

**Shiawassee County Road Commission
Corunna, Michigan**

FINANCIAL STATEMENTS

December 31, 2018

Shiawassee County Road Commission

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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 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, 2018, 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 and the major fund of the Shiawassee County Road Commission, as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note N to the financial statements, the Commission implemented *GASB Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefit Other Than Pension Plans (OPEB)*, 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, 2019, 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.

Maney Costerian PC

April 30, 2019

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, 2018. 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.

Fund Financial Statements

The Commission currently has only one fund, the General Operating Fund. All of the Commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. The General Operating Fund budget vs. actual schedules are located on pages 25 through 26. The other supplementary information begins on page 33 and provides detailed information about the major fund.

Shiawassee County Road Commission

Management's Discussion and Analysis

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 \$3,502,156 from \$42,560,156 to \$46,062,312 for the year ended December 31, 2018. 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 2018 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.

Net position for the years ended December 31, 2018 and 2017, is as follows:

	<u>2018</u>	<u>Restated 2017</u>
Current and other assets	\$ 6,166,486	\$ 6,120,940
Capital assets	45,252,441	43,747,094
TOTAL ASSETS	51,418,927	49,868,034
DEFERRED OUTFLOWS OF RESOURCES	1,454,446	2,008,824
Current liabilities	591,714	454,332
Noncurrent liabilities	5,679,084	9,446,327
TOTAL LIABILITIES	6,270,798	9,900,659
DEFERRED INFLOWS OF RESOURCES	540,263	336,087
Net investment in capital assets	45,252,441	43,747,094
Unrestricted	809,871	(1,186,938)
TOTAL NET POSITION	\$ 46,062,312	\$ 42,560,156

Shiawassee County Road Commission

Management's Discussion and Analysis

Changes in Net Position

A summary of changes in net position for the years ended December 31, 2018 and 2017 is presented below. (Note: the 2017 column is prior to the implementation of GASB Statement No. 75, which was effective for fiscal years beginning after June 15, 2017.)

	Governmental Activities	
	2018	2017
Program revenues		
Charges for services	\$ 1,521,438	\$ 1,879,139
Operating grants and contributions	7,021,497	8,300,282
Capital grants and contributions	5,676,982	2,621,193
General revenues		
Interest	21,425	15,026
Other	63,078	34,885
TOTAL REVENUES	14,304,420	12,850,525
Expenses		
Primary road	2,536,507	2,927,880
Local road	2,986,701	3,438,960
State trunkline	991,424	1,351,972
Administrative - net	972,566	660,824
Equipment - net	1,328,637	666,540
Infrastructure depreciation	3,403,276	3,308,750
Loss on disposal of capital assets	246,513	243,268
Other post-employment benefits expense	(1,663,360)	71,318
TOTAL EXPENSES	10,802,264	12,669,512
CHANGE IN NET POSITION	\$ 3,502,156	\$ 181,013

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, 2018, the fund balance of the General Operating Fund increased \$10,326 compared to an increase of \$1,367,571 in the fund balance for the year ended December 31, 2017. Total operating revenues were \$14,304,420, an increase of \$1,453,895 compared to the year ended December 31, 2017. This difference in revenue resulted primarily from an increase in Michigan Transportation funding of \$1,821,931, an increase in Federal and State Aid of \$135,324.

Total expenditures were \$14,294,094, an increase of \$2,811,140 compared to the year ended December 31, 2017. This change in expenditures is primarily due to an increase in our primary roads expenditure of \$1,735,575, this increase was mainly due to the twenty-five mile scratch course chip seal project that was the first in our four year plan on Juddville Road across the entire county. The increase in the local roads of \$941,682, due to an increase in Federal and State Aid during 2018, an increase in administrative expenditures of \$332,964, an increase in our equipment expenditures of \$391,950, directly related to an increase in our 2018 fringe benefit rate.

Shiawassee County Road Commission

Management's Discussion and Analysis

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

	General Operating Fund	
	2018	2017
Revenues		
Licenses and permits	\$ 42,900	\$ 44,170
Federal grants	826,282	690,958
State grants	9,483,657	7,661,726
Contributions from local units	2,388,540	2,568,791
Charges for services	1,463,644	1,819,974
Interest and rents	36,319	30,021
Other	63,078	34,885
TOTAL REVENUES	14,304,420	12,850,525
Expenditures		
Current		
Primary roads	5,764,528	4,028,953
Local roads	5,706,592	4,764,910
State trunkline	991,424	1,351,972
Administrative - net	996,326	663,362
Equipment - net	1,082,044	690,094
Other	28,297	13,935
Capital outlay	(275,117)	(30,272)
TOTAL EXPENDITURES	14,294,094	11,482,954
NET CHANGE IN FUND BALANCE	10,326	1,367,571
FUND BALANCE - BEGINNING	5,342,557	3,974,986
FUND BALANCE - ENDING	\$ 5,352,883	\$ 5,342,557

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 2018 was \$1,646,950 more than the original budget. This was due to an increase in MTF funding for 2018. The actual revenue recognized during 2018 was less than the final amended budget by \$88,730 mainly due to an adjustment to our Michigan Transportation Funding (MTF) of three overpayments, that were received after the fiscal year end and approval of the final amended budget amounting in a decrease to our 2018 MTF of \$338,852.81.

The final amended expenditure budget for 2018 was \$1,367,226 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. The actual expenditures recognized during 2018 were less than the final amended budget by \$92,767.

Shiawassee County Road Commission

Management's Discussion and Analysis

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2018, the Commission had invested \$45,252,441 in capital assets, net of accumulated depreciation. This amount represents a net increase (including additions, deductions, and reclassifications) of \$1,505,347 as follows:

	2018	2017
Capital assets not being depreciated	\$ 4,589,993	\$ 4,807,051
Capital assets being depreciated		
Buildings	3,327,240	3,226,850
Equipment	9,430,832	8,974,573
Infrastructure	75,867,705	73,938,709
Depletable assets	153,402	153,402
SUBTOTAL	88,779,179	86,293,534
TOTAL COST OF CAPITAL ASSETS	93,369,172	91,100,585
TOTAL ACCUMULATED DEPRECIATION	(48,116,731)	(47,353,491)
TOTAL NET CAPITAL ASSETS	\$ 45,252,441	\$ 43,747,094

This year's capital asset additions included the following:

Land	\$ 2,264
Infrastructure - land improvements	25,667
Buildings	100,390
Equipment	
Roads	706,263
Shop	14,777
Office	5,487
Infrastructure	
Roads	4,533,046
Bridges	1,143,936
TOTAL	\$ 6,531,830

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

Debt

As of December 31, 2018, 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 \$269,581 as of December 31, 2018. More detailed information about the Commission's long-term liabilities is presented in Note D to the financial statements.

Shiawassee County Road Commission

Management's Discussion and Analysis

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board of County Road Commissioners considered many factors when setting the fiscal year 20189 budget. One of the factors is the economy. With the passing of recent legislation on road funding, our share of the Michigan Transportation Funds started to increase 2018. This 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 each Township in our county during the next four years, which began in 2018. 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. Included in our 2019 budget, 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 budgeted cost \$669,225 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 \$729,792.

The Commission derives approximately 54.2% of its revenues from the Michigan Transportation Fund (MTF) fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Commission will receive \$8,600,155 which is a 10.94% increase (\$848,573) to MTF revenues in 2019. The Commission received approximately 16.7% of its revenues from township contributions during 2018. This amount fluctuates with the approved road projects and depends on what and how much the townships budget to participate annually. We are projected to receive \$892,140 in federal and state aid for road projects. In addition, an estimated 35.015 miles of scratch course chip seal, estimated .47 miles of chip seal, estimated 1.5 miles of asphalt paving, and estimated 44.93 miles of re-gravel projects and 6.79 miles of crackseal will be completed in 2019. The above items were all considered when adopting the budget for 2019. Amounts available for appropriation in the original 2019 budget are \$12,823,481, a decrease of \$1,569,669 from the 2018 final amended budget of \$14,393,150. This is due to additional funding received during 2018, Other State Grant Revenues, of \$1,575,352 that was not included in the 2018 original budget as it was not announced until after the 2018 budget was adopted. These additional funds are not anticipated nor budgeted to be received during fiscal year 2019.

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 West Corunna Ave., Corunna, Michigan 48817.

BASIC FINANCIAL STATEMENTS

Shiawassee County Road Commission

STATEMENT OF NET POSITION

December 31, 2018

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 1,400,747
Investments	1,000,000
Accounts receivable	8,692
Due from other governmental units	
Federal/State	1,708,192
Local	101,323
Prepaid expenses	510
Inventory	410,460
Total current assets	4,629,924
Noncurrent assets	
Investments	1,536,562
Capital assets not being depreciated	4,589,993
Capital assets, net of accumulated depreciation	40,662,448
Total noncurrent assets	46,789,003
TOTAL ASSETS	51,418,927
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	1,360,917
Deferred outflows of resources related to OPEB	93,529
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,454,446
LIABILITIES	
Current liabilities	
Accounts payable	63,780
Accrued liabilities	86,589
Due to other governmental units	171,764
Current portion of compensated absences	269,581
Total current liabilities	591,714
Noncurrent liabilities	
Advances from other governmental units	491,470
Net pension liability	4,433,425
Net other post-employment benefits liability	754,189
Total noncurrent liabilities	5,679,084
TOTAL LIABILITIES	6,270,798
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	540,263
NET POSITION	
Net investment in capital assets	45,252,441
Unrestricted	809,871
TOTAL NET POSITION	\$ 46,062,312

See accompanying notes to financial statements.

Shiawassee County Road Commission

STATEMENT OF ACTIVITIES

Year Ended December 31, 2018

	Governmental Activities
Program expenses	
Primary road	\$ 2,536,507
Local road	2,986,701
State trunkline	991,424
Administrative - net	972,566
Equipment - net	1,328,637
Infrastructure depreciation	3,403,276
Loss on disposal of capital assets	246,513
Other post-employment benefits expense	<u>(1,663,360)</u>
TOTAL PROGRAM EXPENSES	10,802,264
Program revenues	
Charges for services	1,521,438
Operating grants and contributions	7,021,497
Capital grants and contributions	<u>5,676,982</u>
TOTAL PROGRAM REVENUES	<u>14,219,917</u>
NET PROGRAM REVENUES	3,417,653
General revenues	
Interest	21,425
Other	<u>63,078</u>
TOTAL GENERAL REVENUES	<u>84,503</u>
CHANGE IN NET POSITION	3,502,156
Restated net position, beginning of the year	<u>42,560,156</u>
Net position, end of the year	<u><u>\$ 46,062,312</u></u>

Shiawassee County Road Commission

Governmental Fund

BALANCE SHEET

December 31, 2018

	General Operating Fund
ASSETS	
Cash	\$ 1,400,747
Investments	2,536,562
Accounts receivable	8,692
Due from other governmental units	
Federal/State	1,708,192
Local	101,323
Prepaid expenditures	510
Inventory	410,460
TOTAL ASSETS	<u>\$ 6,166,486</u>
LIABILITIES	
Accounts payable	\$ 63,780
Accrued liabilities	86,589
Due to other governmental units	171,764
Advances from other governmental units	491,470
TOTAL LIABILITIES	<u>813,603</u>
FUND BALANCE	
Nonspendable	410,970
Committed	600,000
Unassigned	4,341,913
TOTAL FUND BALANCE	<u>5,352,883</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 6,166,486</u>

Shiawassee County Road Commission

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION

December 31, 2018

Total fund balance - governmental fund \$ 5,352,883

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	\$ 93,369,172	
Accumulated depreciation is	<u>(48,116,731)</u>	
Capital assets, net		45,252,441

Governmental funds report actual pension/OPEB expenditures for the fiscal year, whereas the governmental activities will recognize the net pension liability 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	1,360,917	
Deferred inflows of resources related to pensions	(540,263)	
Deferred outflows of resources related to OPEB	<u>93,529</u>	
		914,183

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	(269,581)	
Net pension liability	(4,433,425)	
Net other post-employment benefits liability	<u>(754,189)</u>	
		<u>(5,457,195)</u>

Net position of governmental activities \$ 46,062,312

Shiawassee County Road Commission

Governmental Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended December 31, 2018

	General Operating Fund
REVENUES	
Licenses and permits	\$ 42,900
Intergovernmental	12,698,479
Charges for services	1,463,644
Interest and rents	36,319
Other	63,078
TOTAL REVENUES	14,304,420
EXPENDITURES	
Current	
Primary road	5,764,528
Local road	5,706,592
State trunkline	991,424
Administrative - net	996,326
Equipment - net	1,082,044
Other	28,297
Capital outlay - net	(275,117)
TOTAL EXPENDITURES	14,294,094
NET CHANGE IN FUND BALANCE	10,326
Fund balance, beginning of year	5,342,557
Fund balance, end of year	\$ 5,352,883

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, 2018

Net change in fund balance - governmental fund \$ 10,326

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	\$ 6,531,830	
Equipment and administrative depreciation expense	(1,376,694)	
Infrastructure depreciation expense	<u>(3,403,276)</u>	
Excess of capital outlay over depreciation expense		1,751,860

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. (246,513)

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:

(Decrease) in deferred outflows of resources related to pensions	(647,907)	
(Increase) in deferred inflows of resources related to pensions	(204,176)	
Increase in deferred inflows of resources related to OPEB	93,529	
(Increase) in compensated absences	(62,544)	
Decrease in net pension liability	1,237,750	
Decrease in net other post-employment benefits liability	<u>1,569,831</u>	
		<u>1,986,483</u>

Change in net position of governmental activities \$ 3,502,156

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE A: 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 (3) County Road Commissioners who establish policies and review operations of the Commission. The Commission provides services to sixteen (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.

1. 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.

2. 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.

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.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The government-wide 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.

The governmental fund is 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.

4. 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 sixty (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.

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.

5. 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.

6. Cash and Investments

Cash consists of the Commission's checking, savings, and imprest cash. Investments consist of certificates of deposit and are recorded at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

7. 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.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. 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 (2) 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

9. 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.

10. 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.

11. Net Pension Liability

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

12. Net Other Post-Employment Benefits Liability

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

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. 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/OPEB liability 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.

14. 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.

15. 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 B: DEPOSITS

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:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. 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.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE B: DEPOSITS - CONTINUED

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Commission's bank deposits at December 31, 2018, are composed of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking accounts	\$ 1,027,807	\$ 1,156,977
Savings accounts	372,890	372,890
Certificates of deposit	<u>2,536,562</u>	<u>2,536,562</u>
	<u>\$ 3,937,259</u>	<u>\$ 4,066,429</u>

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, 2018, the Commission's accounts were insured by the Federal Deposit Insurance Corporation (FDIC) for \$750,000 and the amount of \$3,316,429 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, 2018, 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.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE C: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2018, was as follows:

	Balance Jan. 1, 2018	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Dec. 31, 2018
Capital assets not being depreciated				
Land	\$ 595,381	\$ 2,264	\$ -	\$ 597,645
Infrastructure - land improvements	4,211,670	25,667	(244,989)	3,992,348
Subtotal	4,807,051	27,931	(244,989)	4,589,993
Capital assets being depreciated/depleted				
Buildings	3,226,850	100,390	-	3,327,240
Equipment -				
Road	8,577,617	706,263	(263,373)	9,020,507
Shop	157,697	14,777	(6,895)	165,579
Sign shop	10,505	-	-	10,505
Office	164,165	5,487	-	169,652
Engineering	64,589	-	-	64,589
Infrastructure -				
Roads	50,634,852	4,533,046	(3,747,986)	51,419,912
Bridges	22,847,924	1,143,936	-	23,991,860
Traffic signals	28,211	-	-	28,211
Land improvements	427,722	-	-	427,722
Depletable assets	153,402	-	-	153,402
Subtotal	86,293,534	6,503,899	(4,018,254)	88,779,179
Less: accumulated depreciation/depletion				
Buildings	(1,930,899)	(376,761)	-	(2,307,660)
Equipment -				
Road	(6,383,136)	(933,277)	263,228	(7,053,185)
Shop	(124,023)	(7,050)	5,516	(125,557)
Sign shop	(7,915)	(1,184)	-	(9,099)
Office	(88,217)	(13,473)	-	(101,690)
Engineering	(51,067)	(2,176)	-	(53,243)
Infrastructure -				
Roads	(29,957,458)	(2,885,194)	3,747,986	(29,094,666)
Bridges	(8,548,844)	(516,201)	-	(9,065,045)
Traffic signals	(22,986)	(1,881)	-	(24,867)
Land improvements	(85,544)	(42,773)	-	(128,317)
Depletable assets	(153,402)	-	-	(153,402)
Subtotal	(47,353,491)	(4,779,970)	4,016,730	(48,116,731)
Net capital assets being depreciated/depleted	38,940,043	1,723,929	(1,524)	40,662,448
Capital assets, net	<u>\$ 43,747,094</u>	<u>\$ 1,751,860</u>	<u>\$ (246,513)</u>	<u>\$ 45,252,441</u>

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE C: CAPITAL ASSETS - CONTINUED

Depreciation/depletion expense was charged to the following activities:

	Amount
Net equipment expense	
Direct equipment	\$ 1,280,748
Indirect equipment	69,861
Net administrative expense	26,085
Infrastructure	3,403,276
	<u>\$ 4,779,970</u>

NOTE D: LONG-TERM DEBT

Compensated Absences - Vacation and Sick Leave

The following is a summary of changes in long-term debt (including current portions) of the Commission for the year ended December 31, 2018:

	Balance Jan. 1, 2018	Additions	Deletions	Balance Dec. 31, 2018	Amounts Due Within One Year
Compensated absences	<u>\$ 207,037</u>	<u>\$ 317,924</u>	<u>\$ (255,380)</u>	<u>\$ 269,581</u>	<u>\$ 269,581</u>

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 E: 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, 2018, the Federal aid received and expended by the Commission was \$826,282 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

December 31, 2018

NOTE F: 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 (9) member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained 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, 2017, valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefits	53
Inactive employees entitled to but not yet receiving benefits	8
Active employees	38
	<u>99</u>

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.

During the year ended December 31, 2018, the Commission's monthly contributions were 3.77% based on annual payroll for open divisions.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE F: RETIREMENT PLAN - CONTINUED

Net Pension Liability

The Commission's net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial Assumptions

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

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%

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.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE F: RETIREMENT PLAN - CONTINUED

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, 2016	\$ 20,424,609	\$ 14,753,434	\$ 5,671,175
Changes for the Year			
Service cost	173,170	-	173,170
Interest on total pension liability	1,584,170	-	1,584,170
Changes in benefits	-	-	-0-
Difference between expected and actual experience	52,339	-	52,339
Changes in assumptions	-	-	-0-
Employer contributions	-	1,029,796	(1,029,796)
Employee contributions	-	96,885	(96,885)
Net investment income	-	1,951,640	(1,951,640)
Benefit payments, including employee refunds	(1,418,156)	(1,418,156)	-0-
Administrative expense	-	(30,892)	30,892
Other changes	-	-	-0-
Net changes	391,523	1,629,273	(1,237,750)
Balances as of December 31, 2017	\$ 20,816,132	\$ 16,382,707	\$ 4,433,425

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.

	1% Decrease	Current Discount Rate	1% Increase
Net pension liability	\$ 6,636,780	\$ 4,433,425	\$ 2,556,180

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE F: RETIREMENT PLAN - CONTINUED

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

For the year ended December 31, 2018, the Commission recognized pension expense of \$696,085. 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	\$ 39,254	\$ 207,551
Changes in assumptions	239,911	-
Net difference between projected and actual earnings on pension plan investments	-	332,712
Contributions subsequent to the measurement date*	1,081,752	-
Total	<u>\$ 1,360,917</u>	<u>\$ 540,263</u>

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

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the Commission's contributions to the plan made subsequent to the measurement date (\$1,081,752), which will impact the net pension liability in fiscal year 2019, rather than pension expense.

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

<u>Year Ending December 31,</u>	<u>Pension Expense</u>
2019	\$ 172,119
2020	(61,523)
2021	(214,842)
2022	(156,852)

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE G: OTHER POST-EMPLOYMENT BENEFITS

Plan Description

Shiawassee County Road Commission Post-Retirement Medical Plan (Plan) is a single employer plan established and administered by Shiawassee County Road Commission (Employer) and can be amended at its discretion. 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 following are the Governmental Accounting Standards Board (GASB) Statement No. 75 required disclosures and these disclosures have been implemented prospectively by the Commission.

- 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.

Plan Membership

Membership in the plan at December 31, 2017, (the last actuarial report) is as follows:

Inactive employees receiving benefits	39
Active employees	<u>1</u>
	<u>40</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.

Contributions

For the year ended December 31, 2018, the Commission expended \$268,719 for actual current premiums and \$1,050,000 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 Liability

The net OPEB liability of the Commission was measured as of December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017, and rolled forward using generally accepted actuarial procedures.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE G: 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 Assumption

The Total OPEB Liability was determined by an actuarial valuation as of December 31, 2017, and rolled forward to the measurement date December 31, 2018, with the following actuarial assumptions:

Inflation	2.22%
Salary growth rate	1.00%
Investment rate of return	6.73%
Mortality	RP-2014 Headcount weighted, annuitant and non-annuitant, sex-distinct mortality with MP-2018 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, 2017 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	57.50%	5.02%
Global fixed income	20.00%	2.18%
Real assets	12.50%	4.23%
Diversifying strategies	10.00%	6.56%

Summary of Significant Accounting Policies

For purposes of measuring the net other post-employment benefits (OPEB) liability, 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

December 31, 2018

NOTE G: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Discount Rate

The discount rate used to measure the total OPEB liability was 5.98%. 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/As 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 Liability

The change in the net OPEB liability for the year ended December 31, 2018, is as follows:

Calculating the Net OPEB Liability			
	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at December 31, 2017	\$ 2,705,005	\$ 380,985	\$ 2,324,020
Changes for the year			
Service cost	2,484	-	2,484
Interest on total OPEB liability	83,884	-	83,884
Difference between expected and actual experience	2,525	-	2,525
Changes of assumptions	(397,706)	-	(397,706)
Contributions to OPEB trust	-	1,050,000	(1,050,000)
Contributions/benefits paid from general operating funds	-	268,719	(268,719)
Net investment income	-	(55,995)	55,995
Benefit payments, including employee refunds	(268,719)	(268,719)	-0-
Administrative expense	-	(1,706)	1,706
Net changes	(577,532)	992,299	(1,569,831)
Balance at December 31, 2018	<u>\$ 2,127,473</u>	<u>\$ 1,373,284</u>	<u>\$ 754,189</u>

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

The following presents the net OPEB liability of the Commission, as well as what the Commission's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.98 percent) or 1-percentage-point higher (6.98 percent) than the current discount rate:

	1% Decrease	Current Discount Rate	1% Increase
Net OPEB liability	\$ 896,067	\$ 754,189	\$ 624,397

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE G: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

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

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

	<u>1% Decrease</u>	<u>Current Trend</u>	<u>1% Increase</u>
Net OPEB liability	\$ 632,153	\$ 754,189	\$ 716,148

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

For the year ended December 31, 2018, the Commission recognized OPEB expense of \$(344,641). At December 31, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	<u>\$ 93,529</u>	<u>\$ -0-</u>

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

<u>Year Ending December 31,</u>	<u>OPEB Expense</u>
2019	\$ 23,382
2020	23,382
2021	23,382
2022	23,383

NOTE H: RESTATEMENT OF BEGINNING NET POSTION

Beginning net position has been restated for governmental activities due to a change in accounting principles.

Beginning net position	\$ 42,100,134
Net OPEB obligation (GASB 45)	2,784,042
Net OPEB liability (GASB 75)	<u>(2,324,020)</u>
Restated beginning net position	<u>\$ 42,560,156</u>

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE I: 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.

NOTE J: 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 K: 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 L: 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 (5) 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.

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

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE L: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED

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.

Fund Balance	
Nonspendable	
Prepaid expenditures	\$ 510
Inventory	410,460
Committed	
OPEB payment	600,000
Unassigned	<u>4,341,913</u>
Total Fund Balance	<u>\$ 5,352,883</u>

NOTE M: CHANGE IN ACCOUNTING PRINCIPLES

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

NOTE N: UPCOMING ACCOUNTING PRONOUNCEMENTS

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2019 fiscal year.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE N: UPCOMING ACCOUNTING PRONOUNCEMENTS - CONTINUED

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 leases 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 2020 fiscal year.

In April 2018, the GASB issued Statements No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement will improve financial reporting by providing users of financial statement with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2019 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Shiawassee County Road Commission

GENERAL OPERATING FUND

BUDGETARY COMPARISON SCHEDULE - REVENUES

Year Ended December 31, 2018

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Licenses and permits				
Permits	\$ 40,000	\$ 39,000	\$ 42,900	\$ 3,900
Intergovernmental				
Federal sources				
Surface Transportation Program	-	75,659	75,660	1
Bridge	983,040	746,784	750,622	3,838
State sources				
Motor Vehicle Highway Funds				
Engineering	10,000	10,000	10,000	-0-
Urban road	172,510	211,533	243,244	31,711
Primary road	4,874,808	5,124,808	5,049,375	(75,433)
Local road	2,443,152	2,504,129	2,448,962	(55,167)
Other				
Critical bridge	184,320	136,320	140,742	4,422
Other	80,870	1,590,915	1,591,334	419
Local sources				
Township contributions	2,538,000	2,388,100	2,388,540	440
Total intergovernmental	11,286,700	12,788,248	12,698,479	(89,769)
Charges for services				
State trunkline	1,350,000	1,432,142	1,432,782	640
Material sales	-	28,738	-	(28,738)
Salvage sales	12,000	1,909	30,862	28,953
Other	-	213	-	(213)
Total charges for services	1,362,000	1,463,002	1,463,644	642
Interest and rents				
Interest	14,000	23,000	21,425	(1,575)
Rents	13,500	14,900	14,894	(6)
Total interest and rents	27,500	37,900	36,319	(1,581)
Other				
Proceeds from equipment disposal	20,000	61,000	59,215	(1,785)
Other	10,000	4,000	3,863	(137)
Total other	30,000	65,000	63,078	(1,922)
TOTAL REVENUES	\$ 12,746,200	\$ 14,393,150	\$ 14,304,420	\$ (88,730)

Shiawassee County Road Commission

GENERAL OPERATING FUND

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES

Year Ended December 31, 2018

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES				
Current				
Primary road				
Preservation - structural improvements	\$ 1,464,965	\$ 2,938,467	\$ 3,090,551	\$ (152,084)
Routine and preventative maintenance	4,380,600	2,757,216	2,673,977	83,239
Total primary road	5,845,565	5,695,683	5,764,528	(68,845)
Local road				
Preservation - structural improvements	920,000	2,609,450	2,612,099	(2,649)
Routine and preventative maintenance	3,328,350	3,157,914	3,094,493	63,421
Total local road	4,248,350	5,767,364	5,706,592	60,772
State trunkline				
Maintenance	1,200,000	1,000,000	991,424	8,576
Administrative				
Administration	1,033,020	1,155,970	1,105,862	50,108
Less:				
Handling charges	(1,200)	(1,200)	(474)	(726)
Overhead - State	(100,000)	(120,000)	(93,183)	(26,817)
Purchase discount	(10,000)	(16,000)	(15,879)	(121)
Total administrative - net	921,820	1,018,770	996,326	22,444
Equipment				
Direct	1,600,000	1,975,000	1,905,036	69,964
Indirect	624,900	775,589	737,887	37,702
Operating	350,000	275,000	262,101	12,899
Less: Equipment rental	(1,800,000)	(1,875,000)	(1,822,980)	(52,020)
Total equipment - net	774,900	1,150,589	1,082,044	68,545
Other				
Miscellaneous	-	30,000	28,297	1,703
Capital outlay				
Capital outlay	854,000	859,900	835,138	24,762
Less:				
Depreciation and depletion	(825,000)	(1,135,445)	(1,110,255)	(25,190)
Total capital outlay - net	29,000	(275,545)	(275,117)	(428)
TOTAL EXPENDITURES	<u>\$ 13,019,635</u>	<u>\$ 14,386,861</u>	<u>\$ 14,294,094</u>	<u>\$ 92,767</u>

Shiawassee County Road Commission

DEFINED BENEFIT PENSION PLAN

SCHEDULE OF CHANGES IN COMMISSION'S NET PENSION LIABILITY AND RELATED RATIOS

Last Four Measurement Dates (Ultimately ten years will be displayed)
(Amounts were determined as of 12/31 each year)

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 173,170	\$ 164,733	\$ 168,071	\$ 188,524
Interest	1,584,170	1,579,866	1,535,981	1,503,566
Changes of benefit terms	-	-	2,725	-
Difference between expected and actual experience	52,339	(316,063)	(198,080)	-
Changes of assumptions	-	-	959,644	-
Benefit payments, including employee refunds	(1,418,156)	(1,339,758)	(1,323,612)	(1,254,280)
Other	-	(1)	(4,617)	(1)
Net change in total pension liability	391,523	88,777	1,140,112	437,809
Total pension liability, beginning	20,424,609	20,335,832	19,195,720	18,757,911
Total pension liability, ending	<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	\$ 1,029,796	\$ 2,744,068	\$ 1,530,931	\$ 998,480
Contributions - employee	96,885	92,334	87,327	95,537
Net investment income	1,951,640	1,367,458	(175,195)	708,356
Benefit payments, including employee refunds	(1,418,156)	(1,339,758)	(1,323,612)	(1,254,280)
Administrative expenses	(30,892)	(26,980)	(25,846)	(26,010)
Net change in plan fiduciary net position	1,629,273	2,837,122	93,605	522,083
Plan fiduciary net position, beginning	14,753,434	11,916,312	11,822,707	11,300,624
Plan fiduciary net position, ending	<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>\$ 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	79%	72%	59%	62%
Covered employee payroll	\$ 1,818,323	\$ 1,671,608	\$ 1,610,460	\$ 1,777,036
Commission's net pension liability as a percentage of covered employee payroll	244%	339%	523%	415%

Shiawassee County Road Commission

DEFINED BENEFIT PENSION PLAN

SCHEDULE OF COMMISSION'S PENSION CONTRIBUTIONS

Last Four Fiscal Years (Ultimately ten years will be displayed)
(Amounts were determined as of 12/31 each year)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarial determined contributions ⁽¹⁾	\$ 745,752	\$ 1,029,796	\$ 544,460	\$ 507,661
Contributions in relation to the actuarially determined contribution	<u>1,081,752</u>	<u>1,029,796</u>	<u>2,745,068</u>	<u>1,530,931</u>
Contribution deficiency (excess)	<u>\$ (336,000)</u>	<u>\$ -0-</u>	<u>\$ (2,200,608)</u>	<u>\$ (1,023,270)</u>
Covered employee payroll	\$ 1,878,715	\$ 1,812,443	\$ 1,681,219	\$ 1,679,873
Contributions as a percentage of covered employee payroll	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

SCHEDULES OF CHANGES IN EMPLOYER'S NET OPEB LIABILITY AND RELATED RATIOS

Last Measurement Date (Ultimately ten fiscal years will be displayed)
(Amounts were determined as of 12/31 of each fiscal year)

	<u>2018</u>
Total OPEB liability	
Service cost	\$ 2,484
Interest	83,884
Changes of benefit terms	-
Difference between expected and actual experience	2,525
Changes of assumptions	(397,706)
Benefit payments, including employee refunds	<u>(268,719)</u>
Net change in total OPEB liability	(577,532)
Total OPEB liability, beginning	<u>2,705,005</u>
Total OPEB liability, ending	<u><u>\$ 2,127,473</u></u>
Plan fiduciary net position	
Contributions to OPEB trust - employer	\$ 1,050,000
Benefit payments made from general operating funds	268,719
Net investment income	(55,995)
Benefit payments, including employee refunds	(268,719)
Administrative expenses	<u>(1,706)</u>
Net change in plan fiduciary net position	992,299
Plan fiduciary net position, beginning	<u>380,985</u>
Plan fiduciary net position, ending	<u><u>\$ 1,373,284</u></u>
Commission's net OPEB liability	<u><u>\$ 754,189</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	65%
Covered employee payroll	\$ 99,317
Commission's net OPEB liability as a percentage of covered employee payroll	759%

Shiawassee County Road Commission

OTHER POST-EMPLOYMENT BENEFITS PLAN

SCHEDULE OF COMMISSION'S OPEB CONTRIBUTIONS

Last Fiscal Year (Ultimately ten years will be displayed)
(Amounts were determined as of 12/31 each year)

	<u>2018</u>
Actuarial determined contributions	\$ 199,711
Employer Contributions	<u>1,318,719</u>
Contribution deficiency (excess)	<u>\$ (1,119,008)</u>
Covered employee payroll	\$ 99,317
Contributions as a percentage of covered employee payroll	1,328%

Actuarial valuation information relative to the determination of contributions:

Valuation date December 31, 2017 rolled forward to December 31, 2018

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percent of pay, closed
Remaining amortization period	13 years
20-year Aa Municipal Bond Rate	3.00%
Asset valuation method	Market value
Payroll inflation	1.00%
Medical and vision inflation rate	8.0% graded down 0.5% per year to an ultimate rate of 5.0% for pre-65; 5.0% in all years for post-65
Investment rate of return	6.73%
Retirement age	Age-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2014 Headcount weighted, annuitant and non-annuitant, sex-distinct mortality with MP-2018 improvement scale

Shiawassee County Road Commission
OTHER POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF INVESTMENT RETURNS

Last Fiscal Year (Ultimately ten years will be displayed)
(Amounts were determined as of 12/31 each year)

	<u>2018</u>
Annual money-weighted rate of return, net of investment expenses	-7.97%

Shiawassee County Road Commission

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended December 31, 2018

NOTE A: EMPLOYEE RETIREMENT SYSTEM

Changes of benefits terms: There were no changes of benefit terms during plan year 2017.

Changes in assumptions: There were no changes in assumptions during plan year 2017.

NOTE B: OTHER POST-EMPLOYMENT BENEFITS PLAN

Changes of benefits terms: Medicare eligible costs limited to \$300 per month per person.

Changes in assumptions: Discount rate changed from 3.26% to 5.98%.

OTHER SUPPLEMENTARY INFORMATION

Shiawassee County Road Commission
GENERAL OPERATING FUND
STATEMENT OF CHANGES IN FUND BALANCE
Year Ended December 31, 2018

TOTAL REVENUES	\$ 14,304,420
TOTAL EXPENDITURES	<u>14,294,094</u>
NET CHANGE IN FUND BALANCE	10,326
Fund balance, beginning of year	<u>5,342,557</u>
Fund balance, end of year	<u><u>\$ 5,352,883</u></u>

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF CHANGES IN FUND BALANCE

Year Ended December 31, 2018

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	\$ 8,357,131	\$ 4,375,744	\$ 1,571,545	\$ 14,304,420
TOTAL EXPENDITURES	6,618,127	6,745,522	930,445	14,294,094
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,739,004	(2,369,778)	641,100	10,326
OTHER FINANCING SOURCES (USES)				
Optional transfers in	-	1,500,000	-	1,500,000
Optional transfers out	(1,500,000)	-	-	(1,500,000)
TOTAL OTHER FINANCING SOURCES (USES)	(1,500,000)	1,500,000	-0-	-0-
NET CHANGE IN FUND BALANCE	239,004	(869,778)	641,100	10,326
Fund balance, beginning of year	1,021,715	1,834,907	2,485,935	5,342,557
Fund balance, end of year	\$ 1,260,719	\$ 965,129	\$ 3,127,035	\$ 5,352,883

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES

Year Ended December 31, 2018

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Licenses and permits				
Permits	\$ 8,203	\$ 14,736	\$ 19,961	\$ 42,900
Intergovernmental				
Federal sources	826,282	-	-	826,282
State sources	6,956,025	2,527,632	-	9,483,657
Local sources	562,524	1,826,016	-	2,388,540
Total intergovernmental	8,344,831	4,353,648	-0-	12,698,479
Charges for services				
State trunkline	-	-	1,432,782	1,432,782
Salvage sales	-	-	30,862	30,862
Total charges for services	-0-	-0-	1,463,644	1,463,644
Interest and rents				
Interest	4,097	7,360	9,968	21,425
Rents	-	-	14,894	14,894
Total interest and rents	4,097	7,360	24,862	36,319
Other				
Gain on equipment disposal	-	-	59,215	59,215
Contributions from private sources	-	-	3,863	3,863
Total other	-0-	-0-	63,078	63,078
TOTAL REVENUES	<u>\$ 8,357,131</u>	<u>\$ 4,375,744</u>	<u>\$ 1,571,545</u>	<u>\$ 14,304,420</u>

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF EXPENDITURES

Year Ended December 31, 2018

	Primary Road Fund	Local Road Fund	County Road Commission	Total
EXPENDITURES				
Preservation - structural improvements	\$ 3,090,551	\$ 2,612,099	\$ -	\$ 5,702,650
Routine and preventative maintenance	2,673,977	3,094,493	-	5,768,470
State trunkline	-	-	991,424	991,424
Administrative expense - net	500,679	495,647	-	996,326
Equipment expense - net	352,920	543,283	185,841	1,082,044
Other	-	-	28,297	28,297
Capital outlay - net	-	-	(275,117)	(275,117)
TOTAL EXPENDITURES	<u>\$ 6,618,127</u>	<u>\$ 6,745,522</u>	<u>\$ 930,445</u>	<u>\$ 14,294,094</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, 2018, 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, 2019.

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.

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April 30, 2019