

CRAWFORD COUNTY ROAD COMMISSION

(A Component Unit of Crawford County, Michigan)

Financial Statements

For the Year Ended September 30, 2019



SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

Crawford County Road Commission

(A Component Unit of Crawford County)

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SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

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A VETERAN OWNED BUSINESS

Independent Auditor's Report

To the Board of County Road Commissioners
County of Crawford, Michigan
Grayling, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the *Crawford County Road Commission*, a component unit of Crawford County, Michigan, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the *Crawford County Road Commission*, as of September 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-7), budgetary comparison schedules (pages 31-32), pension-related schedules (pages 33-35) and OPEB-related schedules (pages 36-39) 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 **Crawford County Road Commission's** basic financial statements. The other supplementary information schedules are the responsibility of management and were derived from and relate 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 schedules are fairly stated in all material respects in relation to the basic 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 February 22, 2020, on our consideration of the **Crawford County Road Commission's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 **Crawford County Road Commission's** internal control over financial reporting and compliance.

Smith + Klaushwitz PC

Saginaw, Michigan

February 22, 2020

Crawford County Road Commission

Management's Discussion and Analysis

As management of the Crawford County Road Commission, we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended September 30, 2019. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Crawford County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Crawford County Road Commission's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the Crawford County Road Commission's assets, deferred outflows, liabilities and deferred inflows, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., vested sick and vacation).

Governmental Fund Financial Statements

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Road Commission's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds financial statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Crawford County Road Commission

Management's Discussion and Analysis

The Crawford County Road Commission adopts an annual appropriated budget for the General Operating / Road Fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and governmental fund financial statements. The notes to financial statements can be found on pages 14-30 of this report.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Analysis

As noted above net position may serve over time as a useful indicator of the Road Commission's financial position. As shown on the table below, the Road Commission's assets and deferred outflows exceeded liabilities and deferred inflows by \$13,780,804 at the end of the year.

Net position is separated into two major components, net investment in capital assets of \$17,594,211 and unrestricted net position / (deficit) of \$(3,813,407). The investment in capital assets reflects the Road Commission's investment in capital assets (i.e., land, infrastructure, buildings, vehicles and equipment), less any related debt issued to acquire those assets that are still outstanding. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Road Commission's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net position / (deficit) represents the remaining amount may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the year, the Road Commission reported a positive balance in net position invested in capital assets and a negative balance in unrestricted net position. The deficit situation mainly results from implementing GASB Statement numbers 68 and 75 in recent prior years, which require the recording of net pension and OPEB liabilities in excess of \$5.9 and \$1.1 million respectively on the Statement of Net Position.

The following compares the net position at September 30, 2019 and 2018 in a condensed format:

	<u>2019</u>	<u>2018</u>
Assets –		
Current and other unrestricted assets	\$ 3,620,103	\$ 3,930,934
Capital and other long-term assets	<u>18,482,325</u>	<u>17,094,704</u>
Total assets	<u>22,102,428</u>	<u>21,025,638</u>
Deferred outflows of resources	<u>818,203</u>	<u>594,781</u>
Liabilities –		
Current liabilities	879,794	560,290
Long-term liabilities	<u>8,136,398</u>	<u>8,198,623</u>
Total liabilities	<u>9,016,192</u>	<u>8,758,913</u>

Crawford County Road Commission

Management's Discussion and Analysis

	<u>2019</u>	<u>2018</u>
Deferred inflows of resources	\$ 123,635	\$ 114,419
Net position –		
Net investment in capital assets	17,594,211	16,082,676
Unrestricted (deficit)	<u>(3,813,407)</u>	<u>(3,335,589)</u>
Total net position	<u>\$ 13,780,804</u>	<u>\$ 12,747,087</u>

The following presents a comparison of revenues, expenses and changes in net position for the year ended September 30, 2019 and 2018 in a condensed format:

	<u>2019</u>	<u>2018</u>
Revenues –		
Charges for services	\$ 2,063,618	\$ 1,890,468
Operating grants and contributions	4,073,426	3,736,478
Capital grants and contributions	455,352	424,087
General revenue	<u>608,997</u>	<u>749,109</u>
Total	<u>7,201,393</u>	<u>6,800,142</u>
Expenses –		
Public works	6,126,879	5,597,834
Debt service	<u>40,797</u>	<u>34,878</u>
Total	<u>6,167,676</u>	<u>5,632,712</u>
Change in net position	<u>\$ 1,033,717</u>	<u>\$ 1,167,430</u>

Financial Analysis of Governmental Fund Financial Statements

As noted earlier, the focus of the governmental fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information can be useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Road Commission's net resources available to finance routine and emergency spending in succeeding years.

For the year ended September 30, 2019, the fund balance of the Road Commission decreased by \$630,335 to \$2,740,309. Of this amount, \$795,579 is not spendable (prepaid items and inventory), \$1,944,730 is restricted because it may only be used to finance future maintenance projects on the road and bridge system.

Total revenues were \$7,201,393, an increase of \$401,251 as compared to the prior year. This was primarily the result of increased revenue received from the State for operating grants and charges for services on the trunklines. Total expenditures of \$7,831,728 increased \$1,672,075 over the prior year due to increased activity related to primary road projects, again mainly as a result of increased funding activity for road projects and availability of contractors to perform the work.

Crawford County Road Commission

Management's Discussion and Analysis

BUDGETARY HIGHLIGHTS

The Road Commission amended its annual budget several times to reflect status changes in maintenance and preservation-structural improvements, capital outlay and distributive benefits. The final revenue budget was \$263,358 less than the original budget due to changes in projections of several sources, including property taxes, State sources, charges for services and contributions from local units. The final expenditure budget was \$1,616,460 more than the original budget due mainly to changes in projections for preservation and maintenance expenditures, State trunkline maintenance, equipment expenditures, capital outlay and distributive fringe benefits. The actual revenues were \$30,518 less than the amended budget; actual expenditures were \$1,073,587 less than the amended budget. These differences result from federally funded budgeted road projects that did not occur due to lack of available contractors to perform the work.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The Road Commission had \$18,482,325 in net capital assets at the end of the year, a net increase of \$1,387,621. The reason for the increase from the previous year is the result of capital outlay and the capitalization of road and bridge projects funded by Federal, State and local sources. A summary of capital assets net of accumulated depreciation at year-end in comparison to the previous year is as follows:

	<u>2019</u>	<u>2018</u>
Nondepreciable capital assets	\$ 245,708	\$ 774,060
Buildings and improvements, net	977,992	1,008,210
Equipment, net	1,644,666	1,613,119
Infrastructure, net	<u>15,613,959</u>	<u>13,699,315</u>
Total	<u>\$ 18,482,325</u>	<u>\$ 17,094,704</u>

Additional information about the Road Commission's capital assets activity may be found in Note C of the financial statements.

Long-term Liabilities – At the beginning of the year the Road Commission had five installment purchase agreements outstanding that amounted to \$1,012,028. The Road Commission paid the scheduled principal and interest payments on the installment debt during the year and did not enter into any more installment purchase agreements. This activity resulted in an overall decrease in the outstanding balance in long-term liabilities for installment purchase agreements of \$123,914 to \$888,144. Additional information on the Road Commission's long-term liabilities may be found in Note C of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board of County Road Commissioners considered many factors when setting the fiscal year 2019/20 budget. A key factor that was used in the development of the budget was the number of projects to be completed and Township contributions to be received toward the projects under the cost-share program with Townships and others. Another key factor is the economy. During

Crawford County Road Commission

Management's Discussion and Analysis

2018/19, the Road Commission derived approximately 55% of its revenue from gas and fuel taxes collected. Michigan Transportation Funds are expected to increase significantly over the five (5) years due to State legislation that increased the gas and fuel tax in 2016. The Road Commission adopted a balanced budget for 2019/20 that reflected this new legislation. The Board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road and bridge in Crawford County's transportation system. Therefore, the Board attempts to spend the public's money wisely and equitably, and in the best interest of the motoring public and the citizens of Crawford County.

CONTACTING THE ROAD COMMISSION'S MANAGEMENT

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Crawford County administrative office at 500 Huron, Grayling, MI 49738.



Crawford County Road Commission

General Operating / Road Fund Balance Sheet and Statement of Net Position

September 30, 2019

	General Operating / Road Fund	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 2,313,295	\$ -	\$ 2,313,295
Receivables	511,229	-	511,229
Inventories	668,103	-	668,103
Prepaid items	127,476	-	127,476
Capital assets, net			
Assets not being depreciated	-	245,708	245,708
Assets being depreciated	-	18,236,617	18,236,617
Total assets	3,620,103	18,482,325	22,102,428
Deferred outflows of resources	-	818,203	818,203
Total assets and deferred inflows	\$ 3,620,103	19,300,528	22,920,631
Liabilities			
Accounts payable	\$ 400,584	-	400,584
Due to State of Michigan	14,563	-	14,563
Accrued liabilities	82,319	-	82,319
Advances			
State trunkline capital equipment	303,666	-	303,666
State trunkline maintenance	78,662	-	78,662
Long-term liabilities			
Net pension liability	-	5,955,915	5,955,915
Net OPEB liability	-	1,089,641	1,089,641
Installment purchase agreements			
Due within one year	-	122,527	122,527
Due in more than one year	-	765,587	765,587
Accrued compensated absences			
Due within one year	-	7,600	7,600
Due in more than one year	-	195,128	195,128
Total liabilities	879,794	8,136,398	9,016,192
Deferred inflows of resources	-	123,635	123,635
Fund Balance / Net Position			
Fund balance			
Nonspendable			
Inventory	668,103	(668,103)	-
Prepaid items	127,476	(127,476)	-
Restricted for road system	1,944,730	(1,944,730)	-
Total fund balance	2,740,309	(2,740,309)	-
Total liabilities, deferred inflows and fund balance	\$ 3,620,103		
Net Position:			
Net investment in capital assets		17,716,738	17,716,738
Unrestricted (deficit)		(3,935,934)	(3,935,934)
Total net position		\$ 13,780,804	\$ 13,780,804

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

Crawford County Road Commission

Reconciliation of Fund Balances of the General Operating / Road Fund to Net Position of Governmental Activities

September 30, 2019

Fund balances - General Operating / Road Fund	\$ 2,740,309
Amounts reported for <i>governmental activities</i> in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the General Operating / Road Fund.	
Add - land and improvements	73,092
Add - construction in progress	172,616
Add - property and equipment	8,431,206
Add - infrastructure	19,367,671
Deduct - accumulated depreciation	(9,562,260)
Certain pension and OPEB-related amounts such as the net pension and OPEB liabilities and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the fund financial statements	
Net pension liability	(5,955,915)
Deferred outflows related to the net pension liability	818,203
Deferred inflows related to the net pension liability	(123,635)
Net OPEB obligation	(1,089,641)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the General Operating / Road Fund.	
Deduct - installment purchase agreements	(888,114)
Deduct - accrued compensated absences	(202,728)
Net position of governmental activities	<u>\$ 13,780,804</u>

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

Crawford County Road Commission

General Operating / Road Fund Statement of Revenues, Expenditures and Changes in Fund Balance and Statement of Activities

For the Year Ended September 30, 2019

	General Operating / Road Fund	Adjustments	Statement of Activities
Expenditures/expenses			
Public works	\$ 4,872,389	\$ 1,254,490	\$ 6,126,879
Capital outlay	2,794,628	(2,794,628)	-
Debt service	164,711	(123,914)	40,797
Total expenditures/expenses	7,831,728	(1,664,052)	6,167,676
Program revenue			
Charges for services	2,063,618	-	2,063,618
Operating grants and contributions			
State transportation and other funds	4,073,426	-	4,073,426
Capital grants and contributions			
State sources	455,352	-	455,352
Total program revenue	6,592,396	-	6,592,396
Net program revenue			424,720
General revenue			
Sales of capital assets and yard materials	32,527	-	32,527
Property taxes	562,640	-	562,640
Interest and rents	13,830	-	13,830
Total general revenue	608,997	-	608,997
Total revenue	7,201,393		
Changes in fund balance / net position	(630,335)	1,664,052	1,033,717
Fund balance / net position:			
Beginning of the year	3,370,644	9,376,443	12,747,087
End of the year	\$ 2,740,309	\$ 11,040,495	\$ 13,780,804

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

Crawford County Road Commission

Reconciliation of Net Change in Fund Balance of the General Operating / Road Fund to Change in Net Position of Governmental Activities

For the Year Ended September 30, 2019

Change in fund balance - General Operating / Road Fund \$ (630,335)

Amounts reported for *governmental activities* in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	697,754
Add - infrastructure purchases	2,096,874
Deduct - depreciation expense	(1,405,663)
Deduct - loss on disposal of capital assets	(1,344)

Proceeds from installment purchase agreements and payment of the principal on long-term debt provides and consumes current financial resources. These transactions however, do not affect net position. The following activity related to long-term debt are reconciling items between the government-wide and the fund financial statements.

Principal paid on long term debt	123,914
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The changes in the net pension and OPEB liabilities and related deferred inflows / outflows of resources does not impact current financial resources and therefore is not reported in the fund financial statements

Net pension liability	(274,480)
Deferred outflows related to the net pension liability	223,422
Deferred inflows related to the net pension liability	(9,216)
Net OPEB liability	183,006

The change in the accrued compensated absences is reported as an expense in the Statement of Activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Operating / Road Fund.

29,785

Change in net position of governmental activities	<u>\$ 1,033,717</u>
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The accompanying notes are an integral part of these financial statements.

Crawford County Road Commission

Statement of Fiduciary Net Position Employee Healthcare Benefit Trust Fund

September 30, 2019

Assets	
Investments	\$ 170,000
Receivables	-
Total assets	<u>\$ 170,000</u>
Net position - held in trust for postemployment health benefits	<u>\$ 170,000</u>

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

Crawford County Road Commission

Statement of Changes in Fiduciary Net Position Employee Healthcare Benefit Trust Fund

For the Year Ended September 30, 2019

Additions

Employer contributions	\$ 164,274
Employer contributions - benefits paid from general operating funds	128,200
Investment results, net	<u>5,726</u>
Total additions	<u>298,200</u>

Deductions - participant benefits paid from general operating funds	<u>128,200</u>
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Change in net position	170,000
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Net position

Beginning of the year	<u>-</u>
End of the year	<u><u>\$ 170,000</u></u>

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

Crawford County Road Commission

Notes to Financial Statements

NOTE 1 – Summary of Significant Accounting Policies

The accounting policies adopted by the *Crawford County Road Commission* (the “Road Commission”) conform to accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental entities, including the following accounting policies specific to road commissions: allocation of depreciation / depletion and equipment rental; the recording of handling and overhead credits; and the recording of equipment retirements with the related gain or loss on disposal of equipment. The following is a summary of the significant policies.

Reporting Entity

The *Crawford County Road Commission* is a discrete component unit of the County of Crawford, Michigan. The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable. The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Michigan Department of Transportation for work done by the County on State trunklines, Federal Transportation funds and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is established pursuant to the County Road Law (MCL224.1) and operates under a 3-member elected Board of County Road Commissioners. The Board of County Road Commissioners establishes policies and reviews operations of the Road Commission. The Road Commission may not issue debt without the County's approval and property tax levies are subject to the County Board of Commissioner's approval. The Road Commission has levied 1.0000 mills county-wide for road repair and maintenance. The Road Commission provides services to 6 Townships in Crawford County and maintains approximately 959 miles of State, primary and local roads.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the Road Commission. *Governmental activities* are supported by charges for services and intergovernmental grants and contributions.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Interest and other items not properly included among program revenues are reported as general revenues.

A combined financial statement is provided for the General Operating / Road Fund Balance Sheet, Statement of Net Position, Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities. The General Operating / Road Fund is considered to be a major fund for financial reporting purposes.

Crawford County Road Commission

Notes to Financial Statements

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and the Statement of Activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (General Operating / Road Fund) financial statements (Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments are recorded only when payment is due.

State and Federal revenue, licenses and interest associated with the current fiscal period are all considered susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Road Commission. The property tax is levied each year on December 1st on the taxable valuation of property located in the county as of the preceding December 31st. The 1.0000 mill levy for road maintenance and repair generated as of the taxable valuation of the preceding December 31st is recognized as revenue in these financial statements.

The Road Commission reports the following major *governmental* fund:

The *General Operating / Road Fund* is the Road Commission's primary operating fund. It accounts for all financial resources of the Road Commission, except those required to be accounted for in another fund.

In addition, the Road Commission reports the following *fiduciary* fund:

The *Employee Healthcare Benefit Trust Fund* accounts for the financial activity of assets held to fund postemployment health benefits.

Assets, Liabilities, Deferred Outflows / Inflows and Net Position (Equity)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and deposits in demand and time deposit accounts.

Receivables and Payables

All receivables and payables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenditures in both the government-wide and fund financial statements.

Crawford County Road Commission

Notes to Financial Statements

Inventory

Inventory consists of various operating parts, supplies and road material and is stated at cost, using the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as they are used. The balance in inventory at year-end was comprised of \$529,064 in road materials and \$139,039 equipment material and parts.

Capital Assets

Land, buildings, equipment and infrastructure assets (roads, bridges and other similar items) are reported as capital assets in the government-wide financial statements (Statement of Net Position). Capital assets are defined by the Road Commission as land, buildings, improvements and equipment (except road equipment), with an initial individual cost of \$1,000 or more and an estimated useful life in excess of two (2) years. No minimum cost is used to record road equipment capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital outlay expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (General Operating / Road Fund) column. Infrastructure is reported prospectively from 1980.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating / Road Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating / Road Fund.

Depreciation is recorded over the following estimated useful lives using the sum-of-years digits method for road equipment and the straight-line method for all other capital assets and infrastructure:

Buildings and improvements	8 to 50 years
Road equipment	5 to 8 years
Shop equipment	5 to 10 years
Office equipment	5 to 10 years
Engineering equipment	5 to 10 years
Infrastructure – bridges	12 to 50 years
Infrastructure – roads	5 to 30 years

Deferred Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense / expenditure) until then. The Road Commission has one item that qualifies for reporting in this category, which is the deferred outflow of resources related to the defined benefit pension plan. The deferred outflows of resources related to the defined benefit pension plan are reported in the government-wide financial statements. The deferred outflows of resources result from differences between expected and actual earnings on plan investments and contributions to the defined benefit pension plan subsequent to the measurement date.

Crawford County Road Commission

Notes to Financial Statements

Advances from the State of Michigan

The State of Michigan advances funds on a State maintenance agreement that it has with the Road Commission for specific maintenance performed by the Road Commission during the year. The advance is considered a current liability because it is subject to repayment annually, based upon results of audit procedures performed by the State of Michigan.

State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. The amount of the adjustments, if any, as a result of current year operations cannot be reasonably determined.

Compensated Absences

In accordance with the union contract and policies adopted by the Board of County Road Commissioners, employees have a vested right upon termination of employment to receive compensation for accumulated unused sick leave and vacation time under formulas and conditions specified in the contract / policies.

A payable for vacation and sick leave payable reported in the General Operating / Road Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

Long-term Obligations

In the government-wide financial statements (Statement of Net Position), long-term debt and other long-term obligations are reported as liabilities.

Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position will sometimes report deferred inflows of resources in a separate section. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until that time. At year-end, the Road Commission had one type of item that qualified for reporting in this category; differences between expected and actual experience related to its defined benefit pension plan.

Defined Benefit Pension

The Road Commission offers a defined benefit pension plan to its employees. The Road Commission records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. 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.

Crawford County Road Commission

Notes to Financial Statements

Other Postemployment Benefit Costs

The Road Commission offers retiree healthcare benefits to retirees. The Road Commission records a net OPEB liability for the difference between the total OPEB liability calculated using Alternative Measurement Method and the OPEB plan's fiduciary net position. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to / deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Equity

In the financial statements, the General Operating / Road Fund reports the following components of fund balance:

Nonspendable

Amounts that are not in spendable form or are legally or contractually required to be maintained intact are reported as nonspendable fund balance.

Restricted

Amounts that are legally restricted by externally imposed constraints that are placed on the use of resources by grantors, contributors, or laws or regulations of other governments are reported as restricted fund balance.

Committed

Amounts that have been formally set aside by the Board of County Road Commissioners for use for specific purposes are reported as committed fund balance. Commitments are made, and can only be rescinded by resolution of the Board of County Road Commissioners.

Assigned

Amounts that are constrained by the Road Commission's *intent* to be used for specific purposes, but are neither restricted nor committed are reported as assigned fund balance. The Board of County Road Commissioners has authorized the Managing Director or her designee the authority to assign fund balance on behalf of the Road Commission.

Unassigned

Amounts that have not been restricted, committed or assigned to specific purposes are reported as unassigned fund balance.

When the Road Commission incurs expenditures for purposes for which various fund balance classifications can be used, it is the Road Commission's policy to use restricted fund balance first, then committed fund balance, assigned fund balance and finally unassigned fund balance.

Equipment Rental

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated (charged) to the various activities. The effect of this allocation is offset to equipment expenditures / expenses.

Handling and Overhead Credits

The Manual requires that the charging of handling and overhead based upon a calculation related to a specific project's cost (particularly projects on the State Trunkline) be reported as an expenditure to the project, with a credit to administrative expenditures. As a result, fund balance is not affected

Crawford County Road Commission

Notes to Financial Statements

Estimates

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

NOTE B - Stewardship, Compliance and Accountability

Auditing and Reporting

The audit was performed 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 as described in the Independent Auditors' Report and with the types of compliance requirements described in Public Act 51 of 1951, as amended. The financial statements were prepared in accordance with U.S. GAAP, as described in the Independent Auditor's Report and also with applicable rules of the Michigan State Department of Transportation.

NOTE C - Detailed Notes on Select Financial Statement Captions / Transaction Classes

Deposits and Investments

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

	General Operating / Road Fund	Trust Fund
Cash on hand	\$ 100	\$ -
Deposits with financial institutions - time	261,475	-
Deposits with financial institutions - demand	<u>2,051,720</u>	<u>170,000</u>
Total	<u>\$ 2,313,295</u>	<u>\$ 170,000</u>

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain cash of the Road Commission. All Road Commission receipts are deposited with the Gladwin County Treasurer's Office, and in order to make disbursements, the Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Investment activities of Road Commission cash are performed by the County Treasurer.

Deposit and Investment Risk

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

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks.

Crawford County Road Commission

Notes to Financial Statements

- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Interest Rate Risk

The Road Commission's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. There is no stated maturity date for the Road Commission's investment in the MERS Established Market Portfolio. At year-end, the balance in the MERS Established Market Portfolio was comprised of the following:

<u>Investment Type</u>	<u>% of Pool Total</u>	<u>Maturity in Years</u>
U.S. stocks	47.4%	Not applicable
International stocks	3.6%	Not applicable
Emerging market stocks	9.0%	Not applicable
U.S. bonds	33.0%	Not available
Global bonds	7.0%	Not available

Credit Risk

The Road Commission's investment policy does not have specific limits in excess of State law on investment credit risk.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require, and the Road Commission does not have a policy for deposit custodial credit risk. At year-end, bank balance deposits in the amount of \$2,307,418 were held by Crawford County and may have been partially covered by the FDIC. The amount of federal depository insurance is determined for the County as a whole and cannot be separately identified for the Road Commission.

The Road Commission has determined that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk associated with each financial institution. The County's policy is to conduct business only with financial institutions that have an acceptable estimated level of risk as a depository.

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require a policy for investment custodial credit risk. The Road Commission's investment policy does not address custodial credit risk for investments. Custodial credit risk associated with the MERS Total Investment Fund cannot be determined because the investments do not consist of specifically identifiable securities.

Crawford County Road Commission

Notes to Financial Statements

Concentration of Credit Risk

State law limits allowable investments but does not limit concentration of credit risk. The Road Commission's investment policy does not have specific limits in excess of State law on concentration of credit risk. At year-end, the Road Commission's investments are comprised of a single investment account; the MERS Established Market Portfolio.

Receivables

The balance in receivables was comprised of the following:

Michigan Transportation Fund	\$ 350,262
State trunkline maintenance	40,138
State trunkline non-maintenance	93,349
Sundry accounts receivable	<u>27,480</u>
Total	<u>\$ 511,229</u>

Long-term Debt

Long-term debt activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Installment purchase agreement: Motor graders maturing June 2021 bearing interest of 4.24%.	\$ 427,452	\$ -	\$ (32,428)	\$ 395,024	\$ 33,884
Installment purchase agreement: Loader maturing January 2023 bearing interest of 2.52637%.	181,264	-	(13,223)	168,041	13,588
Installment purchase agreement: Vehicles maturing October 2021 bearing interest of 1.97%.	169,621	-	(58,881)	110,740	54,960
Installment purchase agreement: Loader maturing December 2022 bearing interest of 3.49%.	233,691	-	(19,382)	214,309	20,095
Compensated Absences	<u>232,513</u>	<u>-</u>	<u>(29,785)</u>	<u>202,728</u>	<u>7,600</u>
Total	<u>\$ 1,244,541</u>	<u>\$ -</u>	<u>\$ (153,699)</u>	<u>\$ 1,090,842</u>	<u>\$ 130,127</u>

The annual debt service requirements to maturity for installment purchase agreements are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 122,527	\$ 29,127
2021	451,935	21,992
2022	35,565	9,101
2023	<u>278,087</u>	<u>707</u>
Total	<u>\$ 888,114</u>	<u>\$ 60,927</u>

Crawford County Road Commission

Notes to Financial Statements

Accrued Compensated Absences

In accordance with Board policy and labor agreements, employees have a vested right upon termination of employment to receive compensation for accumulated sick leave and vacation under formulas and conditions specified in the policy and agreements. The estimated dollar amount of these vested rights has been accrued in the government-wide financial statements in the amount of \$202,728.

Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated				
Land and improvements	\$ 73,092	\$ -	\$ -	\$ 73,092
Construction in progress	<u>700,968</u>	<u>2,171,343</u>	<u>(2,699,695)</u>	<u>172,616</u>
Total capital assets not being depreciated	<u>774,060</u>	<u>2,171,343</u>	<u>(2,699,695)</u>	<u>245,708</u>
Capital assets being depreciated				
Buildings and improvements	1,948,226	10,100	-	1,958,326
Road equipment	5,634,367	694,092	(101,133)	6,227,326
Shop equipment	159,820	2,667	-	162,487
Office equipment	62,214	-	-	62,214
Engineer equipment	20,853	-	-	20,853
Infrastructure - roads	14,046,476	2,616,121	-	16,662,597
Infrastructure – bridges	<u>2,705,074</u>	<u>-</u>	<u>-</u>	<u>2,705,074</u>
Total capital assets being depreciated	<u>24,577,030</u>	<u>3,322,980</u>	<u>(101,133)</u>	<u>27,798,877</u>
Less accumulated depreciation				
Buildings and improvements	(940,016)	(40,318)	-	(980,334)
Road equipment	(4,118,331)	(636,397)	99,789	(4,654,939)
Shop equipment	(76,930)	(24,114)	-	(101,044)
Office equipment	(56,366)	(1,602)	-	(57,968)
Engineer equipment	(12,508)	(1,755)	-	(14,263)
Infrastructure – roads	(2,915,249)	(634,324)	-	(3,549,573)
Infrastructure – bridges	<u>(136,986)</u>	<u>(67,153)</u>	<u>-</u>	<u>(204,139)</u>
Total accumulated depreciation	<u>(8,256,386)</u>	<u>(1,405,663)</u>	<u>99,789</u>	<u>(9,562,260)</u>
Net capital assets being depreciated	<u>16,320,644</u>	<u>1,917,317</u>	<u>(1,344)</u>	<u>18,236,617</u>
Total net capital assets	<u>\$ 17,094,704</u>	<u>\$ 4,088,660</u>	<u>\$ (2,701,039)</u>	<u>\$ 18,482,325</u>

NOTE D – Defined Benefit Pension Plan (MERS)

Plan Description

The Road Commission participates in an agent multiple employer defined benefit pension plan administered by the Municipal Employees' Retirement System of Michigan (MERS) that covers all full-time employees of the Road Commission. MERS was established as a State-wide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member retirement Board. MERS issues a publicly available financial report which includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at www.mersofmichigan.com or in writing at 1134 Municipal Way, Lansing, Michigan 48917.

Crawford County Road Commission

Notes to Financial Statements

Benefits Provided

The Plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS. Closed divisions are comprised of employee groups that were hired prior to December 1, 2014; the open division is comprised of employee groups that were hired on or after December 1, 2014.

General Teamster Division (closed)

Retirement benefits are calculated as 2.50% of the employee's final 5-year average salary times the employee's years of service (80% maximum). Normal retirement age is 60 years, with early retirement at age 50 with 25 years of service (reduced) or age 55 with 15 years of service (unreduced). The vesting period is 10 years.

Non-union Division (open)

Retirement benefits are calculated as 2.50% of the employee's final 5-year average salary times the employee's years of service (80% maximum). Normal retirement age is 60 years, with early retirement at age 50 with 25 years of service (reduced), age 55 with 15 years of service (reduced) or age 55 with 20 years of service (unreduced). The vesting period is 10 years.

General Division (closed)

Retirement benefits are calculated as 2.00% of the employee's final 5-year average salary times the employee's years of service (no maximum). Normal retirement age is 60 years, with early retirement at age 50 with 25 years of service (reduced) or age 55 with 15 years of service (reduced). The vesting period is 8 years.

Employees are eligible for non-duty disability benefits once vested and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. An employee who leaves service may withdraw his or her contributions, plus any accumulated interest.

Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the Board of County Road Commissioners, generally after negotiations of these terms with the labor union.

Participants Covered by the Benefit Terms

At the December 31, 2018 measurement date, the following participants were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	30
Inactive plan members entitled to but not yet receiving benefits	-
Active employees	<u>30</u>
Total participants	<u><u>60</u></u>

Contribution Requirements

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer 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 costs of benefits earned by plan members 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.

Crawford County Road Commission

Notes to Financial Statements

During the year, the Road Commission's actuarially determined contribution rate was 29.17% of covered payroll for the General Teamsters open division, 41.54% of covered payroll for the Non-union open division; no contributions were required for the closed General division. Employees in all divisions were required to contribute to the plan at the following rates: General Teamsters open, 5.30% of their annual covered payroll; Non-union open, 3.90% of their annual covered payroll; General closed; 1.60% of their annual covered payroll.

The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.75% (plus 0.00% to 11.00% for merit and longevity)
Investment rate of return	7.75%, net of investment expense and including inflation

Mortality rates were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend for non-disabled plan members and 50% Male and 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables for disabled plan members. The actuarial assumptions used in the December 31, 2018 valuation were based on the results of the most recent actuarial experience study dated in 2015 that covers the period from January 1, 2009 through December 31, 2013.

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension 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 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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	57.50%	5.02%	2.87%
Global fixed income	20.00	2.18	0.44
Real assets	12.50	4.23	0.53
Diversifying strategies	10.00	6.56	0.66
	100.00%		
Inflation			2.50
Administrative expenses netted above			0.75
Investment rate of return			7.75%

Discount Rate - The discount rate used to measure the total pension liability was 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.

Projected Cash Flows - Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make 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.

Crawford County Road Commission

Notes to Financial Statements

Net Pension Liability

The net pension liability reported at year-end was determined using a measure of the total pension liability and the pension net position as of December 31, 2018. The December 31, 2018 total pension liability was determined by an actuarial valuation performed as of that date.

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Beginning balance	\$ 9,585,271	\$ 3,903,836	\$ 5,681,435
Service cost	186,389	-	186,389
Interest	751,576	-	751,576
Changes in benefits	-	-	-
Expected and actual experience	(113,624)	-	(113,624)
Changes in assumptions	-	-	-
Employer contributions	-	639,758	(639,758)
Employee contributions	-	76,826	(76,826)
Net investment income	-	(159,003)	159,003
Benefit payments	(567,561)	(567,561)	-
Administrative expenses	-	(7,722)	7,722
Other changes	(2)	-	(2)
Net changes	256,778	(17,702)	274,480
Ending balance	\$ 9,842,049	\$ 3,886,134	\$ 5,955,915

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the Road Commission's net pension liability, calculated using the discount rate of 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate:

	1% Decrease in Rate to 7.00%	Assumed Discount Rate 8.00%	1% Increase in Rate to 9.00%
Net Pension Liability	\$ 6,987,174	\$ 5,955,915	\$ 5,073,802

Pension Plan Fiduciary Net Position - Detailed information about the Plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows or resources related to pension and pension expense, information about the Plan's fiduciary net position and addition to / deduction from fiduciary net position have been determined on the same basis as they are reported by the Plan. The Plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Crawford County Road Commission

Notes to Financial Statements

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

During the year the Road Commission recognized pension expense of \$60,274. At year-end, the Road Commission reported deferred outflows and deferred inflows of resources related to the pension from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions to the plan subsequent to the measurement date	\$ 507,436	\$ -
Net difference between projected and actual earnings on pension plan investments	310,767	-
Differences between expected and actual experience	-	123,635
Total	\$ 818,203	\$ 123,635

The amount reported as deferred outflows and deferred inflows of resources related to the net difference between projected and actual earnings on pension plan investments, changes in assumptions and differences between expected and actual experience will be recognized as pension expense as follows:

Year Ending September 30,	Net Amount
2020	\$ 61,784
2021	(1,221)
2022	31,175
2023	95,394
Total	\$ 187,132

The amount reported as deferred outflows of resources related to employer contributions to the plan made subsequent to the measurement date of \$507,436 will impact the net pension liability in the next fiscal year, as opposed to being amortized to pension expense over a period of years.

NOTE E – Postemployment Benefits Other than Pensions (OPEB)

Summary of Significant Accounting Policies

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Crawford County Road Commission Retiree Benefits Plan (CCRCRBP) and additions to/deductions from CCRCRBP’s fiduciary net position have been determined on the same basis as they are reported by ICRBP. For this purpose, CCRCRBP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value. The CCRCRBP does not issue a publicly available financial report.

Plan Description

The Road Commission administers a single employer defined benefit healthcare plan. The plan provides healthcare benefits for eligible employees and their spouses upon retirement, in accordance with labor contracts. The benefits are provided under the collective bargaining agreement for union employees and by resolution of the Board of County Road Commissioners for nonunion employees.

Crawford County Road Commission

Notes to Financial Statements

Benefits Provided

Beginning at age 65 the Road Commission pays the lesser of 50% or \$150 of the retiree's monthly premium for supplemental insurance. The retiree's spouse at the time of retirement shall be entitled to lesser of 50% or \$100 of the monthly premium for supplemental insurance. The \$100 amount is paid for the retiree's spouse when the spouse is age 65 or older. These benefits are provided for the retiree until death or age 80, whichever event occurs first. If the retiree dies, the surviving spouse continues to receive the benefit until the deceased retiree would have reached the age of 80.

Participants Covered by the Benefit Terms

At year-end, the following participants were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	26
Inactive plan members entitled to but not yet receiving benefits	-
Active employees	<u>30</u>
Total participants	<u>56</u>

Contributions

The Road Commission has no obligation to make contributions in advance of when the insurance premiums or claims are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). For the year ended September 30, 2019, the Road Commission's actuarially determined contribution was \$72,936. The Road Commission paid retiree premiums of \$127,485 during the year and made contributions to the Plan of \$164,274 to pre-fund the liability. Employees are required to contribute to the premium costs in accordance with the benefit provisions described previously.

Net OPEB Liability

The Road Commission's net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined using the alternative measurement method as permitted GASB Statement 75 for employers in plans with fewer than 100 (one hundred) total plan members.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectation and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Assumptions

The total OPEB liability in the September 30, 2019 valuation was determined using the following actuarial assumptions:

Salary increases	3.5%, average, including inflation
Investment rate of return	3.0%, net of OPEB plan investment expense,
Healthcare cost trend rates	0.0% due to fixed benefit structure that does not fluctuate
Mortality	RP-2014 group annuity mortality table of 50% male and 50% female blend

Crawford County Road Commission

Notes to Financial Statements

Discount Rate

The discount rate used to measure the total OPEB liability was 3.00%. The projection of cash flows used to determine the discount rate assumed that contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability

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

Changes in OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Beginning balance	\$ 1,272,647	\$ -	\$ 1,272,647
Service cost	37,909	-	37,909
Interest	35,491	-	35,491
Benefit payments	(127,485)	(127,485)	-
Employer contributions – retiree benefits paid	-	127,485	(127,485)
Employer contributions – plan contributions	-	164,274	(164,274)
Net investment income	-	5,726	(5,726)
Administrative expenses	-	-	-
Other	41,079	-	41,079
Net changes	(13,006)	170,000	(183,006)
Ending balance	\$ 1,259,641	\$ 170,000	\$ 1,089,641

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

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

	1% Decrease in Rate to 2.00%	Assumed Discount Rate 3.00%	1% Increase in Rate to 4.00%
Net OPEB Liability	\$ 1,206,690	\$ 1,089,641	\$ 985,857

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

Due to the fixed-rate structure of the benefits provided by the Plan, the net OPEB liability is not impacted by changes in the healthcare cost trend rate.

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

The Road Commission recognized a negative net OPEB expense of (\$183,006) during the year. The Road Commission does not report deferred outflows or inflows of resources related to OPEB because it uses the alternative measurement method to determine the balance of the liability.

Crawford County Road Commission

Notes to Financial Statements

NOTE F – Other Matters

Net Equipment Expenditures Balance

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure in the various maintenance activities. An expenditure credit is reported as an offset against the equipment expenditure activities. Accordingly, the equipment rental does not affect total expenditures or the available operating equity of the Road Commission's General Operating Fund. The net balance in equipment expenditures for the year is comprised of the following:

Equipment –	
Direct	\$ 1,231,537
Indirect	459,301
Operating	296,160
Less equipment rental credits	<u>(1,283,389)</u>
Total	<u>\$ 703,609</u>

Capital Outlay Expenditure Balance

On the governmental financial statements, the Road Commission reports a depreciation credit to offset capital outlay as a result of charging depreciation to various expenditure accounts. The net book value of capital asset retirements is also reported as a credit against capital outlay. The balance in capital outlay expenditures for the year is comprised of the following:

Capital outlay	\$ 691,890
Less depreciation / depletion	<u>(704,186)</u>
Total	<u>\$ (12,296)</u>

Risk Management

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for healthcare claims. The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The Michigan County Road Commission Self-insurance Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase excess commercial insurance coverage and to pay member claims in excess of deductible amounts. The pool provides loss coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, trunkline liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. The Road Commission's exposure is limited to \$1,000 per claim; all other risk is transferred to the Pool. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three (3) fiscal years.

The Road Commission is a member of the County Road Association Self-Insurance Fund for workers' compensation claims. As a member of the fund, the Road Commission is fully insured for workers' compensation claims incurred.

Crawford County Road Commission

Notes to Financial Statements

Contingencies

At times, the Road Commission is named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit. Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

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

Federal Award Expenditures / Single Audit

The Michigan Department of Transportation (MDOT) requires that Road Commissions report all Federal and State grants pertaining to their County. During the year, the Federal aid received and expended on behalf of the Road Commission was \$0 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated 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. Because the Road Commission expended less than \$750,000 in negotiated projects, a single audit was not required.



Crawford County Road Commissior

General Operating / Road Func

Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actua

For the Year Ended September 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Property taxes	\$ 698,357	\$ 562,579	\$ 562,640	\$ 61
Licenses and permits	20,000	23,700	24,071	371
State sources				
Michigan transportation funds				
Engineering	10,000	10,000	10,000	-
Snow removal	67,500	67,500	89,229	21,729
Allocation	4,017,414	3,474,270	3,885,141	410,871
Economic development funds				
Forest road (E)	89,000	89,056	89,056	-
Other	645,498	645,498	-	(645,498)
Other				
Other	452,000	227,558	455,352	227,794
Contributions from local units				
Townships	-	416,550	458,116	41,566
Charges for services				
State trunkline maintenance	1,475,000	1,655,000	989,950	(665,050)
State trunkline non-maintenance	-	-	585,682	585,682
Salvage sales	-	-	2,698	2,698
Other	-	-	3,101	3,101
Interest and rentals	500	8,400	13,830	5,430
Other				
Proceeds from sale of capital assets	-	-	1,750	1,750
Proceeds from sale of yard materials	20,000	51,800	30,777	(21,023)
Total revenue	<u>\$ 7,495,269</u>	<u>\$ 7,231,911</u>	<u>\$ 7,201,393</u>	<u>\$ (30,518)</u>

Crawford County Road Commission

General Operating / Road Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (continued)

For the Year Ended September 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Primary Road				
Construction / capacity improvements	\$ -	\$ -	\$ (7,989)	\$ (7,989)
Preservation / structural improvements	1,343,855	1,032,388	1,125,772	93,384
Maintenance	1,100,000	1,230,000	1,402,071	172,071
Local Road				
Construction / capacity improvements	-	61,373	63,919	2,546
Preservation / structural improvements	200,000	926,608	970,562	43,954
Maintenance	1,100,000	1,330,000	1,457,453	127,453
Total preservation and maintenance	3,743,855	4,580,369	5,011,788	431,419
State trunkline maintenance	1,350,000	1,532,000	990,518	(541,482)
State trunkline non-maintenance	-	-	585,682	585,682
Administrative (net)	460,000	480,000	387,716	(92,284)
Equipment (net)	300,000	651,631	703,609	51,978
Capital outlay (net)	(625,000)	(494,185)	(12,296)	481,889
Debt service				
Principal	180,000	142,500	123,914	(18,586)
Interest	-	-	40,797	40,797
Distributive - other	180,000	170,000	-	(170,000)
Distributive fringe benefits	1,700,000	1,843,000	-	(1,843,000)
Total expenditures	<u>7,288,855</u>	<u>8,905,315</u>	<u>7,831,728</u>	<u>(1,073,587)</u>
Net change in fund balance	206,414	(1,673,404)	(630,335)	1,043,069
Fund balance, beginning of year	<u>3,370,644</u>	<u>3,370,644</u>	<u>3,370,644</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 3,577,058</u></u>	<u><u>\$ 1,697,240</u></u>	<u><u>\$ 2,740,309</u></u>	<u><u>\$ 1,043,069</u></u>

Crawford County Road Commission

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios

Last 10 Fiscal Years Ended September 30,

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015*</u>
Total pension liability					
Service cost	\$ 186,389	\$ 180,341	\$ 171,605	\$ 157,370	\$ 154,944
Interest	751,576	728,256	707,800	662,782	641,354
Changes of benefit terms	-	(1,191)	(5,560)	(4,682)	-
Differences in experience	(113,624)	(47,719)	(58,232)	129,045	-
Changes in assumptions	-	-	-	411,691	-
Benefit payments	(567,561)	(574,858)	(553,731)	(545,430)	(530,067)
Other changes	(2)	(2)	(2)	2	1
Net change in total pension liability	<u>256,778</u>	<u>284,827</u>	<u>261,880</u>	<u>810,778</u>	<u>266,232</u>
Total pension liability - beginning	<u>9,585,271</u>	<u>9,300,444</u>	<u>9,038,564</u>	<u>8,227,786</u>	<u>7,961,554</u>
Total pension liability - ending	<u><u>\$ 9,842,049</u></u>	<u><u>\$ 9,585,271</u></u>	<u><u>\$ 9,300,444</u></u>	<u><u>\$ 9,038,564</u></u>	<u><u>\$ 8,227,786</u></u>
Plan fiduciary net position					
Contributions - employer	\$ 639,758	\$ 596,825	\$ 438,313	\$ 383,768	\$ 381,846
Contributions - member	76,826	72,930	62,614	51,442	51,447
Net investment income (loss), net	(159,003)	451,718	346,163	(47,573)	197,860
Benefit payments, including refunds of member contributions	(567,561)	(574,858)	(553,731)	(545,430)	(530,067)
Administrative expenses	(7,722)	(7,133)	(6,832)	(7,002)	(7,247)
Other	-	-	-	-	-
Net change in fiduciary net position	<u>(17,702)</u>	<u>539,482</u>	<u>286,527</u>	<u>(164,795)</u>	<u>93,839</u>
Fiduciary net position - beginning	<u>3,903,836</u>	<u>3,364,354</u>	<u>3,077,827</u>	<u>3,242,622</u>	<u>3,148,783</u>
Fiduciary net position - ending	<u><u>\$ 3,886,134</u></u>	<u><u>\$ 3,903,836</u></u>	<u><u>\$ 3,364,354</u></u>	<u><u>\$ 3,077,827</u></u>	<u><u>\$ 3,242,622</u></u>
Net pension liability - ending	<u><u>\$ 5,955,915</u></u>	<u><u>\$ 5,681,435</u></u>	<u><u>\$ 5,936,090</u></u>	<u><u>\$ 5,960,737</u></u>	<u><u>\$ 4,985,164</u></u>
Fiduciary net position as a percentage of the total pension liability	39.49%	40.73%	36.17%	34.05%	39.41%
Covered-employee payroll	\$ 1,525,646	\$ 1,485,598	\$ 1,411,941	\$ 1,325,779	\$ 1,304,600
Net pension liability as percentage of covered-employee payroll	390.39%	382.43%	420.42%	449.60%	382.12%

* GASB Statement No. 68 was implemented as of September 30, 2015. Information from 2010 through 2014 is not available. Additional years will be presented on this schedule on a prospective basis.

See Notes to Required Supplementary Information

Crawford County Road Commission
Required Supplementary Information
Schedule of Employer's Net Pension Liability
Last 10 Fiscal Years Ended September 30,

	2019	2018	2017	2016	2015*
Total pension liability	\$ 9,842,049	\$ 9,585,271	\$ 9,300,444	\$ 9,038,564	\$ 8,227,786
Plan net position	3,886,134	3,903,836	3,364,354	3,077,827	3,242,622
Net pension liability	5,955,915	5,681,435	5,936,090	5,960,737	4,985,164
Plan net position as a percent of total pension liability	60.51%	59.27%	63.83%	65.95%	60.59%
Covered payroll	\$ 1,525,646	\$ 1,485,598	\$ 1,411,941	\$ 1,325,779	\$ 1,304,600
Net pension liability as a percent of covered payroll	390.39%	382.43%	420.42%	449.60%	382.12%

* GASB Statement No. 68 was implemented as of December 31, 2015. Information from 2010 through 2014 is not available. Additional years will be presented on this schedule on a prospective basis.

See Notes to Required Supplementary Information

Crawford County Road Commission
Required Supplementary Information
Schedule of Employer Contributions - Pension

Last 10 Fiscal Years Ended September 30,

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015*</u>
Actuarially determined contribution	\$ 559,096	\$ 497,358	\$ 564,954	\$ 486,300	\$ 381,846
Contributions in relation to the actuarially determined contribution	<u>687,596</u>	<u>589,279</u>	<u>564,954</u>	<u>486,300</u>	<u>381,846</u>
Contribution deficiency (excess)	<u>\$ (128,500)</u>	<u>\$ (91,921)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,525,646	\$ 1,485,598	\$ 1,411,941	\$ 1,325,779	\$ 1,304,600
Contributions as percentage of covered- employee payroll	45.07%	39.67%	40.01%	36.68%	29.27%

* GASB Statement No. 68 was implemented as of September 30, 2015. Information from 2010 through 2014 is not available. Additional years will be presented on this schedule on a prospective basis.

See Notes to Required Supplementary Information

Crawford County Road Commission

Required Supplementary Information

Schedule of Changes in Net OPEB Liability and Related Ratios

Last 10 Fiscal Years Ended September 30,

	2019	2018*
Total OPEB liability		
Service cost	\$ 37,909	\$ 42,637
Interest	35,491	35,906
Changes of benefit terms	-	-
Differences in experience	-	-
Changes in assumptions	-	-
Benefit payments	(127,485)	(90,579)
Other changes	41,079	39,886
Net change in total OPEB liability	(13,006)	27,850
Total OPEB liability - beginning	1,272,647	1,244,797
Total OPEB liability - ending	\$ 1,259,641	\$ 1,272,647
 Plan fiduciary net position		
Contributions - employer	\$ 291,759	\$ 90,579
Contributions - member	-	-
Net investment income (loss), net	5,726	-
Benefit payments, including refunds of member contributions	(127,485)	(90,579)
Administrative expenses	-	-
Other	-	-
Net change in fiduciary net position	170,000	-
Fiduciary net position - beginning	-	-
Fiduciary net position - ending	\$ 170,000	\$ -
Net OPEB liability - ending	\$ 1,089,641	\$ 1,272,647
 Fiduciary net position as a percentage of the total OPEB liability	13.50%	0.00%
Covered-employee payroll	\$ 1,525,646	\$ 1,485,598
Net OPEB liability as percentage of covered-employee payroll	71.42%	85.67%

* GASB Statement No. 75 was implemented as of September 30, 2018. Information from 2010 through 2017 is not available. Additional years will be presented on this schedule on a prospective basis.

See Notes to Required Supplementary Information

Crawford County Road Commission
Required Supplementary Information
Schedule of Employer's Net OPEB Liability
Last 10 Fiscal Years Ended September 30,

	2019	2018*
Total OPEB liability	\$ 1,259,641	\$ 1,272,647
Plan net position	170,000	-
Net OPEB liability	1,089,641	1,272,647
Plan net position as a percent of total OPEB liability	86.50%	100.00%
Covered payroll	\$ 1,525,646	\$ 1,485,598
Net OPEB liability as a percent of covered payroll	71.42%	85.67%

* GASB Statement No. 75 was implemented as of September 30, 2018. Information from 2010 through 2017 is not available. Additional years will be presented on this schedule on a prospective basis.

See Notes to Required Supplementary Information

Crawford County Road Commission
Required Supplementary Information
Schedule of Employer Contributions - OPEB
Last 10 Fiscal Years Ended September 30,

	2019	2018*
Actuarially determined contribution	\$ 72,936	\$ 80,942
Contributions in relation to the actuarially determined contribution	164,274	-
Contribution deficiency (excess)	\$ (91,338)	\$ 80,942
 Covered-employee payroll	 \$ 1,525,646	 \$ 1,485,598
 Contributions as percentage of covered- employee payroll	 10.77%	 0.00%

* GASB Statement No. 75 was implemented as of September 30, 2018. Information from 2010 through 2017 is not available. Additional years will be presented on this schedule on a prospective basis.

See Notes to Required Supplementary Information

Crawford County Road Commission
Required Supplementary Information
Schedule of Investment Returns - OPEB
Last 10 Fiscal Years Ended December 31,

	<u>2019</u>	<u>2018*</u>
Annual money-weighted rate of return, net of investment expenses	1.07%	0.00%

* GASB Statement No. 75 was implemented as of September 30, 2018. Information from 2010 through 2017 is not available. Additional years will be presented on this schedule on a prospective basis.

See Notes to Required Supplementary Information

Crawford County Road Commission
Notes to Required Supplementary Information

Budgetary Data

The Road Commission’s procedures for establishing budgetary data are as follows:

- * The Road Commission Clerk prepares a proposed operating budget for the fiscal year commencing October 1st. The proposed operating budget includes identification of expenditures and resources to finance them.
- * Prior to September 30th, the proposed budget is presented to the Board of County Road Commissioners. The budget is reviewed and may be amended by the Board and a public hearing is held regarding the proposed
- * The Road Commission’s approved budget was adopted at the activity level. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act, since the Board of County Road Commissioners must approve amendments to the budget at the activity level.
- * The budget for the General Operating / Road Fund is adopted on a basis consistent with U.S. GAAP. Budget amounts reported in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.
- * The Road Commission adopts a budget for the General Operating / Road Fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the State-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.
- * Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. Variances at the legal level of control are as disclosed on the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

Methods and Assumptions Used to Determine Contribution Rates:

Defined Benefit Pension Plan

Valuation date	December 31, 2017
Notes	Actuarially determined contribution rates are calculated as of the December 31 that is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	22 years
Asset valuation method	Open; 10-year smoothed market
Inflation	2.50%
Salary increases	3.75% (plus 0.00% to 11.00% for merit and longevity)
Investment rate of return	7.75% (net of administrative and investment expenses)
Retirement age	Age-based table of rates that are specific to the type of eligibility condition.
Mortality	RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend for non-disabled plan members and 50% Male and 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables for disabled plan members.

Crawford County Road Commission

General Operating / Road Fund

Schedule of Revenues by Component

For the Year Ended September 30, 2019

	<u>Primary Road Funds</u>	<u>Local Road Funds</u>	<u>County Road Commission Funds</u>	<u>Total</u>
Revenues				
Property taxes	\$ 562,640	\$ -	\$ -	\$ 562,640
Licenses and permits	-	-	24,071	24,071
State sources				
Michigan transportation funds				
Engineering	5,877	4,123	-	10,000
Snow removal	-	89,229	-	89,229
Allocation	2,283,184	1,601,957	-	3,885,141
Economic development funds				
Forest road (E)	89,056	-	-	89,056
Other				
Other	-	455,352	-	455,352
Contributions from local units				
City and Village	-	458,116	-	458,116
Charges for services				
State trunkline maintenance	-	-	989,950	989,950
State trunkline non-maintenance	-	-	585,682	585,682
Salvage sales	-	-	2,698	2,698
Other	-	-	3,101	3,101
Interest and rents				
Interest earned	6,208	406	1,968	8,582
Property rentals	-	-	5,248	5,248
Other				
Proceeds from sale of capital assets	1,662	88	-	1,750
Other	-	-	30,777	30,777
Total revenues	<u>\$ 2,948,627</u>	<u>\$ 2,609,271</u>	<u>\$ 1,643,495</u>	<u>\$ 7,201,393</u>

Crawford County Road Commission

General Operating / Road Fund

Schedule of Expenditures by Component

For the Year Ended September 30, 2019

	Primary Road Funds	Local Road Funds	County Road Commission Funds	Total
Expenditures				
Construction / Capacity Improvements	\$ (7,989)	\$ 63,919	\$ -	\$ 55,930
Preservation / Structural Improvements				
Roads	1,119,816	943,869	-	2,063,685
Structures	5,956	-	-	5,956
Other	-	26,693	-	26,693
Maintenance				
Roads	634,870	733,047	-	1,367,917
Winter maintenance	665,093	669,345	-	1,334,438
Traffic control	102,108	55,061	-	157,169
Total construction and maintenance	2,519,854	2,491,934	-	5,011,788
State trunkline maintenance	-	-	990,518	990,518
State trunkline non-maintenance	-	-	585,682	585,682
Administrative expense (net)	194,938	192,778	-	387,716
Equipment expense (net)	195,936	276,271	231,402	703,609
Capital outlay (net)	(22,396)	-	10,100	(12,296)
Debt service				
Principal	123,914	-	-	123,914
Interest	40,797	-	-	40,797
Total expenditures	\$ 3,053,043	\$ 2,960,983	\$ 1,817,702	\$ 7,831,728

Crawford County Road Commission

General Operating / Road Fund

Schedule of Changes in Fund Balance by Component

For the Year Ended September 30, 2019

	Primary Road Funds	Local Road Funds	County Road Commission Funds	Total
Total revenues	\$ 2,948,627	\$ 2,609,271	\$ 1,643,495	\$ 7,201,393
Total expenditures	3,053,043	2,960,983	1,817,702	7,831,728
Revenues over (under) expenditures	(104,416)	(351,712)	(174,207)	(630,335)
Other financing sources (uses)				
Interfund transfers	-	200,000	(200,000)	-
Revenues and other sources over (under) expenditures and other sources (uses)	(104,416)	(151,712)	(374,207)	(630,335)
Fund balance, beginning of year	2,437,844	159,330	773,470	3,370,644
Fund balance, end of year	<u>\$ 2,333,428</u>	<u>\$ 7,618</u>	<u>\$ 399,263</u>	<u>\$ 2,740,309</u>



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A VETERAN OWNED BUSINESS

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of County Road Commissioners
County of Crawford, Michigan
Grayling, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the ***Crawford County Road Commission***, a component unit of Crawford County, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the ***Crawford County Road Commission's*** basic financial statements and have issued our report thereon dated February 22, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ***Crawford County Road 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 ***Crawford County Road Commission's*** internal control. Accordingly, we do not express an opinion on the effectiveness of the ***Crawford County Road 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. We did identify certain deficiencies in internal control, as described as findings 2019-1 and 2019-2 in the accompanying Schedule of Findings and Responses that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether *Crawford County Road Commission's* financial statements are free of 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*.

Road Commission's Responses to Findings

The *Crawford County Road Commission's* written responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Road Commission's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Road 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 Road Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith + Klaehwiz PC

Saginaw, Michigan

February 22, 2020

Crawford County Road Commission

Schedule of Findings and Responses (*continued*)

For the Year Ended September 30, 2019

Finding 2019-1 – Preparation of Financial Statements in Accordance with U.S. GAAP (*repeated*)

Criteria: The Road Commission is required to prepare financial statements in accordance with accounting principles generally accepted in the United States (U.S. GAAP). This is a responsibility of the Road Commission's management. The preparation of financial statements in accordance with U.S. GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized entities, the Road Commission has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Road Commission's ability to prepare financial statements in accordance with U.S. GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

Cause: This condition was caused by the Road Commission's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the Road Commission lacks internal controls over the preparation of financial statements in accordance with U.S. GAAP, and instead relies, in part, on its external auditors for assistance with this task.

**View of
Responsible
Officials:**

The Road Commission has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with U.S. GAAP, and determined that it is in the best interests of the Road Commission to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Crawford County Road Commission

Schedule of Findings and Responses (*concluded*)

For the Year Ended September 30,2019

Finding 2019-2 – Lack of Segregation of Duties (*repeated*)

- Criteria:** An important component of any internal control system is appropriate segregation of duties over key accounting functions. To provide a system of checks and balances, these functions are generally assigned to different employees to minimize the potential for unauthorized transactions. Ideally, no single individual should be able to authorize a transaction, record the transaction in the accounting records and maintain custody of the assets resulting from the transaction. These includes having separate individuals that are authorized and capable of setting up vendors and processing accounts payable, setting up new employees and processing payroll information, making deposits, initiating ACH transactions and creating and posting manual journal entries. Proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and have the ability to conceal it.
- Condition:** As is the case with many organizations of similar size, the Road Commission lacks a sufficient number of accounting personnel in order to completely segregate incompatible duties within its accounting function.
- Cause:** Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the additional personnel that would be required to segregate all incompatible duties.
- Effect:** This condition creates opportunities for inaccurate or unauthorized disbursements or transfers of Road Commission assets and increases the potential for inaccurate reporting of financial activity.
- View of Responsible Officials:** The Road Commission is aware of the weakness in this area and has determined that the strong oversight and involvement of the Board of County Road Commissioners reduces the risk of unauthorized disbursements and inaccurate financial reporting to an acceptably low level.