

**SHIAWASSEE COUNTY ROAD COMMISSION
CORUNNA, MICHIGAN**

**REPORT ON FINANCIAL STATEMENTS
(with required and other
supplementary information)**

YEAR ENDED DECEMBER 31, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of the County Road Commissioners
Shiawassee County
Corunna, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Shiawassee County Road Commission, as of December 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 12 to the financial statements, the Commission implemented GASB Statement No. 84, *Fiduciary Activities*, during the year. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The other supplementary information 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 other supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2020, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Manes Costainan PC

April 30, 2020

SHIAWASSEE COUNTY ROAD COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

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

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and the other supplementary information section - an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Commission's overall financial status. These statements report information about the Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide financial statements report the Commission's net position and how they have changed. "Net Position" is the difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources - this is one way to measure the Commission's financial health.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

REPORTING THE SHIAWASSEE COUNTY ROAD COMMISSION AS A WHOLE

Government-Wide Financial Statements

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

The two statements, mentioned above, report the Commission's net position and how they have changed. The reader can think of the Commission's net position (the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources) as one way to measure the Commission's financial health. Over time, increases or decreases in the Commission's net position are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Commission, additional nonfinancial factors such as changes in the county's property tax base, the condition of the Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

SHIAWASSEE COUNTY ROAD COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Financial Statements

The Commission currently has only one governmental fund, the General Operating Fund. All of the Commission's operating activities are accounted for in this fund. The General Operating Fund is a governmental fund type. The General Operating Fund budget vs. actual schedules are located in the required supplementary information (RSI). The other supplementary information (OSI) begins on page 48 and provides detailed information about the major fund.

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

FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE

The Commission's net position increased \$4,243,855 from \$46,062,312 to \$50,306,167 for the year ended December 31, 2019. The net position and change in net position are summarized below.

Net Position

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

The primary reason for the increase of our net position in 2019 was due to an increase in our current capital assets due to purchases of equipment and an increase in the value of our infrastructure, a decrease in our noncurrent liabilities due to pension and other post-employment benefits liability.

**SHIAWASSEE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Net Position (continued)

Net position for the years ended December 31, 2019 and 2018, is as follows:

	<u>2019</u>	<u>2018</u>
ASSETS		
Current and other assets	\$ 6,197,172	\$ 6,166,486
Capital assets	<u>48,095,151</u>	<u>4,252,441</u>
TOTAL ASSETS	54,292,323	10,418,927
DEFERRED OUTFLOWS OF RESOURCES	2,720,262	1,454,446
LIABILITIES		
Current liabilities	404,803	591,714
Noncurrent liabilities	<u>5,757,846</u>	<u>5,679,084</u>
TOTAL LIABILITIES	6,162,649	6,270,798
DEFERRED INFLOWS OF RESOURCES	<u>498,253</u>	<u>540,263</u>
NET POSITION		
Net investment in capital assets	48,095,151	45,252,441
Restricted	490,452	-
Unrestricted	<u>1,720,564</u>	<u>809,871</u>
TOTAL NET POSITION	<u><u>\$ 50,306,167</u></u>	<u><u>\$ 46,062,312</u></u>

Changes in Net Position

A summary of changes in net position for the years ended December 31, 2019 and 2018 is presented below.

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
REVENUES		
Program Revenues		
Charges for services	\$ 1,396,031	\$ 1,521,438
Operating grants and contributions	6,453,646	7,021,497
Capital grants and contributions	6,204,407	5,676,982
General Revenues		
Interest	51,288	21,425
Other	<u>143,430</u>	<u>63,078</u>
TOTAL REVENUES	14,248,802	14,304,420

**SHIAWASSEE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Changes in Net Position (continued)

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
EXPENSES		
Primary road	\$ 2,326,720	\$ 2,536,507
Local road	1,768,792	2,986,701
State trunkline	1,100,495	991,424
Administrative - net	715,414	972,566
Equipment - net	223,599	1,328,637
Infrastructure depreciation	3,547,979	3,403,276
Loss on disposal of capital assets	321,948	246,513
Other post-employment benefits expense	-	(1,663,360)
	<u>10,004,947</u>	<u>10,802,264</u>
TOTAL EXPENSES		
	<u>\$ 4,243,855</u>	<u>\$ 3,502,156</u>
CHANGE IN NET POSITION		

The General Operating Fund

The Commission's General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes. For the year ended December 31, 2019, the fund balance of the General Operating Fund decreased \$401,263 compared to an increase of \$10,326 in the fund balance for the year ended December 31, 2018. Total operating revenues were \$14,248,802, a decrease of \$55,618 compared to the year ended December 31, 2018. This difference in revenue resulted primarily from a decrease in charges for services revenue of \$129,169 due to a reduction in State Trunkline revenues based upon our milder winter. This is partially offset by an increase in contributions from local units of \$99,019.

Total expenditures were \$14,650,065, an increase of \$355,971 compared to the year ended December 31, 2018. This change in expenditures is primarily due to an increase in our capital outlay expenditure of \$720,303, this increase was mainly due to equipment and infrastructure for roads. The decrease in the local roads of \$670,878 was due to a decrease in Federal and State Aid Bridge projects during 2019, a decrease in administrative expenditures of \$166,414, a decrease in our equipment expenditures of \$167,466, directly related to a decrease in our 2019 fringe benefit rate.

**SHIAWASSEE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The General Operating Fund (continued)

A summary of changes in the fund level financial information of the General Operating Fund is as follows:

	General Operating Fund	
	2019	2018
REVENUES		
Licenses and permits	\$ 49,465	\$ 42,900
Federal grants	784,186	826,282
State grants	9,386,308	9,483,657
Contributions from local units	2,487,559	2,388,540
Charges for services	1,334,475	1,463,644
Interest and rents	63,379	36,319
Other	143,430	63,078
	14,248,802	14,304,420
TOTAL REVENUES		
EXPENDITURES		
Current		
Primary roads	6,284,262	5,764,528
Local roads	5,035,714	5,706,592
State trunkline	1,100,495	991,424
Administrative - net	829,912	996,326
Equipment - net	914,578	1,082,044
Other	39,918	28,297
Capital outlay	445,186	(275,117)
	14,650,065	14,294,094
TOTAL EXPENDITURES		
NET CHANGE IN FUND BALANCE	(401,263)	10,326
FUND BALANCE - BEGINNING	5,352,883	5,342,557
FUND BALANCE - ENDING	\$ 4,951,620	\$ 5,352,883

BUDGETARY HIGHLIGHTS

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

The final amended revenue budget for 2019 was \$1,089,994 more than the original budget. This was due to an increase in MTF funding for 2019. The actual revenue recognized during 2019 was more than the final amended budget by \$335,327 mainly due to increased Motor Vehicle Highway Funds for primary and urban roads.

**SHIAWASSEE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The final amended expenditure budget for 2019 was \$1,848,625 more than the original budget primarily due to additional contributions to the OPEB liability which also resulted in a higher than anticipated fringe benefit rate than originally budgeted. The actual expenditures recognized during 2019 were less than the final amended budget by \$497,071.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2019, the Commission had invested \$48,095,151 in capital assets, net of accumulated depreciation. This amount represents a net increase (including additions, deductions, and reclassifications) of \$2,842,710 as follows:

	2019	2018
Capital assets not being depreciated	\$ 4,341,628	\$ 4,589,993
Capital assets being depreciated		
Buildings	3,416,014	3,327,240
Equipment	10,653,941	9,430,832
Infrastructure	78,120,702	75,867,705
Depletable assets	153,402	153,402
SUBTOTAL	92,344,059	88,779,179
TOTAL COST OF CAPITAL ASSETS	96,685,687	93,369,172
TOTAL ACCUMULATED DEPRECIATION	(48,590,536)	(48,116,731)
TOTAL NET CAPITAL ASSETS	\$ 48,095,151	\$ 45,252,441

This year's capital asset additions included the following:

Infrastructure - land improvements	\$ 49,637
Buildings	88,774
Equipment	
Roads	1,485,456
Shop	4,104
Office	16,715
Engineer	2,840
Infrastructure	
Roads	6,152,756
Bridges	51,651
Traffic signals	5,185
TOTAL	\$ 7,857,118

More detailed information about the Commission's capital assets is presented in Note 3 to the financial statements.

SHIAWASSEE COUNTY ROAD COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

Debt

As of December 31, 2019, the Commission had no outstanding loans.

Debt obligations include accrued compensated absences related to vacation pay and sick leave and related payroll taxes in the amount of \$295,239 as of December 31, 2019. More detailed information about the Commission's long-term liabilities is presented in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board of County Road Commissioners considered many factors when setting the fiscal year 2020 budget. One of the factors is the economy. The increase in road funding has been a good start to assisting us in addressing our primary roadways. In 2017, we developed a four-year plan to improve our infrastructure based upon the projected increase in our MTF revenues. This four-year plan is to scratch course/chip seal just under 100 miles of roadway across all Townships in our county during the next four years, which began in 2018. Since that time, we have increased this to an eight (8) year plan. Thus far, during 2018, there were two projects included in our four-year plan, Juddville Road (22.34 miles), a scratch course/chip seal project at an expenditure of \$1,585,389 and Bennington Road (9.33 miles) also a scratch course/chip seal project that was a total expenditure of \$694,371. In 2019, we completed a scratch course chip seal on Britton Road from Woodbury Road to the Antrim Township line (8.36 miles) at a budgeted cost of \$697,348, Bennington Road from Morrice Road to the Vernon Village limits (7.71) at a cost of \$745,383 and Newburg Road from Bancroft Road to the west Durand City Limits (3.77 miles) and then the east Durand City Limits to the County Line (2.54 miles) at a budgeted cost of \$676,069. Our 2020 budget includes a total of 24.2 miles of scratch course/chip seal projects with an estimated total cost of \$2,012,388. They are as follows: Britton Road from the Perry Township line to Grand River road with a total of 6.69 miles and an estimated cost of \$546,930; Grand River Road from Cole Road to Reed Road with a total of 3.31 miles and an estimated cost of \$45,963; Bath Road from Reed Road to the Byron Village Limits with a total of 2.85 miles and an estimated cost of \$231,608; Warren Road from M-21 to Hibbard Road with a total of 3.03 miles and an estimated cost of \$242,697; Baldwin Road from M-21 to Hibbard Road with a total of 3.03 miles and an estimated cost of \$260,384; Priest Road from M-21 to Mason Road with a total of 1.5 miles and an estimated cost of \$126,621; Ruess Road from Priest Road to Wilkinson Road with a total of 1.07 miles and an estimated cost of \$91,153; lastly, Chipman Road from Mason Road to Cronk Road with a total of 2.2 miles and an estimated cost of \$190,219.

The Commission derives approximately 63.2% of its revenues from the Michigan Transportation Fund (MTF) fuel tax collected. Using Michigan Department of Transportation projections when the 2020 budget was approved last December, it was estimated that the Commission would receive \$9,454,274 which is a 4.7% increase (\$446,560) to MTF revenues in 2019. With the current pandemic, this amount will most likely decrease and be amended during 2020. The Commission received approximately 17.4% of its revenues from township contributions during 2019. This amount fluctuates with the approved road projects and depends the Townships budget and the projects that are approved by their boards annually. We are projected to receive \$735,400 in federal and state aid for road projects. The above items were all considered when adopting the budget for 2020. Amounts available for appropriation in the original 2020 budget are \$14,964,674, a decrease of \$182,462 from the 2019 final amended budget of \$15,147,136.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the motoring public, citizens, and other interested parties a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Commission's administrative offices at 701 W. Corunna Avenue, Corunna, Michigan 48817.

BASIC FINANCIAL STATEMENTS

**SHIAWASSEE COUNTY ROAD COMMISSION
STATEMENT OF NET POSITION
DECEMBER 31, 2019**

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 1,342,178
Investments	2,033,214
Accounts receivable	41,018
Due from other governmental units	
Federal/State	1,586,110
Local	13,174
Inventory	<u>645,510</u>
Total current assets	5,661,204
Noncurrent assets	
Capital assets not being depreciated	4,341,628
Capital assets, net of accumulated depreciation	43,753,523
Net other post-employment benefits asset	<u>535,968</u>
Total noncurrent assets	<u>48,631,119</u>
TOTAL ASSETS	54,292,323
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	2,720,262
LIABILITIES	
Current liabilities	
Accounts payable	84,269
Accrued liabilities	91,663
Due to other governmental units	15,873
Current portion of compensated absences	<u>212,998</u>
Total current liabilities	404,803
Noncurrent liabilities	
Noncurrent portion of compensated absences	82,241
Advances from other governmental units	417,779
Net pension liability	5,157,826
Deposit liability	<u>100,000</u>
Total noncurrent liabilities	<u>5,757,846</u>
TOTAL LIABILITIES	6,162,649
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	498,253
Deferred inflows of resources related to OPEB	<u>45,516</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>543,769</u>
NET POSITION	
Net investment in capital assets	48,095,151
Restricted for other post-employment benefits	490,452
Unrestricted	<u>1,720,564</u>
TOTAL NET POSITION	<u>\$ 50,306,167</u>

See accompanying notes to financial statements.

**SHIAWASSEE COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

	<u>Governmental Activities</u>
PROGRAM EXPENSES	
Primary road	\$ 2,326,720
Local road	1,768,792
State trunkline	1,100,495
Administrative - net	715,414
Equipment - net	223,599
Infrastructure depreciation	3,547,979
Loss on disposal of capital assets	<u>321,948</u>
TOTAL PROGRAM EXPENSES	10,004,947
PROGRAM REVENUES	
Charges for services	1,396,031
Operating grants and contributions	6,453,646
Capital grants and contributions	<u>6,204,407</u>
TOTAL PROGRAM REVENUES	<u>14,054,084</u>
NET PROGRAM REVENUES	4,049,137
GENERAL REVENUES	
Interest	51,288
Other	<u>143,430</u>
TOTAL GENERAL REVENUES	<u>194,718</u>
CHANGE IN NET POSITION	4,243,855
Net position, beginning of the year	<u>46,062,312</u>
Net position, end of the year	<u><u>\$ 50,306,167</u></u>

See accompanying notes to financial statements.

**SHIAWASSEE COUNTY ROAD COMMISSION
GOVERNMENTAL FUND
BALANCE SHEET
DECEMBER 31, 2019**

	<u>General Operating Fund</u>
ASSETS	
Cash	\$ 1,342,178
Investments	2,033,214
Accounts receivable	41,018
Due from other governmental units	
Federal/State	1,586,110
Local	13,174
Inventory	<u>645,510</u>
 TOTAL ASSETS	 <u><u>\$ 5,661,204</u></u>
LIABILITIES	
Accounts payable	\$ 84,269
Accrued liabilities	91,663
Due to other governmental units	115,873
Advances from other governmental units	<u>417,779</u>
 TOTAL LIABILITIES	 709,584
FUND BALANCE	
Nonspendable	
Inventory	645,510
Unassigned	<u>4,306,110</u>
 TOTAL FUND BALANCE	 <u>4,951,620</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 5,661,204</u></u>

See accompanying notes to financial statements.

**SHIAWASSEE COUNTY ROAD COMMISSION
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2019**

Total fund balance - governmental fund \$ 4,951,620

Amounts reported for the governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 96,685,687	
Accumulated depreciation is	<u>(48,590,536)</u>	
Capital assets, net		48,095,151

Governmental funds report actual pension/OPEB expenditures for the fiscal year, whereas the governmental activities will recognize the net pension/OPEB liability/asset as of the measurement date. Pension contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual pension/OPEB plan investment earnings will be deferred over time in the government-wide financial statements. These amounts consist of:

Deferred outflows of resources related to pensions	2,720,262	
Deferred inflows of resources related to pensions	(498,253)	
Deferred inflows of resources related to OPEB	<u>(45,516)</u>	
		2,176,493

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Fund Balance Sheet. Long-term liabilities at year-end consist of:

Compensated absences	(295,239)	
Net pension liability	(5,157,826)	
Net other post-employment benefits asset	<u>535,968</u>	
		<u>(4,917,097)</u>

Net position of governmental activities \$ 50,306,167

**SHIAWASSEE COUNTY ROAD COMMISSION
GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2019**

	<u>General Operating Fund</u>
REVENUES	
Licenses and permits	\$ 49,465
Intergovernmental	12,658,053
Charges for services	1,334,475
Interest and rents	63,379
Other	<u>143,430</u>
TOTAL REVENUES	14,248,802
EXPENDITURES	
Current	
Primary road	6,284,262
Local road	5,035,714
State trunkline	1,100,495
Administrative - net	829,912
Equipment - net	914,578
Other	39,918
Capital outlay - net	<u>445,186</u>
TOTAL EXPENDITURES	<u>14,650,065</u>
NET CHANGE IN FUND BALANCE	(401,263)
Fund balance, beginning of year	<u>5,352,883</u>
Fund balance, end of year	<u><u>\$ 4,951,620</u></u>

See accompanying notes to financial statements.

**SHIAWASSEE COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

Net change in fund balance - governmental fund \$ (401,263)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 7,857,118	
Equipment and administrative depreciation expense	(1,144,482)	
Infrastructure depreciation expense	<u>(3,547,979)</u>	
Excess of capital outlay over depreciation expense		3,164,657

In the statement of activities, only the gain or loss on the sale of the capital assets is reported, whereas in the governmental fund, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of capital assets sold. (321,947)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues or expenditures in the governmental fund. These activities consist of:

Increase in deferred outflows of resources related to pensions	1,359,345	
Decrease in deferred inflows of resources related to pensions	42,010	
(Increase) in deferred outflows of resources related to OPEB	(93,529)	
(Increase) in deferred inflows of resources related to OPEB	(45,516)	
(Increase) in compensated absences	(25,658)	
(Increase) in net pension liability	(724,401)	
Increase in net other post-employment benefits asset	<u>1,290,157</u>	
		<u>1,802,408</u>

Change in net position of governmental activities \$ 4,243,855

**SHIAWASSEE COUNTY ROAD COMMISSION
FIDUCIARY FUND
STATEMENT OF NET POSITION
DECEMBER 31, 2019**

	<u>Retiree Health Care Trust</u>
ASSETS	
Current assets	
Investments	\$ 2,458,940
LIABILITIES	
Current liabilities	<u>-</u>
NET POSITION	
Restricted for retiree health care benefits	<u><u>\$ 2,458,940</u></u>

See accompanying notes to financial statements.

**SHIAWASSEE COUNTY ROAD COMMISSION
FIDUCIARY FUND
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

	<u>Retiree Health Care Trust</u>
ADDITIONS	
Contributions Employer	\$ 1,044,011
Investment earnings Net change in fair value of investments	<u>264,628</u>
TOTAL ADDITIONS	1,308,639
DEDUCTIONS	
Benefit payments	219,011
Administrative expenses	<u>3,972</u>
TOTAL DEDUCTIONS	<u>222,983</u>
CHANGE IN NET POSITION	1,085,656
NET POSITION RESTRICTED FOR RETIREE HEALTH CARE BENEFITS	
Restated net position, beginning of year	<u>1,373,284</u>
Net position, end of year	<u><u>\$ 2,458,940</u></u>

See accompanying notes to financial statements.

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Shiawassee County Road Commission (the "Commission") is a component unit of Shiawassee County, Michigan. The Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, and contributions from other local units of government for work performed for road projects throughout the county.

The Commission, which is established pursuant to the County Road Law (MCL 224.1), operates under an elected Board of three County Road Commissioners who establish policies and review operations of the Commission. The Commission provides services to 16 Townships in Shiawassee County and maintains over 1,094 miles of local and primary roads.

The financial statements of the Commission have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Commission's more significant accounting principles are described below.

Reporting Entity

The Commission is required by Public Act 51 of the State of Michigan to have an audit performed of its operations. This financial report has been prepared to meet this State requirement.

As required by accounting principles generally accepted in the United States of America, these financial statements are exclusive presentations of the financial condition and results of operations of the Commission. The Commission is considered a component unit of Shiawassee County, Michigan, and is discretely presented in Shiawassee County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Corunna, Michigan.

Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities (the government-wide financial statements) present information for the Commission as a whole.

The Statement of Activities presents the direct functional expenses of the Commission and the program revenues that support them. Direct expenses are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and shows how governmental functions are either self-financing or supported by the general revenues of the Commission.

FUND FINANCIAL STATEMENTS

The Commission uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Commission's individual major fund.

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Basis of Presentation (continued)

FUND FINANCIAL STATEMENTS (continued)

The major fund of the Commission is:

- a. The General Operating Fund is used to account for all financial resources of the Commission, which are restricted to expenditures for specified county road related purposes.

Additionally, the Commission reports the following fiduciary fund:

- a. The Retiree Health Care Trust Fund is used to account for the assets held in a trustee capacity to fund future retiree health benefits

Measurement Focus

The government-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both “measurable” and “available to finance expenditures of the current period”). The length of time used for “available” for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues which are considered measurable, but not available, are recorded as a receivable and unavailable revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

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

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Budgets and Budgetary Accounting

The annual budget of the Commission is prepared by management and approved by the Board. Any revisions to the original budget are approved by the Board before the end of the fiscal year. The budget for the General Operating Fund is adopted on the modified accrual basis of accounting, which is consistent with GAAP.

Cash and Investments

Cash consists of the Commission's checking, savings, and imprest cash. Investments consist of certificates of deposit and external investment pools. Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*.

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Commission. All Commission receipts are deposited with the Shiawassee County Treasurer's Office, and in order to make disbursements, the Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer. All funds of the Commission are held with the County Treasurer in separate accounts in the Commission's name.

In accordance with Michigan Compiled Laws, the Commission is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or Federal agency obligations repurchase agreements.
- e. Bankers acceptances of United States Banks.
- f. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Inventory

Inventory of road materials and equipment parts are recognized using the consumption method (inventory is recorded as an expenditure when it is used). Inventory is stated at average cost.

Capital Assets

Capital assets are reported under governmental activities within the operating fund in the government-wide financial statements. Capital assets are defined by the Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost. Donated capital assets are recorded at an estimated acquisition cost at the date of donation.

GASB Statement No. 34 required major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized.

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

Buildings	30 - 50 years
Equipment -	
Road	5 - 8 years
Shop	10 years
Sign shop	10 years
Office	4 - 10 years
Engineering	4 - 10 years
Infrastructure -	
Roads	5 - 30 years
Bridges	12 - 30 years
Traffic signals	15 years
Land improvements	10 years

Advances From Other Governmental Units

Advances from other governmental units consist of amounts received from other units of government based on agreements for specified projects for which work has not yet begun.

Compensated Absences

In accordance with contracts negotiated with the various employee groups of the Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount along with related payroll taxes is recorded in the government-wide financial statements.

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Net Pension Liability

The net pension liability is deemed to be a noncurrent liability and is recognized in the government-wide financial statements.

Net Other Post-Employment Benefits Asset

The net other post-employment benefits asset is deemed to be a noncurrent asset and is recognized in the government-wide financial statements.

Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of financial position or balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. *Deferred outflows of resources*, a separate financial statement element, represents a consumption of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. *Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The Commission reports deferred amounts which correspond to the Commission's net pension liability/OPEB asset and are related to differences between expected and actual experience, changes in assumptions, differences between projected and actual plan investment earnings, and contributions subsequent to the measurement date. These amounts are deferred in the government-wide financial statements and are recognized as an outflow or inflow of resources in the period to which they apply.

Equipment Rentals

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance.

Details of Fund Balance Classifications

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five fund balance classifications under this standard.

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Details of Fund Balance Classifications (continued)

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision-making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, the Commission's highest level of decision-making authority is the Board. The formal action that is required to be taken to establish and modify or rescind a fund balance commitment is a Board motion.

For assigned fund balance, the Board has not approved a policy indicating who is authorized to assign amounts to a specific purpose. As a result, this authority is retained by the Board.

The Commission has not adopted a policy that defines the order of usage for fund balance amounts classified as restricted, committed, assigned, or unassigned. In the absence of such a policy, resources with the highest level of restriction will be used first.

Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE 2 - DEPOSITS AND INVESTMENTS

The Commission's bank deposits at December 31, 2019, are composed of the following:

	Carrying Amount	Bank Balance
Checking accounts	\$ 1,242,128	\$ 1,256,614
Savings accounts	100,000	100,000
Certificates of deposit	1,032,218	1,032,218
	\$ 2,374,346	\$ 2,388,832

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Bank deposits of the Commission are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Commission. As of December 31, 2019, the Commission's accounts were insured by the Federal Deposit Insurance Corporation (FDIC) for \$500,000 and the amount of \$1,888,832 was uninsured and uncollateralized. The cash caption on the balance sheet includes \$50 in imprest cash.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of December 31, 2019, the Commission did not have any investments that would be subject to rating.

Interest Rate Risk

The Commission has adopted a policy that indicates how the Commission will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of Credit Risk

The Commission has adopted a policy that indicates how the Commission will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Commission's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk

The Commission has adopted a policy that indicates how the Commission will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments of collateral securities that are in possession of an outside party. There were no such investments in the current year.

Investments in Entities that Calculate Net Asset Value per Share

The Commission holds shares or interests in the MERS total market fund where the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient. MERS invests assets in a manner which will seek the highest investment return consistent with the preservation of principal and meet the daily liquidity needs of participants.

At the year ended December 31, 2019, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if eligible</u>	<u>Redemption Notice Period</u>
Michigan CLASS	\$ 1,000,996	\$ -	No restrictions	None
MERS Total Market Portfolio	<u>2,458,940</u>	<u>-</u>	No restrictions	None
	<u><u>\$ 3,459,936</u></u>	<u><u>\$ -</u></u>		

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2019, was as follows:

	Balance Jan. 1, 2019	Additions	Deletions	Balance Dec. 31, 2019
Capital assets not being depreciated				
Land	\$ 597,645	\$ -	\$ -	\$ 597,645
Infrastructure - land improvements	3,992,348	49,637	(298,002)	3,743,983
Subtotal	4,589,993	49,637	(298,002)	4,341,628
Capital assets being depreciated/depleted				
Buildings	3,327,240	88,774	-	3,416,014
Equipment -				
Road	9,020,507	1,485,456	(285,862)	10,220,101
Shop	165,579	4,104	-	169,683
Sign shop	10,505	-	-	10,505
Office	169,652	16,715	(144)	186,223
Engineering	64,589	2,840	-	67,429
Infrastructure -				
Roads	51,419,912	6,152,756	(3,811,924)	53,760,744
Bridges	23,991,860	51,651	(144,671)	23,898,840
Traffic signals	28,211	5,185	-	33,396
Land improvements	427,722	-	-	427,722
Depletable assets	153,402	-	-	153,402
Subtotal	88,779,179	7,807,481	(4,242,601)	92,344,059
Less accumulated depreciation/depletion				
Buildings	(2,307,660)	(123,090)	-	(2,430,750)
Equipment -				
Road	(7,053,185)	(942,738)	261,917	(7,734,006)
Shop	(125,557)	(10,174)	-	(135,731)
Sign shop	(9,099)	(1,184)	-	(10,283)
Office	(101,690)	(21,680)	144	(123,226)
Engineering	(53,243)	(2,844)	-	(56,087)
Infrastructure -				
Roads	(29,094,666)	(3,028,229)	3,811,924	(28,310,971)
Bridges	(9,065,045)	(517,526)	144,671	(9,437,900)
Traffic signals	(24,867)	(2,224)	-	(27,091)
Land improvements	(128,317)	(42,772)	-	(171,089)
Depletable assets	(153,402)	-	-	(153,402)
Subtotal	(48,116,731)	(4,692,461)	4,218,656	(48,590,536)
Net capital assets being depreciated/depleted	40,662,448	3,115,020	(23,945)	43,753,523
Capital assets, net	<u>\$ 45,252,441</u>	<u>\$ 3,164,657</u>	<u>\$ (321,947)</u>	<u>\$ 48,095,151</u>

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - CAPITAL ASSETS (continued)

Depreciation/depletion expense was charged to the following activities:

	Amount
Net equipment expense	
Direct equipment	\$ 979,045
Indirect equipment	127,811
Net administrative expense	37,626
Infrastructure	3,547,979
	\$ 4,692,461

NOTE 4 - LONG-TERM OBLIGATIONS

Compensated Absences - Vacation and Sick Leave

The following is a summary of changes in long-term obligations (including current portions) of the Commission for the year ended December 31, 2019:

	Balance Jan. 1, 2019	Additions	Deletions	Balance Dec. 31, 2019	Amounts Due Within One Year
Compensated absences	\$ 269,581	\$ 220,145	\$ (194,487)	\$ 295,239	\$ 212,998

In accordance with Commission personnel policies and/or contracts negotiated with various employee groups of the Commission, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts.

Accumulated vacation and sick leave and related payroll taxes represents a liability to the Commission, which is presented as a current liability in the current year because management estimates that usage in any given year will be the same percentage as the usage of the outstanding balance from the previous year.

NOTE 5 - FEDERAL FINANCIAL ASSISTANCE

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2019, the Federal aid received and expended by the Commission was \$784,186 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Commission would be subject to single audit requirements if it expended \$750,000 or more for negotiated projects.

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT PLAN

Plan Description

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

Summary of Significant Accounting Policies

For the 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 position of the Municipal Employees' Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For these purposes, 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.

Benefits Provided

Division:	<u>10</u>	<u>11</u>	<u>13</u>	<u>14</u>	<u>15</u>
Open/Closed:	Closed	Closed	Closed	Closed	Open
Benefit Multiplier:	2.50% (80% max)	2.50% (80% max)	2.00% (no max)	2.00% (no max)	1.50% (no max)
Normal Retirement Age:	60	60	60	60	60
Vesting:	10 years	6 years	8 years	10 years	10 years
Early Retirement (Unreduced):	55/25	55/25	-	-	-
Early Retirement (Reduced):	50/25	50/25	50/25	50/25	50/25
	55/15	55/15	55/15	55/15	55/15
Final Average Compensation:	3 years	3 years	3 years	5 years	3 years
COLA:	2.50% (non-compound)	2.50% (non-compound)	-	-	-
Employee Contributions:	7.00%	7.00%	5.00%	5.00%	5.00%
Act 88:	Yes	Yes	Yes	Yes	Yes

Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the Board of Road Commissioners. Benefit terms may be subject to binding arbitration in certain circumstances.

At the December 31, 2018, valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefits	49
Inactive employees entitled to but not yet receiving benefits	14
Active employees	36
	99

Contributions

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

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT PLAN (continued)

Contributions (continued)

During the year ended December 31, 2019, the Commission’s monthly contributions were 2.79% based on annual payroll for open divisions.

Net Pension Liability

The Commission’s net pension liability was measured as of December 31, 2018, 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, 2018 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary increases: 3.75% in the long-term plus a percentage based on age related scale to reflect merit, longevity, and promotional pay increases.

Investment rate of return: 7.75%, net of investment expenses, including inflation.

The mortality table used to project the mortality experience of non-disabled plan members is a 50% Male - 50% Female blend of the following tables: 1. the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%, 2. the RP-2014 Employee Mortality Tables, and 3. the RP-2014 Juvenile Mortality Tables. The mortality table used to project the mortality experience of disabled plan members is a 50% Male - 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables.

The actuarial assumptions used in the valuation were based on the results of the 2009-2013 Five-Year 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 of arithmetic real rates of return for each major asset class are summarized in the following table:

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

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT PLAN (continued)

Discount Rate

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

Calculating the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances as of December 31, 2017	\$ 20,816,132	\$ 16,382,707	\$ 4,433,425
Changes for the Year			
Service cost	172,712	-	172,712
Interest on total pension liability	1,616,197	-	1,616,197
Changes in benefits	-	-	-
Difference between expected and actual experience	(558,982)	-	(558,982)
Changes in assumptions	-	-	-
Employer contributions	-	1,081,607	(1,081,607)
Employee contributions	-	100,542	(100,542)
Net investment income	-	(644,779)	644,779
Benefit payments, including employee refunds	(1,400,061)	(1,400,061)	-
Administrative expense	-	(31,845)	31,845
Other changes	(1)	-	(1)
Net changes	<u>(170,135)</u>	<u>(894,536)</u>	<u>724,401</u>
Balances as of December 31, 2018	<u>\$ 20,645,997</u>	<u>\$ 15,488,171</u>	<u>\$ 5,157,826</u>

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

The following presents the Net Pension Liability of the Commission, calculated using the discount rates of 8.00%, as well as what the Commission's Net Pension Liability would be using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net pension liability	<u>\$ 7,317,246</u>	<u>\$ 5,157,826</u>	<u>\$ 3,312,982</u>

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT PLAN (continued)

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

For the year ended December 31, 2019, the Commission recognized pension expense of \$841,039. The Commission reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 26,169	\$ 498,253
Net difference between projected and actual earnings on pension plan investments	1,175,954	-
Contributions subsequent to the measurement date*	1,518,139	-
Total	\$ 2,720,262	\$ 498,253

* 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 year ending December 31, 2020

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

Year Ending December 31,	Pension Expense
2020	\$ 187,812
2021	34,493
2022	92,483
2023	389,082

NOTE 7 - OTHER POST-EMPLOYMENT BENEFITS

Plan Description

Shiawassee County Road Commission Post-Employment Medical Plan (“the Plan”) is a single employer plan established and administered by Shiawassee County Road Commission (Employer). The Plan can be amended at the discretion of the Commission. The Commission provides hospitalization and medical coverage, as other post-employment benefits (OPEB), on a complimentary basis for all applicable employees, in accordance with the union agreements and/or personnel policies.

The plan does not issue a separate stand-alone financial statement.

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Plan Membership

Membership in the plan at December 31, 2019, (the last actuarial report) is as follows:

Inactive employees receiving benefits	35
Active employees	<u>1</u>
	<u><u>36</u></u>

Benefits Provided

The Commission provided certain retiree health care benefits as other post-employment benefits (OPEB) to all applicable employees, in accordance with union agreements and/or personal policies. Benefits are provided to all eligible union and administrative employees.

- Employees retiring between January 1, 1975, and December 31, 1991, will receive employer paid coverage for the retiree only. Coverage will be the same as the coverage for active employees.
- Employees retiring between January 1, 1992, and December 31, 1998, will receive employer paid coverage for the retiree and his or her spouse. Spouse shall be the person the employee was married to at the time of retirement. Coverage will be the same as the coverage for active employees.
- Employees retiring on or after January 1, 1999, and who have a seniority date prior to December 31, 1998, will receive employer paid coverage for the retiree only, unless they have a minimum of 25 years of seniority and are at least 55 years of age, then the employer will also pay for spouse coverage. Spouse shall be the person the employee was married to at the time of retirement. Coverage will be the same as the coverage for active employees.
- Employees hired after December 31, 1998, will not receive employer paid health care coverage upon retirement. They may continue their coverage by paying the monthly premium.

The Plan does not issue a separate stand-alone financial statement.

Contributions

For the year ended December 31, 2019, the Commission expended \$219,011 for actual current premiums and \$825,000 of additional funds contributed to the plan trust. The Commission makes contributions to the extent possible but has no obligation to make contributions in advance of when the premiums are due for payment.

Net OPEB Asset

The net OPEB asset of the Commission was measured as of December 31, 2019, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2019.

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - OTHER POST-EMPLOYMENT BENEFITS (continued)

Investment Policy

The Commission may invest and reinvest the assets of the plan subject to the terms, conditions, limitations, and restrictions imposed by Michigan law and, to the extent applicable to a government plan, the Internal Revenue Code of 1986, as amended, and the Employee Retirement Income Security Act of 1974, as amended. Michigan Compiled Laws, Section 38.1121, authorizes the Commission to invest plan assets in a wide variety of investments including: stocks, bonds, certificates of deposit, real estate, annuity contracts, obligations of a specified nature and real or personal property. Specific limitations apply to the various investment types. The Commission's plan fund investments are in accordance with statutory authority. It is the policy of the Commission to invest funds in a manner which will ensure the preservation of principal while providing the highest investment return with maximum security.

Actuarial Assumptions

The Total OPEB Liability was determined by an actuarial valuation as of December 31, 2019, with a measurement date December 31, 2019, with the following actuarial assumptions:

Inflation	2.10%
Salary growth rate	1.00%
Investment rate of return	7.35%
Mortality	2010 Public General Employees and Health Retirees, Headcount weighted sex-distinct mortality with MP-2019 improvement scale

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Rate of Return (including inflation)</u>
Global equity	55.50%	6.15%
Global fixed income	18.50%	1.26%
Private assets	26.00%	6.15%

Summary of Significant Accounting Policies

For purposes of measuring the net other post-employment benefits (OPEB) asset, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the Plan and additions to/deductions from the Commission's fiduciary net position have been determined on the same basis as they are reported for the Commission. 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.

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - OTHER POST-EMPLOYMENT BENEFITS (continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 7.35%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made according to the reported schedule from Shiawassee County Road Commission. Based on those assumptions, the Plan's fiduciary net position was projected to be almost sufficient to make all projected future benefit payments to current Plan participants. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. For 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.

Change in Net OPEB Asset

The change in the net OPEB asset for the year ended December 31, 2019, is as follows:

Calculating the Net OPEB Asset			
	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Asset (a) - (b)
Balance at December 31, 2018	\$ 2,127,473	\$ 1,373,284	\$ 754,189
Changes for the year			
Service cost	1,032	-	1,032
Interest on total OPEB liability	120,737	-	120,737
Difference between expected and actual experience	(41,679)	-	(41,679)
Changes of assumptions	(65,580)	-	(65,580)
Contributions to OPEB trust	-	825,000	(825,000)
Contributions/benefits paid from general operating funds	-	219,011	(219,011)
Net investment income	-	264,628	(264,628)
Benefit payments, including employee refunds	(219,011)	(219,011)	-
Administrative expense	-	(3,972)	3,972
Net changes	(204,501)	1,085,656	(1,290,157)
Balance at December 31, 2019	\$ 1,922,972	\$ 2,458,940	\$ (535,968)

Sensitivity of the net OPEB Asset to Changes in the Discount Rate

The following presents the net OPEB asset of the Commission, as well as what the Commission's net OPEB asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.35%) or 1-percentage-point higher (8.35%) than the current discount rate:

	1% Decrease	Current Discount Rate	1% Increase
Net OPEB asset	\$ (414,164)	\$ (535,968)	\$ (643,670)

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - OTHER POST-EMPLOYMENT BENEFITS (continued)

Sensitivity of the Net OPEB Asset to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB asset of the Commission, as well as what the Commission's net OPEB asset would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease	Current Trend	1% Increase
Net OPEB asset	\$ (542,938)	\$ (535,968)	\$ (528,772)

OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2019, the Commission recognized OPEB expense of \$(107,101). At December 31, 2019, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ (45,516)

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

Year Ending December 31,	OPEB Expense
2020	\$ (5,534)
2021	(5,534)
2020	(5,533)
2023	(28,915)

NOTE 8 - CONTINGENT LIABILITIES

The Commission participates in a number of Federal and State assisted grant programs which are subject to compliance audits. The programs and the periodic program compliance audits of many of the programs have not yet been conducted, completed, or resolved. Accordingly, the Commission's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Commission expects such amounts, if any, to be immaterial.

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - RISK MANAGEMENT

The Commission participates in a pool, the Michigan County Road Commission Self-Insurance Pool, with other municipalities, for claims relating to general liability, trunkline, excess liability, auto liability, directors' and officers' liability, errors and omissions, and physical damage. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to a special assessment to make up the deficiency. The Commission has not been informed of any special assessments being required.

The Commission participates in the County Road Association Self-Insurance Fund (CRASIF) for workers' compensation insurance and has full statutory coverage for workers' disability compensation and employers' liability as granted by the State of Michigan under Chapter 6, Section 418.611 of the Workers' Disability Compensation Act. The Commission has no liability for additional assessments based on the claims filed against the fund nor do they have rights to dividends.

NOTE 10 - FLEXIBLE BENEFITS PLAN

In November 1993, the Commission implemented a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Service Code. The plan is available to all employees following 30 days of employment. The plan permits them to reduce their salary and put these amounts into a flexible benefits account up to certain limits. The plan allows the employee to reduce their salary and apply it to required premium payments. A participating employee may elect instead a cash alternative to supplement salary compensation in lieu of a nontaxable health benefit. An employee's elected cash alternative will be considered a taxable benefit under the Flexible Benefit Plan.

The plan is administered by the Shiawassee County Road Commission.

NOTE 11 - RESTATEMENT OF BEGINNING NET POSITION

Beginning net position has been restated for fiduciary funds due to a change in accounting principles.

Beginning net position	\$	-
Investment (GASB 84)		<u>1,373,284</u>
Restated beginning net position	\$	<u><u>1,373,284</u></u>

NOTE 12 - CHANGES IN ACCOUNTING PRINCIPLES

The Commission has adopted Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations*, during the current fiscal year. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for certain asset retirement obligations (AROs). The Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The Commission does not have any AROs as of December 31, 2019.

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 12 - CHANGES IN ACCOUNTING PRINCIPLES (continued)

The Commission has adopted GASB Statement No. 84, *Fiduciary Activities*, during the current fiscal year. This Statement improves financial reporting by establishing specific criteria for identifying activities that should be reported as fiduciary activities and will clarify whether and how business-type activities should report their fiduciary activities.

The Commission has adopted GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, during the current fiscal year. This Statement requires that additional essential information related to debt be disclosed in the notes to the financial statements, including unused lines of credit assets pledged as collateral for the debt, and the 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 causes. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

NOTE 13 - UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement will increase the usefulness of government's 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 lease are financings of the right to use an underlying asset. The Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2021 fiscal year.

In June 2018, the GASB issued Statements No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2021 fiscal year.

NOTE 14 - SUBSEQUENT EVENT

The extent of the impact of COVID-19 on the Commission's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on services, employees, and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the financial condition and results of operations is uncertain.

REQUIRED SUPPLEMENTARY INFORMATION

**SHIAWASSEE COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
BUDGETARY COMPARISON SCHEDULE - REVENUES
YEAR ENDED DECEMBER 31, 2019**

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Licenses and permits				
Permits	\$ 45,000	\$ 45,750	\$ 49,465	\$ 3,715
Intergovernmental				
Federal sources				
Surface Transportation Program	701,865	763,715	763,715	-
Bridge	-	20,400	20,471	71
State sources				
Motor Vehicle Highway Funds				
Engineering	10,000	10,000	10,000	-
Urban road	150,400	289,561	320,581	31,020
Primary road	5,300,000	5,602,210	5,849,603	247,393
Local road	2,646,600	2,826,970	2,827,530	560
Other				
Critical bridge	-	3,838	3,838	-
Other	109,616	325,671	374,756	49,085
Local sources				
Township contributions	2,438,000	2,487,558	2,487,559	1
Total intergovernmental	11,356,481	12,329,923	12,658,053	328,130
Charges for services				
State trunkline	1,250,000	1,281,700	1,281,707	7
Material sales	20,000	-	-	-
Salvage sales	12,000	14,400	14,423	23
Other	-	36,183	38,345	2,162
Total charges for services	1,282,000	1,332,283	1,334,475	2,192
Interest and rents				
Interest	15,000	50,000	51,288	1,288
Rents	15,000	12,090	12,091	1
Total interest and rents	30,000	62,090	63,379	1,289
Other				
Gain on equipment disposal	100,000	100,000	100,000	-
Other	10,000	43,429	43,430	1
Total other	110,000	143,429	143,430	1
TOTAL REVENUES	\$ 12,823,481	\$ 13,913,475	\$ 14,248,802	\$ 335,327

**SHIAWASSEE COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
BUDGETARY COMPARISON SCHEDULE - EXPENDITURES
YEAR ENDED DECEMBER 31, 2019**

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES				
Current				
Primary road				
Preservation - structural improvements	\$ 3,150,081	\$ 4,259,698	\$ 4,243,456	\$ 16,242
Routine and preventative maintenance	<u>3,353,630</u>	<u>2,102,261</u>	<u>2,040,806</u>	<u>61,455</u>
Total primary road	6,503,711	6,361,959	6,284,262	77,697
Local road				
Preservation - structural improvements	930,000	2,014,149	2,010,687	3,462
Routine and preventative maintenance	<u>3,238,000</u>	<u>3,110,691</u>	<u>3,025,027</u>	<u>85,664</u>
Total local road	4,168,000	5,124,840	5,035,714	89,126
State trunkline				
Maintenance	1,100,000	1,100,500	1,100,495	5
Administrative				
Administration	1,063,900	1,164,750	953,719	211,031
Less:				
Handling charges	(1,200)	(473)	(473)	-
Overhead - State	(120,000)	(106,613)	(109,219)	2,606
Purchase discount	<u>(15,000)</u>	<u>(14,114)</u>	<u>(14,115)</u>	<u>1</u>
Total administrative - net	927,700	1,043,550	829,912	213,638
Equipment				
Direct	1,650,000	1,978,600	1,978,591	9
Indirect	688,100	780,701	779,590	1,111
Operating	350,000	350,000	270,197	79,803
Less: Equipment rental	<u>(1,850,000)</u>	<u>(2,080,000)</u>	<u>(2,113,800)</u>	<u>33,800</u>
Total equipment - net	838,100	1,029,301	914,578	114,723
Other				
Miscellaneous	25,000	40,000	39,918	82
Capital outlay				
Capital outlay	686,000	1,591,469	1,589,668	1,801
Less:				
Depreciation and depletion	<u>(950,000)</u>	<u>(1,144,483)</u>	<u>(1,144,482)</u>	<u>(1)</u>
Total capital outlay - net	<u>(264,000)</u>	<u>446,986</u>	<u>445,186</u>	<u>1,800</u>
TOTAL EXPENDITURES	<u>\$ 13,298,511</u>	<u>\$ 15,147,136</u>	<u>\$ 14,650,065</u>	<u>\$ 497,071</u>

**SHIAWASSEE COUNTY ROAD COMMISSION
DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CHANGES IN COMMISSION'S NET PENSION LIABILITY AND RELATED RATIOS
LAST FIVE MEASUREMENT DATES (ULTIMATELY TEN YEARS WILL BE DISPLAYED)
(AMOUNTS WERE DETERMINED AS OF 12/31 EACH YEAR)**

	2018	2017	2016	2015	2014
Total pension liability					
Service cost	\$ 172,712	\$ 173,170	\$ 164,733	\$ 168,071	\$ 188,524
Interest	1,616,197	1,584,170	1,579,866	1,535,981	1,503,566
Changes of benefit terms	-	-	-	2,725	-
Difference between expected and actual experience	(558,982)	52,339	(316,063)	(198,080)	-
Changes of assumptions	-	-	-	959,644	-
Benefit payments, including employee refunds	(1,400,061)	(1,418,156)	(1,339,758)	(1,323,612)	(1,254,280)
Other	(1)	-	(1)	(4,617)	(1)
Net change in total pension liability	(170,135)	391,523	88,777	1,140,112	437,809
Total pension liability, beginning	20,816,132	20,424,609	20,335,832	19,195,720	18,757,911
Total pension liability, ending	<u>\$ 20,645,997</u>	<u>\$ 20,816,132</u>	<u>\$ 20,424,609</u>	<u>\$ 20,335,832</u>	<u>\$ 19,195,720</u>
Plan fiduciary net position					
Contributions - employer	\$ 1,081,607	\$ 1,029,796	\$ 2,744,068	\$ 1,530,931	\$ 998,480
Contributions - employee	100,542	96,885	92,334	87,327	95,537
Net investment income	(644,779)	1,951,640	1,367,458	(175,195)	708,356
Benefit payments, including employee refunds	(1,400,061)	(1,418,156)	(1,339,758)	(1,323,612)	(1,254,280)
Administrative expenses	(31,845)	(30,892)	(26,980)	(25,846)	(26,010)
Net change in plan fiduciary net position	(894,536)	1,629,273	2,837,122	93,605	522,083
Plan fiduciary net position, beginning	16,382,707	14,753,434	11,916,312	11,822,707	11,300,624
Plan fiduciary net position, ending	<u>\$ 15,488,171</u>	<u>\$ 16,382,707</u>	<u>\$ 14,753,434</u>	<u>\$ 11,916,312</u>	<u>\$ 11,822,707</u>
Commission's net pension liability	<u>\$ 5,157,826</u>	<u>\$ 4,433,425</u>	<u>\$ 5,671,175</u>	<u>\$ 8,419,520</u>	<u>\$ 7,373,013</u>
Plan fiduciary net position as a percentage of the total pension liability	75%	79%	72%	59%	62%
Covered employee payroll	\$ 1,851,826	\$ 1,818,323	\$ 1,671,608	\$ 1,610,460	\$ 1,777,036
Commission's net pension liability as a percentage of covered employee payroll	279%	244%	339%	523%	415%

**SHIAWASSEE COUNTY ROAD COMMISSION
DEFINED BENEFIT PENSION PLAN
SCHEDULE OF COMMISSION'S PENSION CONTRIBUTIONS
LAST FIVE FISCAL YEARS (ULTIMATELY TEN YEARS WILL BE DISPLAYED)
(AMOUNTS WERE DETERMINED AS OF 12/31 EACH YEAR)**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarial determined contributions ⁽¹⁾	\$ 818,139	\$ 745,752	\$ 1,029,796	\$ 544,460	\$ 507,661
Contributions in relation to the actuarially determined contribution	<u>1,518,139</u>	<u>1,081,752</u>	<u>1,029,796</u>	<u>2,745,068</u>	<u>1,530,931</u>
Contribution deficiency (excess)	<u>\$ (700,000)</u>	<u>\$ (336,000)</u>	<u>\$ -</u>	<u>\$ (2,200,608)</u>	<u>\$ (1,023,270)</u>
Covered employee payroll	\$ 1,994,286	\$ 1,878,715	\$ 1,812,443	\$ 1,681,219	\$ 1,679,873
Contributions as a percentage of covered employee payroll	76%	58%	57%	163%	91%

⁽¹⁾ The actuarially determined contribution was calculated based on projected covered payroll. Employer contributions were made in full based on actual covered payroll. Accordingly, the actuarially-determined contribution has been expressed above as a percentage of actual payroll.

**SHIAWASSEE COUNTY ROAD COMMISSION
OTHER POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF CHANGES IN EMPLOYER'S NET OPEB LIABILITY (ASSET) AND RELATED RATIOS
LAST TWO MEASUREMENT DATES (ULTIMATELY TEN YEARS WILL BE DISPLAYED)
(AMOUNTS WERE DETERMINED AS OF 12/31 EACH YEAR)**

	2019	2018
Total OPEB liability		
Service cost	\$ 1,032	\$ 2,484
Interest	120,737	83,884
Difference between expected and actual experience	(41,679)	2,525
Changes of assumptions	(65,580)	(397,706)
Benefit payments, including employee refunds	(219,011)	(268,719)
Net change in total OPEB liability	(204,501)	(577,532)
Total OPEB liability, beginning	2,127,473	2,705,005
Total OPEB liability, ending	\$ 1,922,972	\$ 2,127,473
Plan fiduciary net position		
Contributions to OPEB trust - employer	\$ 825,000	\$ 1,050,000
Benefit payments made from general operating funds	219,011	268,719
Net investment income	264,628	(55,995)
Benefit payments, including employee refunds	(219,011)	(268,719)
Administrative expenses	(3,972)	(1,706)
Net change in plan fiduciary net position	1,085,656	992,299
Plan fiduciary net position, beginning	1,373,284	380,985
Plan fiduciary net position, ending	\$ 2,458,940	\$ 1,373,284
Commission's net OPEB liability (asset)	\$ (535,968)	\$ 754,189
Plan fiduciary net position as a percentage of the total OPEB liability	128%	65%
Covered employee payroll	\$ 110,255	\$ 99,317
Commission's net OPEB liability (asset) as a percentage of covered employee payroll	-486%	759%

SHIAWASSEE COUNTY ROAD COMMISSION
OTHER POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF INVESTMENT RETURNS
LAST TWO FISCAL YEARS (ULTIMATELY TEN YEARS WILL BE DISPLAYED)
(AMOUNTS WERE DETERMINED AS OF 12/31 EACH YEAR)

	2019	2018
Annual money-weighted rate of return, net of investment expenses	12.73%	-7.97%

**SHIAWASSEE COUNTY ROAD COMMISSION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2019**

NOTE 1 - EMPLOYEE RETIREMENT SYSTEM

Changes of benefits terms: There were no changes of benefit terms during plan year 2018.

Changes in assumptions: There were no changes in assumptions during plan year 2018.

NOTE 2 - OTHER POST-EMPLOYMENT BENEFITS PLAN

Changes of benefits terms: There were no changes of benefit terms during plan year 2019.

Changes in assumptions: Discount rate changed from 5.98% to 7.35%.

Trend rates updated

Mortality rate updated

HRA support updated from \$1,000 to \$4,750

OTHER SUPPLEMENTARY INFORMATION

**SHIAWASSEE COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
STATEMENT OF CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2019**

TOTAL REVENUES	\$ 14,248,802
TOTAL EXPENDITURES	<u>14,650,065</u>
NET CHANGE IN FUND BALANCE	(401,263)
Fund balance, beginning of year	<u>5,352,883</u>
Fund balance, end of year	<u>\$ 4,951,620</u>

**SHIAWASSEE COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2019**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	\$ 7,782,311	\$ 4,961,065	\$ 1,505,426	\$ 14,248,802
TOTAL EXPENDITURES	<u>7,027,785</u>	<u>5,873,060</u>	<u>1,749,220</u>	<u>14,650,065</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	754,526	(911,995)	(243,794)	(401,263)
OTHER FINANCING SOURCES (USES)				
Optional transfers in	-	1,000,000	-	1,000,000
Optional transfers out	<u>(1,000,000)</u>	<u>-</u>	<u>-</u>	<u>(1,000,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,000,000)</u>	<u>1,000,000</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(245,474)	88,005	(243,794)	(401,263)
Fund balance, beginning of year	<u>1,260,719</u>	<u>965,129</u>	<u>3,127,035</u>	<u>5,352,883</u>
Fund balance, end of year	<u>\$ 1,015,245</u>	<u>\$ 1,053,134</u>	<u>\$ 2,883,241</u>	<u>\$ 4,951,620</u>

**SHIAWASSEE COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF REVENUES
YEAR ENDED DECEMBER 31, 2019**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Licenses and permits				
Permits	\$ 11,649	\$ 8,919	\$ 28,897	\$ 49,465
Intergovernmental				
Federal sources	784,187	-	-	784,187
State sources	6,469,212	2,917,095	-	9,386,307
Local sources	461,755	2,025,804	-	2,487,559
Total intergovernmental	7,715,154	4,942,899	-	12,658,053
Charges for services				
State trunkline	-	-	1,281,707	1,281,707
Salvage sales	-	-	14,423	14,423
Other	-	-	38,345	38,345
Total charges for services	-	-	1,334,475	1,334,475
Interest and rents				
Interest	12,078	9,247	29,963	51,288
Rents	-	-	12,091	12,091
Total interest and rents	12,078	9,247	42,054	63,379
Other				
Gain on equipment disposal	-	-	100,000	100,000
Contributions from private sources	43,430	-	-	43,430
Total other	43,430	-	100,000	143,430
TOTAL REVENUES	\$ 7,782,311	\$ 4,961,065	\$ 1,505,426	\$ 14,248,802

**SHIAWASSEE COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF EXPENDITURES
YEAR ENDED DECEMBER 31, 2019**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
EXPENDITURES				
Preservation - structural improvements	\$ 4,243,456	\$ 2,010,687	\$ -	\$ 6,254,143
Routine and preventative maintenance	2,040,806	3,025,027	-	5,065,833
State trunkline	-	-	1,100,495	1,100,495
Administrative expense - net	460,724	369,188	-	829,912
Equipment expense - net	282,799	468,158	163,621	914,578
Other	-	-	39,918	39,918
Capital outlay - net	-	-	445,186	445,186
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENDITURES	<u>\$ 7,027,785</u>	<u>\$ 5,873,060</u>	<u>\$ 1,749,220</u>	<u>\$ 14,650,065</u>

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

Board of County Road Commissioners
Shiawassee County
Corunna, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Shiawassee County Road Commission (the Commission), a component unit of Shiawassee County, Michigan, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated April 30, 2020.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Maney Costeiran PC

April 30, 2020