---|---|---|
| | Original | Final | Actual | Budget |
| **Revenues** | | | | |
| Licenses and permits | $ 635,378 | $ 705,500 | $ 689,171 | $ (16,329) |
| Intergovernmental | | | | |
| Federal and state | 2,725,206 | 2,980,314 | 2,948,410 | (31,904) |
| Local | | | | |
| Other | 447,280 | 393,000 | 486,450 | 93,450 |
| County | 1,376,048 | 1,329,233 | 1,329,302 | 69 |
| Charges for services | 886,055 | 866,500 | 780,465 | (86,035) |
| Interest income | 5,000 | 27,000 | 27,241 | 241 |
| Other revenue | 105,130 | 75,700 | 15,997 | (59,703) |
| Sale of fixed assets | - | - | 108 | 108 |
| Total revenues | 6,180,097 | 6,377,247 | 6,277,144 | (100,103) |
| **Expenditures** | | | | |
| Health and welfare | | | | |
| Salaries and wages | 3,391,231 | 3,302,565 | 3,261,102 | (41,463) |
| Fringe benefits | 1,312,071 | 1,287,150 | 1,265,311 | (21,839) |
| Supplies and materials | 497,970 | 625,200 | 492,018 | (133,182) |
| Contractual services | 270,000 | 324,000 | 344,407 | 20,407 |
| Communications | 69,450 | 70,000 | 68,177 | (1,823) |
| Travel and training | 165,400 | 187,000 | 182,758 | (4,242) |
| Insurance | 32,000 | 34,000 | 35,303 | 1,303 |
| Building and equipment lease and rentals | 342,150 | 340,232 | 500,854 | 160,622 |
| Printing and advertising | 10,150 | 87,000 | 92,377 | 5,377 |
| Postage | 17,875 | 34,000 | 29,215 | (4,785) |
| Other | 45,800 | 78,100 | 71,487 | (6,613) |
| Total health and welfare | 6,154,097 | 6,369,247 | 6,343,009 | (26,238) |
| Capital outlay | 59,000 | 78,000 | - | (78,000) |
| Total expenditures | 6,213,097 | 6,447,247 | 6,343,009 | (104,238) |
| Net change in fund balance | (33,000) | (70,000) | (65,865) | 4,135 |
| Fund balance - beginning of year | 2,451,940 | 2,451,940 | 2,451,940 | - |
| Fund balance - end of year | $ 2,418,940 | $ 2,381,940 | $ 2,386,075 | $ 4,135 |

# Mid-Michigan District Health Department
## Required Supplementary Information
## Municipal Employees Retirement System of Michigan
## Schedule of Changes in Net Pension Liability and Related Ratios
## September 30, 2018

| Measurement date December 31, | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| **Total Pension Liability** | | | | |
| Service cost | $ 269,282 | $ 281,687 | $ 277,353 | $ 257,983 |
| Interest on the total pension liability | 872,780 | 831,211 | 741,267 | 720,117 |
| Experience differences | (252,527) | (104,954) | 44,440 | - |
| Changes in actuarial assumptions | - | - | 498,434 | - |
| Other changes | 1 | (1) | 23,165 | (1) |
| Benefit payments and refunds | (496,671) | (467,601) | (457,449) | (443,826) |
| Net change in total pension liability | 392,865 | 540,342 | 1,127,210 | 534,273 |
| Total pension liability - beginning | 11,023,442 | 10,483,100 | 9,355,890 | 8,821,617 |
| Total pension liability - ending (a) | $ 11,416,307 | $ 11,023,442 | $ 10,483,100 | $ 9,355,890 |
| **Plan Fiduciary Net Position** | | | | |
| Employer contributions | $ 281,778 | $ 266,008 | $ 252,936 | $ 251,231 |
| Employee contributions | 94,936 | 95,221 | 92,676 | 87,771 |
| Pension plan net investment income (loss) | 1,115,288 | 873,830 | (119,126) | 477,547 |
| Benefit payments and refunds | (496,671) | (467,601) | (457,449) | (443,826) |
| Pension plan administrative expense | (17,650) | (17,243) | (17,344) | (17,561) |
| Net change in plan fiduciary net position | 977,681 | 750,215 | (248,307) | 355,162 |
| Plan fiduciary net position - beginning | 8,425,497 | 7,675,282 | 7,923,589 | 7,568,427 |
| Plan fiduciary net position - ending (b) | $ 9,403,178 | $ 8,425,497 | $ 7,675,282 | $ 7,923,589 |
| Net pension liability (a-b) | $ 2,013,129 | $ 2,597,945 | $ 2,807,818 | $ 1,432,301 |
| Plan fiduciary net position as a percentage of total pension liability | 82.37% | 76.43% | 73.22% | 84.69% |
| Covered employee payroll | $ 3,148,825 | $ 3,273,595 | $ 3,271,621 | $ 3,042,883 |
| Net pension liability as a percentage of covered employee payroll | 63.93% | 79.36% | 85.82% | 47.07% |

*GASB Statement No. 68 was implemented for the fiscal year ended September 30, 2015 and does not require retroactive implementation. Data will be added as information is available until 10 years of such data is available.

# Mid-Michigan District Health Department
## Required Supplementary Information
## Municipal Employees Retirement System of Michigan
### Schedule of Employer Contributions
### September 30, 2018

| Fiscal Year Ending September 30, | Annual Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as a % of Covered Payroll |
|---|---|---|---|---|---|
| 2009 | $ 226,287 | $ 226,287 | $ - | $ 2,853,423 | 7.93% |
| 2010 | 223,631 | 223,631 | - | 2,785,928 | 8.03% |
| 2011 | 204,670 | 204,670 | - | 2,858,466 | 7.16% |
| 2012 | 213,261 | 213,261 | - | 2,735,992 | 7.79% |
| 2013 | 414,440 | 198,313 | 216,127 | 2,904,165 | 6.83% |
| 2014 | 219,406 | 219,406 | - | 2,919,078 | 7.52% |
| 2015 | 251,230 | 251,230 | - | 3,042,883 | 8.26% |
| 2016 | 252,937 | 252,937 | - | 3,271,621 | 7.73% |
| 2017 | 266,008 | 266,008 | - | 3,273,595 | 8.13% |
| 2018 | 281,778 | 281,778 | - | 3,148,825 | 8.95% |

Notes: Actuarially determined contribution amounts are calculated as of December 31 each year, which is 21 months prior to the beginning of the fiscal year in which contributions are reported.

**Methods and assumptions used to determine contribution rates:**

| | |
|---|---|
| Actuarial cost method | Entry age normal cost |
| Amortization method | Level percentage, open |
| Remaining amortization period | 21 |
| Asset valuation method | 5-year smoothed value of assets |
| Inflation | 2.50% |
| Salary increases | 3.75% |
| Investment rate of return | 7.75% |
| Retirement age | 60 |
| Mortality | RP-2014 Healthy Annuitant Mortality Tables - 50% male and 50% female blend<br>RP-2014 Employee Mortality Tables - 50% male and 50% female blend<br>RP-2014 Juvenile Mortality Tables - 50% male and 50% female blend<br>RP-2014 Disabled Retiree Mortality Tables - 50% male and 50% female blend |

# Mid-Michigan District Health Department
## Required Supplementary Information
## Other Post Employment Benefits
## Schedule of Changes in Total OPEB Liability and Related Ratios
## September 30, 2018

| Fiscal year ended September 30, | | 2018 |
|---|---|---|
| **Total OPEB Liability** | | |
| Service cost | $ | 11,933 |
| Interest on the total OPEB liability | | 5,919 |
| Experience differences | | (6,768) |
| Changes in actuarial assumptions | | (12,933) |
| Net change in total OPEB liability | | (1,849) |
| Total OPEB liability - beginning | | 175,379 |
| Total OPEB liability - ending (a) | $ | 173,530 |
| Plan fiduciary net position as a percentage of total OPEB liability | | - % |
| Covered employee payroll | $ | 572,784 |
| Net OPEB liability as a percentage of covered employee payroll | | 30.30% |

*GASB Statement No. 75 was implemented for the fiscal year ended September 30, 2018 and does not require retroactive implementation. Data will be added as information is available until 10 years of such data is available.

# Mid-Michigan District Health Department
## Required Supplementary Information
## Other Post Employment Benefits
### Schedule of Employer Contributions
### September 30, 2018

| Fiscal Year Ending September 30, | Annual Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as a % of Covered Payroll |
|---|---|---|---|---|---|
| 2018 | $ 27,500 | $ - | $ 27,500 | $ 572,784 | - % |

**Notes to Schedule of Contributions**

| | |
|---|---|
| Valuation Date: | September 30, 2017 |
| Notes: | Actuarially determined contribution amounts are calculated as of September 30 each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reported. |

**Methods and assumptions used to determine contribution rates:**

| | |
|---|---|
| Actuarial cost method | Entry age normal (level percentage of compensation) |
| Amortization method | Level dollar |
| Asset valuation method | Not applicable, plan is not pre-funded |
| Inflation | Implicit in expected payroll increases |
| Healthcare cost trend rates | Not applicable |
| Salary increases | 3.50% |
| Investment rate of return | Not applicable, plan is not pre-funded |
| Mortality | RP-2014 adjusted to 2006 total data set, headcount weighted with MP-2018 |