

# **CRAWFORD COUNTY ROAD COMMISSION**

(A Component Unit of Crawford County, Michigan)

## **Financial Statements**

**For the Year Ended September 30, 2020**



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

THOMAS J. SMITH, CPA  
(989) 751-1167

ROBERT R. KLACZKIEWICZ, CPA  
(989) 751-3064

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, 2020, 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, 2020, 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 18, 2021, 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 + Klayman PC*

**Saginaw, Michigan**

February 18, 2021

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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# Crawford County Road Commission

## Management's Discussion and Analysis

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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, 2020. 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 \$15,587,084 at the end of the year.

Net position is separated into two major components, net investment in capital assets of \$19,096,081 and unrestricted net position / (deficit) of \$(3,508,997). 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 \$6.1 million and \$885,000 respectively on the Statement of Net Position.

The following compares the net position at September 30, 2019 and 2020 in a condensed format:

	<u>2019</u>	<u>2020</u>
Assets –		
Current and other unrestricted assets	\$ 3,620,103	\$ 3,730,721
Capital and other long-term assets	<u>18,482,325</u>	<u>19,863,774</u>
Total assets	<u>22,102,428</u>	<u>23,594,495</u>
Deferred outflows of resources	<u>818,203</u>	<u>1,183,719</u>
Liabilities –		
Current liabilities	879,794	820,644
Long-term liabilities	<u>8,136,398</u>	<u>8,056,494</u>
Total liabilities	<u>9,016,192</u>	<u>8,877,138</u>



# Crawford County Road Commission

## Management's Discussion and Analysis

	<u>2019</u>	<u>2020</u>
Deferred inflows of resources	\$ 123,635	\$ 313,992
Net position –		
Net investment in capital assets	17,594,211	19,096,081
Unrestricted (deficit)	<u>(3,813,407)</u>	<u>(3,508,997)</u>
Total net position	<u>\$ 13,780,804</u>	<u>\$ 15,587,084</u>

The following presents a comparison of revenues, expenses and changes in net position for the year ended September 30, 2019 and 2020 in a condensed format:

	<u>2019</u>	<u>2020</u>
Revenues –		
Charges for services	\$ 2,063,618	\$ 1,335,382
Operating grants and contributions	4,073,426	4,235,320
Capital grants and contributions	455,352	840,160
General revenue	<u>608,997</u>	<u>651,079</u>
Total	<u>7,201,393</u>	<u>7,061,941</u>
Expenses –		
Public works	6,126,879	5,230,067
Debt service	<u>40,797</u>	<u>25,594</u>
Total	<u>6,167,676</u>	<u>5,255,661</u>
Change in net position	<u>\$ 1,033,717</u>	<u>\$ 1,806,280</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, 2020, the fund balance of the Road Commission increased by \$169,768 to \$2,910,077. Of this amount, \$511,079 is not spendable (prepaid items and inventory), \$2,398,998 is restricted because it may only be used to finance future maintenance projects on the road and bridge system.

Total revenues were \$7,061,941, a decrease of \$139,452 as compared to the prior year. This was primarily the result of decreased non-recurring charges for services on the State trunklines, combined with increased Federal and State revenue for operating and capital grants. Total expenditures of \$6,892,173 decreased \$939,555 over the prior year due to decreased activity for road projects, mainly as a result of impacts related to COVID-19 restrictions.

# Crawford County Road Commission

## Management's Discussion and Analysis

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### 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 \$1,248,155 less than the original budget due to changes in projections of several sources, including State sources, contributions from local units and charges for services. The final expenditure budget was \$298,866 more than the original budget due mainly to changes in projections for State trunkline maintenance, equipment expenditures, capital outlay and distributive fringe benefits. The actual revenues were \$424,887 less than the amended budget; actual expenditures were \$1,197,666 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 and distributive costs.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets** – The Road Commission had \$19,863,774 in net capital assets at the end of the year, a net increase of \$1,381,449. 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>2020</u>
Nondepreciable capital assets	\$ 245,708	\$ 247,197
Buildings and improvements, net	977,992	934,370
Equipment, net	1,644,666	1,690,803
Infrastructure, net	<u>15,613,959</u>	<u>16,991,404</u>
Total	<u>\$ 18,482,325</u>	<u>\$ 19,863,774</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 \$767,693. 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 \$120,421 to \$767,693. 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 2020/21 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 2019/20, the Road Commission derived approximately 59% of its revenue from gas and fuel

# **Crawford County Road Commission**

## **Management's Discussion and Analysis**

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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 2020/21 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.



## **BASIC FINANCIAL STATEMENTS**

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## Crawford County Road Commission

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

September 30, 2020

	General Operating / Road Fund	Adjustments	Statement of Net Position
<b>Assets</b>			
Cash and cash equivalents	\$ 2,692,507	\$ -	\$ 2,692,507
Receivables	527,135	-	527,135
Inventories	354,190	-	354,190
Prepaid items	156,889	-	156,889
Capital assets, net			
Assets not being depreciated	-	247,197	247,197
Assets being depreciated	-	19,616,577	19,616,577
Total assets	3,730,721	19,863,774	23,594,495
<b>Deferred outflows of resources</b>	-	1,183,719	1,183,719
Total assets and deferred outflows	\$ 3,730,721	21,047,493	24,778,214
<b>Liabilities</b>			
Accounts payable	\$ 294,764	-	294,764
Accrued liabilities	101,531	-	101,531
Advances			
State trunkline capital equipment	340,203	-	340,203
State trunkline maintenance	84,146	-	84,146
Long-term liabilities			
Net pension liability	-	6,194,217	6,194,217
Net OPEB liability	-	885,450	885,450
Installment purchase agreements			
Due within one year	-	449,047	449,047
Due in more than one year	-	318,646	318,646
Accrued compensated absences			
Due in more than one year	-	209,134	209,134
Total liabilities	820,644	8,056,494	8,877,138
<b>Deferred inflows of resources</b>	-	313,992	313,992
<b>Fund Balance / Net Position</b>			
Fund balance			
Nonspendable			
Inventory	354,190	(354,190)	-
Prepaid items	156,889	(156,889)	-
Restricted for road system	2,398,998	(2,398,998)	-
Total fund balance	2,910,077	(2,910,077)	-
Total liabilities, deferred inflows and fund balance	\$ 3,730,721		
<b>Net Position:</b>			
Net investment in capital assets		19,096,081	19,096,081
Unrestricted (deficit)		(3,508,997)	(3,508,997)
Total net position		\$ 15,587,084	\$ 15,587,084

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, 2020

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Fund balances - General Operating / Road Fund	\$	2,910,077
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		174,105
Add - property and equipment		9,126,366
Add - infrastructure		21,566,876
Deduct - accumulated depreciation		(11,076,665)
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		(6,194,217)
Deferred outflows related to the net pension liability		964,132
Deferred inflows related to the net pension liability		(68,741)
Net OPEB liability		(885,450)
Deferred outflows related to the net OPEB liability		219,587
Deferred inflows related to the net OPEB liability		(245,251)
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		(767,693)
Deduct - accrued compensated absences		(209,134)
Net position of governmental activities	\$	<u>15,587,084</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, 2020*

	<u>General Operating / Road Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>Expenditures/expenses</b>			
Public works	\$ 3,756,493	\$ 1,473,574	\$ 5,230,067
Capital outlay	2,989,665	(2,989,665)	-
Debt service	146,015	(120,421)	25,594
Total expenditures/expenses	6,892,173	(1,636,512)	5,255,661
<b>Program revenue</b>			
Charges for services	1,335,382	-	1,335,382
Operating grants and contributions			
State transportation and other funds	4,235,320	-	4,235,320
Capital grants and contributions			
Federal sources	736,967	-	736,967
State sources	103,193	-	103,193
Total program revenue	6,410,862	-	6,410,862
Net program revenue			1,155,201
<b>General revenue</b>			
Sales of capital assets and yard materials	30,786	-	30,786
Property taxes	611,815	-	611,815
Interest and rents	8,478	-	8,478
Total general revenue	651,079	-	651,079
Total revenue	7,061,941		
Changes in fund balance / net position	169,768	1,636,512	1,806,280
Fund balance / net position:			
Beginning of the year	2,740,309	11,040,495	13,780,804
<b>End of the year</b>	\$ 2,910,077	\$ 12,677,007	\$ 15,587,084

*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, 2020*

Change in fund balance - General Operating / Road Fund	\$	169,768
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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		757,333
Add - infrastructure purchases		2,232,332
Deduct - depreciation expense		(1,606,669)
Deduct - loss on disposal of capital assets		(1,548)

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		120,421
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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		(238,302)
Deferred outflows related to the net pension liability		145,930
Deferred inflows related to the net pension liability		54,894
Net OPEB liability		204,191
Deferred outflows related to the net OPEB liability		219,587
Deferred inflows related to the net OPEB liability		(245,251)

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.

Change in net position of governmental activities	\$	<u>1,806,280</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, 2020*

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<b>Assets</b>	
Investments	\$ 293,940
Receivables	-
<b>Total assets</b>	<u>\$ 293,940</u>
<b>Net position</b> - held in trust for postemployment health benefits	<u>\$ 293,940</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, 2020

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### Additions

Employer contributions	\$ 100,000
Employer contributions - benefits paid from general operating funds	126,563
Investment results, net	23,940
Total additions	<u>250,503</u>

<b>Deductions</b> - participant benefits paid from general operating funds	<u>126,563</u>
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Change in net position	123,940
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### Net position

Beginning of the year	<u>170,000</u>
End of the year	<u>\$ 293,940</u>

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

# Crawford County Road Commission

## Notes to Financial Statements

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### **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

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### **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 31<sup>st</sup>. The 1.0000 mill levy for road maintenance and repair generated as of the taxable valuation of the preceding December 31<sup>st</sup> 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.

#### **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 \$230,181 in road materials and \$124,009 equipment material and parts.

# Crawford County Road Commission

## Notes to Financial Statements

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### Prepaid Items

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

### 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 two items that qualifies for reporting in this category, which are the deferred outflow of resources related to the defined benefit pension plan and the defined benefit OPEB plan. The deferred outflows of resources related to the defined benefit pension and OPEB plans are reported in the government-wide financial statements. The deferred outflows of resources result from differences between expected and actual earnings on plan investments, differences between expected and actual experience, changes in assumptions and contributions to the defined benefit pension plan subsequent to the measurement date.

# Crawford County Road Commission

## Notes to Financial Statements

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### 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, and no provisions are made in these financial statements for any such adjustments.

### 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 future periods and therefore will not be recognized as an inflow of resources (revenue) until that time. The Road Commission has two items that qualifies for reporting in this category, which are the deferred inflow of resources related to the defined benefit pension plan and the defined benefit OPEB plan. The deferred inflows of resources related to the defined benefit pension and OPEB plans are reported in the government-wide financial statements. The deferred inflows of resources result from differences between expected and actual earnings on plan investments, differences between expected and actual experience and changes in assumptions.

### Defined Benefit Pension Plan

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

# Crawford County Road Commission

## Notes to Financial Statements

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employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### Defined Benefit Other Postemployment Benefits Plan (OPEB)

The Road Commission offers healthcare benefits to retirees. The Road Commission records a net OPEB liability for the difference between the total OPEB liability 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.

# Crawford County Road Commission

## Notes to Financial Statements

### 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.

### 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 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:

	<u>General Operating / Road Fund</u>	<u>Employee Healthcare Trust Fund</u>
Cash on hand	\$ 100	\$ -
Deposits with financial institutions - time	262,328	-
Deposits with financial institutions - demand	<u>2,430,079</u>	<u>293,940</u>
Total	<u>\$ 2,692,507</u>	<u>\$ 293,940</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 Crawford County Treasurer's Office. The Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account to make disbursements. Investment activities of Road Commission 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.



# Crawford County Road Commission

## Notes to Financial Statements

- 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.
- 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	30.0%	Not applicable
International stocks	21.0%	Not applicable
Emerging market stocks	9.0%	Not applicable
U.S. bonds	40.0%	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 \$2,694,225 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.

## Crawford County Road Commission

### Notes to Financial Statements

Custodial credit risk associated with the MERS Established Market Portfolio cannot be determined because the investments do not consist of specifically identifiable securities.

#### *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	\$ 356,749
State trunkline maintenance	23,796
State trunkline non-maintenance	51,595
Township road agreements	93,835
Sundry accounts receivable	<u>1,160</u>
<b>Total</b>	<b><u>\$ 527,135</u></b>

#### **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%.	\$ 395,024	\$ -	\$ (36,772)	\$ 358,252	\$ 358,252
Installment purchase agreement: Loader maturing January 2023 bearing interest of 2.52637%.	168,041	-	(13,586)	154,455	13,934
Installment purchase agreement: Vehicles maturing October 2021 bearing interest of 1.97%.	110,740	-	(49,967)	60,773	56,052
Installment purchase agreement: Loader maturing December 2022 bearing interest of 3.49%.	214,309	-	(20,096)	194,213	20,809
Compensated Absences	<u>202,728</u>	<u>6,406</u>	<u>-</u>	<u>209,134</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 1,090,842</u></b>	<b><u>\$ 6,406</u></b>	<b><u>\$ (120,421)</u></b>	<b><u>\$ 976,827</u></b>	<b><u>\$ 449,047</u></b>

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>
2021	\$ 449,047	\$ 21,992
2022	40,558	9,107
2023	<u>278,088</u>	<u>707</u>
<b>Total</b>	<b><u>\$ 767,693</u></b>	<b><u>\$ 31,806</u></b>

## 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 \$209,134.

#### 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	172,616	1,643,399	(1,641,910)	174,105
Total capital assets not being depreciated	245,708	1,643,399	(1,641,910)	247,197
Capital assets being depreciated				
Buildings and improvements	1,958,326	6,881	-	1,965,207
Road equipment	6,227,326	782,091	(85,334)	6,924,083
Shop equipment	162,487	-	-	162,487
Office equipment	62,214	-	-	62,214
Engineer equipment	20,853	-	(8,478)	12,375
Infrastructure - roads	16,662,597	2,199,205	-	18,861,802
Infrastructure – bridges	2,705,074	-	-	2,705,074
Total capital assets being depreciated	27,798,877	2,988,177	(93,812)	30,693,242
Less accumulated depreciation				
Buildings and improvements	(980,334)	(50,503)	-	(1,030,837)
Road equipment	(4,654,939)	(707,088)	83,786	(5,278,241)
Shop equipment	(101,044)	(24,358)	-	(125,402)
Office equipment	(57,968)	(1,505)	-	(59,473)
Engineer equipment	(14,263)	(1,455)	8,478	(7,240)
Infrastructure – roads	(3,549,573)	(754,607)	-	(4,304,180)
Infrastructure – bridges	(204,139)	(67,153)	-	(271,292)
Total accumulated depreciation	(9,562,260)	(1,606,669)	92,264	(11,076,665)
Net capital assets being depreciated	18,236,617	1,381,508	(1,548)	19,616,577
Total net capital assets	\$ 18,482,325	\$ 3,024,907	\$ (1,643,458)	\$ 19,863,774

#### **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](http://www.mersofmichigan.com) or in writing at 1134 Municipal Way, Lansing, Michigan 48917.

# Crawford County Road Commission

## Notes to Financial Statements

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### 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 (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) 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, 2019 measurement date, the following participants were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	34
Inactive plan members entitled to but not yet receiving benefits	-
Active employees	<u>29</u>
Total participants	<u>63</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 28.82% of covered payroll for the General Teamsters open division, 42.60% 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, 3.93% of their annual covered payroll; General closed; 1.60% of their annual covered payroll.

The total pension liability in the December 31, 2019 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	7.60%, 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, 2019 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 7.60%. 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.