B53101

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

FINANCIAL STATEMENTS AND

FEDERAL SINGLE AUDIT REPORT

MICHIANA AREA COUNCIL OF GOVERNMENTS

ST. JOSEPH COUNTY, INDIANA

July 1, 2017 to June 30, 2018

FILED
07/30/2019

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SCHEDULE OF OFFICIALS

Office	Official	Term
Director	James J. Turnwald	07-01-17 to 06-30-19
Fiscal Accounting Manager	Deborah Gardner	07-01-17 to 06-30-19
President of the Board	Kevin Overmyer	01-01-17 to 12-31-17
	David Wood	01-01-18 to 12-31-18
	Phil Jenkins	01-01-19 to 12-31-19

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE MICHIANA AREA COUNCIL OF GOVERNMENTS, ST. JOSEPH COUNTY, INDIANA

Report on the Financial Statements

We have audited the accompanying financial statements of the Michiana Area Council of Governments (MACOG), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the MACOG'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 MACOG'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 MACOG'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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Unmodified Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the MACOG, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the Proportionate Share of the Net Pension Liability and Schedule of Contributions, as listed 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.

Management has omitted the Management's Discussion and Analysis, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the MACOG's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2019, on our consideration of the MACOG'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 MACOG'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 MACOG's internal control over financial reporting and compliance.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

June 24, 2019

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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 OFFICIALS OF THE MICHIANA AREA COUNCIL OF GOVERNMENTS, ST. JOSEPH COUNTY, INDIANA

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 Michiana Area Council of Governments (MACOG), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the MACOG's basic financial statements and have issued our report thereon dated June 24, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the MACOG'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 MACOG's internal control. Accordingly, we do not express an opinion on the effectiveness of the MACOG'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 MACOG'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.

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*
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MACOG'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 MACOG'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 MACOG's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

June 24, 2019

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BASIC FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

The financial statements and accompanying notes were prepared by management of the MACOG. The financial statements and notes are presented as intended by the MACOG.

MICHIANA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF NET POSITION
June 30, 2018

Assets	
Current assets:	
Cash and cash equivalents	$ 2,866,664
Investments	500,162
Interest receivable	68
Accounts receivable	106,022
Due from federal and state grants	1,137,388
Prepaid items	60,017
Total current assets	4,670,321
Capital assets:	
Capital assets (net of accumulated depreciation)	3,440,090
Total assets	8,110,411
Deferred outflow of resources	
Related to Pensions	40,160
Liabilities	
Current liabilities:	
Accounts payable	633,236
Accrued payroll and withholdings payable	45,543
Compensated absences	10,402
Total current liabilities	689,181
Non-current liabilities	
Net Pension Liablitlity	598,559
Total liabilities	1,287,740
Deferred Inflows of Resources	
Related to Pensions	103,112
Net position	
Invested in capital assets, net of related debt	3,440,090
Unrestricted	3,319,629
Total net position	$ 6,759,719

The notes to the financial statements are an integral part of this statement.

MICHIANA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
As Of And For The Year Ended June 30, 2018

Operating Revenues:	
Federal and state grants	$ 4,099,363
Other local governmental grants	1,091,422
Transit fares	308,814
Other	98,884
Total operating revenues	5,598,483
Operating expenses:	
Salaries and wages	865,809
Employee pensions and benefits	460,427
Contractual services	3,192,617
Legal expense	18,000
Conference training	34,195
Telephone expense	14,813
Materials and supplies	25,988
Maintenance and repairs	6,844
Memberships and subscriptions	5,156
Printing, reproduction, and publication	23,616
Mileage and travel	38,890
Postage expense	1,917
Office rent expense	61,016
Furniture and equipment	480,274
Software and Licenses	135,478
Advertising expense	62,735
Depreciation	551,130
Miscellaneous expenses	33,163
In-kind Service	269,577
Over/under applied fringe benefits and indirect costs	55,612
Total operating expenses	6,337,257
Operating income (loss)	(738,774)
Nonoperating revenues (expenses):	
Interest and investment revenue	8,498
Loss on disposal of assets	(169)
Total nonoperating revenues (expenses)	8,329
Income (loss) before contributions	(730,445)
Capital contributions	-
Change in net position	(730,445)
Total net position - beginning	7,490,164
Total net position - ending	$ 6,759,719

The notes to the financial statements are an integral part of this statement.

MICHIANA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF CASH FLOWS
As Of And For The Year Ended June 30, 2018

Cash flows from operating activities:	
Receipts from customers and users	$ 5,468,706
Payments to suppliers and contractors	(4,296,366)
Payments to employees	(1,321,165)
Other operating expenses	(63,501)
Net cash provided by operating activities	(212,326)
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(33,236)
Cash flows from investing activities:	
Interest received	8,465
Net increase in cash and cash equivalents	(237,097)
Cash and cash equivalents, July 1	3,103,761
Cash and cash equivalents, June 30	$ 2,866,664

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ (738,774)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	551,130
(Increase) decrease in assets:	
Accounts receivable	(47,611)
Due from federal and state grants	(82,167)
Deferred Outflow of Resources	116,859
Prepaid items	(14,858)
Increase (decrease) in liabilities:	
Accounts payable	122,772
Pension Liability	(167,934)
Deferred Inflow of Resources	43,186
Accrued payroll and withholdings payable	4,148
Compensated absence payable	923
Total adjustments	526,448
Net cash provided by operating activities	$ (212,326)
Noncash investing, capital and financing activities:	
Disposal of assets	$ 669,831

The notes to the financial statements are an integral part of this statement.

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Michiana Area Council of Governments (MACOG) was established April 6, 1970, under the authority of the Inter-local Cooperation Act of the State of Indiana. MACOG is governed by a board consisting of members from each participating political subdivision as described in the by-laws. MACOG fosters a cooperative effort in resolving common inter-local problems such as air pollution, land use, transportation, and water resources.

The accompanying financial statements present the activities of the MACOG. There are no significant component units which require inclusion.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

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

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the enterprise funds are grants. Operating expenses for enterprise funds include the cost of sales and services and administrative costs. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Net Position

1. Deposits and Investments

MACOG's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes MACOG to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. Capital Assets

Capital assets, which include machinery and equipment, and transportation equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Machinery and equipment	$ 500	Straight-line	5-20 years
Transportation equipment	500	Straight-line	3-12 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

4. Compensated Absences

a. Sick Leave – MACOG employees earn sick leave at the rate of 8 days per fiscal year. Unused sick leave may be accumulated to a maximum of 90 days. Accumulated sick leave is not paid to employees upon termination.

b. Vacation Leave – MACOG employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Up to 40 hours of unused vacation leave may be carried from the previous years to be used within the first 90 days of the new fiscal year. Unused vacation leave is paid to employees upon termination.

Vacation leave is accrued when incurred.

No liability is reported for sick leave.

II. Detailed Notes on All Funds

A. Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At June 30, 2018, the bank balances held in financial institutions were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Machinery and equipment	$ 2,329,176	$ 33,236	$ 247,329	$ 2,115,083
Transportation equipment	5,593,933	-	422,502	5,171,431
Totals	7,923,109	33,236	669,831	7,286,514
Less accumulated depreciation for:				
Machinery and equipment	2,081,336	87,436	247,160	1,921,612
Transportation equipment	1,883,620	463,694	422,502	1,924,812
Totals	3,964,956	551,130	669,662	3,846,424
Total capital assets, net	$ 3,958,153	$ (517,894)	$ 169	$ 3,440,090

III. Other Information

A. Risk Management

MACOG is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Pension Plan

Cost-Sharing Multiple-Employer Defined Benefit Pension Plan -
Public Employees' Retirement Fund

Plan Description

The Public Employees' Retirement Fund (PERF) as part of the implementation of GASB Statement No. 67 changed from an agent to a cost-sharing, multiple-employer defined benefit plan effective July 1, 2013 based on 35 IAC 21-1-1, 35 IAC 21-1-2 and amended IC 5-10.2-2-11(b). PERF was established to provide retirement, disability, and survivor benefits to full-time employees of the State of Indiana not covered by another plan, those political subdivisions that elect to participate in the retirement plan, and certain INPRS employees. Political subdivisions mean a county, city, town, township, political body corporate, public school corporation, public library, public utility of a county, city, town, township, and any department of, or associated with, a county, city, town, or township, which department receives revenue independently of, or in addition to, funds obtained from taxation. There are two (2) tiers to the PERF Plan. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid Plan) and the second is the Public Employees' Annuity Savings Account Only Plan (PERF ASA Only Plan). MACOG participates in the PERF Hybrid Plan. Details of the plan are shown below.

PERF Hybrid Plan

Plan Description

The PERF Hybrid Plan was established by the Indiana Legislature in 1945 and is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 5-10.2, IC 5-10.3, and IC 5-10.5. There are two (2) aspects to the PERF Hybrid Plan defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the PERF Hybrid Plan benefit structure is the annuity savings account (ASA) that supplements the defined benefit at retirement.

Contributions

The State of Indiana is obligated by statute to make contributions to the PERF Hybrid Plan or the PERF ASA Only Plan. Any political subdivision that elects to participate in the PERF Hybrid Plan is obligated by statute to make contributions to the plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As PERF is a cost-sharing plan, all risks and costs, including benefit costs, are shared proportionately by the participating employers. During fiscal year 2015, all participating employers were required to contribute 11.2 percent of covered payroll for members employed by the State. For political subdivisions, an average contribution rate of 9.7 percent was required from employers during the period of July 1 – December 31, 2013, and an average contribution rate of 11.0 percent was required for the period of January 1 – June 30, 2014. From June 30, 2014 – December 31, 2018 the rate required by employers is 11.2% of covered payroll.

The MACOG's contributions to PERF for the years ending June 30, 2016, 2017, and 2018 were $94,885, $95,477 and $100,689 respectively, and were equal to the annual required contribution.

The PERF Hybrid Plan members contribute three (3) percent of covered payroll to their annuity savings account, which is not used to fund the defined benefit pension for the PERF Hybrid Plan. For the PERF Hybrid Plan, the employer may elect to make the contributions on behalf of the member. In addition, members of the PERF Hybrid Plan may elect to make additional voluntary contributions.

Retirement Benefits – Defined Benefit Pension

The PERF Hybrid Plan retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's annuity savings account. Pension benefits (non ASA) vest after 10 years of creditable service. The vesting period is eight (8) years for certain elected officials. Members are immediately vested in their annuity savings account. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's annuity savings account, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested PERF members leaving a covered position, who wait 30 days after termination, may withdraw their annuity savings account and will not forfeit creditable service or a full retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the annuity savings account. A non-vested member who terminates employment prior to retirement may withdraw his/her annuity savings account after 30 days, but by doing so, forfeits his/her creditable service. A member who returns to covered service and works no less than six (6) months in a covered position may reclaim his/her forfeited creditable service.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the highest 20 calendar quarters of salary in a covered position. All 20 calendar quarters do not need to be continuous, but they must be in groups of four (4) consecutive calendar quarters. The same calendar quarter may not be included in two (2) different groups. For PERF members who serve as an elected official, the highest one (1) year (total of four (4) consecutive quarters) of annual compensation is used. Member contributions paid by the employer on behalf of the member and severance pay up to $2,000 are included as part of the member's annual compensation.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five (5) percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. In lieu of COLA members in pay were provided a 13th check on October 1, 2017 and October 1, 2018. It is assumed that a 13th check will continue for the 2020 and 2021 fiscal years. Thereafter the following COLA's compounded annual were assumed, .4% beginning on January 1, 2022, .5% beginning on January 1, 2034, and .6% beginning on January 1, 2039.

Disability and Survivor Benefits

The PERF Hybrid Plan also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits may retire for the duration of the disability, if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. The minimum benefit is $180 per month, or the actuarial equivalent.

Upon the death in service of a member with 15 or more years of creditable service as of January 1, 2007, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two (2) or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after January 1, 2007, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

Retirement Benefits – Annuity Savings Account

Members are required to participate in an Annuity Savings Account (ASA). The ASA consists of the member's contributions, set by statute at three (3) percent of compensation as defined by IC 5-10.2-3-2 for PERF, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, under certain conditions, members may elect to make additional voluntary contributions of up to 10 percent of their compensation into their annuity savings accounts. A member's contributions and interest credits belong to the member and do not belong to the State or political subdivision.

Investments in the members' annuity savings accounts are individually directed and controlled by plan participants who direct the investment of their account balances among the following eight (8) investment options, with varying degrees of risk and return potential:

Guaranteed Fund – This fund's objective is to provide stability of principal and a competitive interest rate. The interest rate is set by the INPRS Board of Trustees each year and is guaranteed for the fiscal year. Market risk is assumed by the Fund.

Large Cap Equity Index Fund – This fund's objective is to seek investment growth/capital appreciation through passive investment in the stocks of the 500 largest U.S. companies. Market risk is assumed by the member.

Small/Mid Cap Equity Fund – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of small- and mid-sized U.S. companies. Market risk is assumed by the member.

International Equity Fund – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of non-U.S. companies in both developed and emerging markets. Market risk is assumed by the member.

Fixed Income Fund – This fund's objective is to seek total return, consisting of income and capital appreciation. Market risk is assumed by the member.

Inflation-Linked Fixed Income Fund – This fund's objective is to provide investors inflation protection and income consistent with investment in inflation-indexed securities. Principal and interest payments are adjusted in response to changes in inflation. Market risk is assumed by the member.

Target Date Funds – The Funds are designed to seek an appropriate amount of total return, commensurate with risk, given the specific time horizon of each Fund. The Target Date Funds provide participants with a one-stop shop for investing. Participants simply choose the Fund most appropriate for them based on the year in which they plan to withdraw their money (usually their retirement year). Once a participant selects the appropriate Fund, the underlying asset allocation automatically adjusts over time. Market risk is assumed by the member.

Money Market Fund – This fund's objective is to provide a market rate of return consistent with the preservation of capital through a shorter maturity, high quality portfolio. Market risk is assumed by the member.

Members may direct changes to their investment fund allocations daily and investments are reported at fair market value.

Pension plan fiduciary net position.

Detailed information about the pension plan's fiduciary net position is available in the separately issued stand-alone financial report of the Indiana Public Retirement System. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (888) 526-1687, by emailing questions@inprs.in.gov, or by visiting www.in.gov/inprs.

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

At June 30, 2018, the MACOG reported a liability of $598,559 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The MACOG's proportion of the net pension liability was based on a projection of the long-term share of contributions to the pension plan relative to the projected contributions actuarially determined. At June 30, 2018, the MACOG's proportion was .01762 percent, which is an increase of .00044 percent from FY 2017.

For the year ended June 30, 2018, the MACOG recognized pension expense of $92,800. At June 30, 2018, the MACOG reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources
Differences Between expected and actual experience	$7,828.00		$41.00
Net difference between projected and actual earnings on pension plan investments	$17,727.00		$0.00
Change of Assumptions	$1,426.00		$96,107.00
Changes in proportion and differences between employer contributions and proportionate share of contributions	$13,179.00		$6,964.00
Employer contributions subsequent to the Measurement date	$0.00		$0.00
Totals	$40,160.00		$103,112.00

$100,689 reported as deferred outflows of resources related to pensions resulting from MACOG contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

For Year Ended June 30:

2019	$9,137.00
2020	-$21,052.00
2021	-$40,435.00
2022	-$10,602.00
2023	$0.00
Thereafter	$0.00
Total	-$62,952.00

Actuarial assumptions.

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Interest rate / investment return	6.75%
Future salary increases	2.5%-4.25%
Inflation	2.25%

Cost of living increases. In lieu of COLA members in pay were provided a 13th check on October 1, 2017 and October 1, 2018. It is assumed that a 13th check will continue for the 2020 and 2021 fiscal years. Thereafter the following COLA's compounded annual were assumed, .4% beginning on January 1, 2022, .5% beginning on January 1, 2034, and .6% beginning on January 1, 2039.

RP-2014 Mortality Total Data Set Mortality Table with mortality improvement since 2006 using scale MP-2014 removed and projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projection shown in the Social Security Administration's 2014 Trustee report.

The most recent comprehensive experience study was completed in April 2015 and was based on member experience between June 30, 2010 and June 30, 2014. The demographic assumptions were updated as needed for the June 30, 2015 actuarial valuation based on the results of the study. Discount Rate 6.75%.

The discount rate is equal to the expected long-term rate of return on plan investments, net of investment expense and including price inflation. There was no change in the discount rate from the prior measurement date. The INPRS Board of Trustees has established a funding policy of setting the employer contribution rate equal to the greater of 11.2% (the current contribution rate) or a rate equal to the actuarially determined contribution rate, which is based on the assumptions and methods selected by the Board for the annual actuarial valuations and projected covered member payroll. The June 30, 2018 actuarial valuation assumes a long-term rate of return on assets of 6.75%, a 20-year level dollar closed method for amortizing the future layers of unfunded actuarial accrued liability (30 years for amortization layers established prior to June 30, 2016), and a 5-year smoothing method for recognizing investment gains and losses in the actuarial value of assets.

In the past several years, the Board has followed its current funding policy and the State has complied in its contributions to the plan. Therefore, if past practice is continued, the appropriations will be sufficient to fully fund the plan within 20 to 30 years. In the past, deterministic projections have shown the actuarially determined contribution rate to reach a peak of 10.9% which is slightly below the current rate. As a result, it is presumed that the projected plan assets will be sufficient to cover the future benefit payments for current members and a detailed projection of plan assets and cash flows has not been prepared.

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability of each defined benefit pension plan calculated using the discount rate of 6.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%), or one percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
Net Pension Liability	$942,229	$598,559	$311,977

MICHIANA AREA COUNCIL OF GOVERNMENTS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Public Employees Retirement Fund
Last 10 Fiscal Years*

	2018	2017	2016	2015	2014	2013
MACOG's proportion of the net pension liability (asset)	0.01762%	0.01718%	0.01768%	0.01743%	0.01846%	0.01690%
MACOG's proportionate share of the net pension liability (asset)	$ 598,559	$ 766,493	$ 802,397	$ 709,907	$ 485,117	$ 587,838
MACOG's covered-employee payroll	$ 899,003	$ 852,476	$ 847,188	$ 834,899	$ 901,156	$ 811,321
MACOG's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	66.6%	89.9%	94.7%	85.0%	53.8%	71.1%
Plan fiduciary net position as a percentage of the total pension liabilty	78.9%	76.6%	75.3%	77.3%	84.3%	78.8%

*most recent fiscal years will be shown up to 10 years as they are available

MICHIANA AREA COUNCIL OF GOVERNMENTS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
Public Employees Retirement Fund
Last 10 Fiscal Years*

	2018	2017	2016	2015	2014	2013
Contractually required contribution	$ 100,689	$ 95,477	$ 94,885	$ 92,686	$ 92,266	$71,085
Contributions in relation to the contractually required contribution	$ 100,689	$ 95,477	$ 94,885	$ 92,686	$ 92,266	$71,085
Contribution deficiency (excess)			$ -		$ -	
MACOG's covered-employee payroll	$ 899,003	$ 852,476	$ 847,188	$ 834,899	$ 901,156	$811,321
Contributions as a percentage of covered -employee payroll	11.20%	11.20%	11.20%	11.10%	10.24%	8.77%

*most recent fiscal years will be shown up to 10 years as they are available

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SUPPLEMENTAL AUDIT OF

FEDERAL AWARDS

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE MICHIANA AREA COUNCIL OF GOVERNMENTS, ST. JOSEPH COUNTY, INDIANA

Report on Compliance for the Major Federal Program

We have audited the Michiana Area Council of Governments' (MACOG), compliance with the types of compliance requirements described in the *OMB Compliance Supplement,* that could have a direct and material effect on its major federal program for the year ended June 30, 2018. The MACOG's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the MACOG's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the MACOG's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the MACOG's compliance.

Opinion on the Major Federal Program

In our opinion, the MACOG complied in all material respects with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001. Our opinion on the major federal program is not modified with respect to these matters.

The MACOG's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The MACOG's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the MACOG is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the MACOG's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the MACOG's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be a material weakness.

The MACOG's response to the internal control over compliance finding identified in our audit is described in the accompanying Corrective Action Plan. The MACOG's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

June 24, 2019

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

The Schedule of Expenditures of Federal Awards and accompanying notes presented were prepared by management of the MACOG. The schedule and notes are presented as intended by the MACOG.

MICHIANA AREA COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
Department of Commerce					
Economic Development Support for Planning Organizations	Direct				
EDA		11.302	ED17CHI3020011	$ -	$ 37,640
EDA			ED18CH1302012	-	7,305
Total - Economic Development Support for Planning Organizations				-	44,945
Total-Department of Commerce				-	44,945
Department of Transportation					
Federal Transit Cluster					
Federal Transit Formula Grants	Direct				
Transit		20.507	IN-90-x646	-	3,823
Transit			IN-90-x688	-	421,016
Transit			IN-2017-004	-	819,844
Transit			IN-2018-004	-	565,313
Transit			IN-95-x047	-	8,824
Total - Federal Transit Formula Grant				-	1,818,820
Total - Federal Transit Cluster				-	1,818,820
Highway Planning and Construction Cluster					
Highway Planning and Construction	Indiana Department of Transportation				
CMAQ		20.205	17806745	-	62,609
HSIP			17806745	-	71,355
PL			17806745	-	363,324
STP			17806745	-	182,004
STP			18801223		93,692
CMAQ			18801223	-	70,000
PL			18801223	-	578,339
Rural Planning			18803554	-	79,448
Total - Highway Planning and Construction				-	1,500,771
Total - Highway Planning and Construction Cluster				-	1,500,771
Total - Department of Transportation				-	3,319,591
Total federal awards expended				$ -	$ 3,364,536

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

MICHIANA AREA COUNCIL OF GOVERNMENTS
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Michiana Area Council of Governments (primary government) under programs of the federal government for the year ended June 30, 2018. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the primary government, it is not intended to and does not present the financial position of the primary government.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. The District primary government has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

MICHIANA AREA COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:	
Material weakness identified?	no
Significant deficiency identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major program:	
Material weakness identified?	yes
Significant deficiency identified?	none reported
Any audit finding disclosed that are required to be reported in Accordance with 2 CFR 200.516(a)?	yes

Identification of Major Program and type of auditor's report issued on compliance for it:

Name of Federal Program or Cluster	Opinion Issued
Highway Planning and Construction Cluster	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	no

Section II - Financial Statement Findings

No matters are reportable.

Section III - Federal Award Findings and Questioned Costs

FINDING 2018-001

Subject: Highway Planning and Construction Cluster - Suspension and Debarment
Federal Agency: Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Federal Award Numbers and Years (or Other Identifying Numbers): 17806745, 18801223, 18803554
Pass-Through Entity: Indiana Department of Transportation
Compliance Requirement: Procurement and Suspension and Debarment
Audit Findings: Material Weakness, Other Matters

Condition

An effective internal control system was not in place at the Michiana Area Council of Governments (MACOG) in order to ensure compliance with requirements related to the grant agreement and the suspension and debarment requirements.

The MACOG did not have procedures in place to ensure that vendors were not suspended or debarred from participation in federal award programs. The MACOG entered into a $100,000 contract with a vendor but failed to ensure that the vendor was not suspended or debarred before entering into the contract.

Context

The lack of controls was a systemic issue throughout the audit period. The noncompliance was isolated to one contract.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

> (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified.

You do this by:

> (a) Checking the SAM Exclusions; or
>
> (b) Collecting a certification from that person; or
>
> (c) Adding a clause or condition to the covered transaction with that person."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the suspension and debarment requirements.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the suspension and debarment requirements could have resulted in the loss of federal funds to the MACOG.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the MACOG's management establish controls related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

AUDITEE-PREPARED SCHEDULES

The subsequent schedule was provided by management of the MACOG. The schedule is presented as intended by the MACOG.

MACOG
Michiana Area Council of Governments

CORRECTIVE ACTION PLAN

FINDING 2018-001

Contact Person Responsible for Corrective Action: James Turnwald

Contact Phone Number: 574-287-1829

Views of Responsible Official:

Management understands the finding as presented by the State Board of Accounts. Management has taken action to rectify this situation and has identified the policies and procedures that require alteration. The Corrective Action Plan below outlines how changes will be made in order to cure the identified deficiency.

Description of Corrective Action Plan:

1. The MACOG Executive Director will conduct a Procurement Policy training session at a MACOG staff meeting.

2. For contracts/procurements greater than $25,000, the Office & Procurement Manager will ensure that the contract contains appropriate debarment/suspension clauses or complete a debarment/suspension check on SAM.Gov.

3. Prior to approving the contract/procurement, the Office & Procurement Manager will provide the debarment/suspension documentation to the Executive Director for review. The Executive Director will initial a hard copy of the document to indicate that they have completed their review and approved.

Anticipated Completion Date: July 10, 2019

(Signature)

Executive Director

(Title)

June 24, 2019

(Date)

227 W. Jefferson Boulevard, 11th Floor County-City Building, South Bend, IN 46601
Phone: 574.287.1829 or 574.674.8894 • *Fax:* 574.239.4072 • *www.macog.com*

OTHER REPORTS

In addition to this report, other reports may have been issued for the MACOG. All reports can be found on the Indiana State Board of Accounts' website: http://www.in.gov/sboa/.