

ST. CLAIR COUNTY ROAD COMMISSION
A Component Unit of St. Clair County, Michigan

ANNUAL FINANCIAL REPORT
With Supplementary Information

FOR THE YEAR ENDED DECEMBER 31, 2019

ST. CLAIR COUNTY ROAD COMMISSION
A Component Unit of St. Clair County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of St. Clair County Road Commission
St. Clair, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of St. Clair County Road Commission (the "Road Commission"), a component unit of St. Clair County, Michigan, as of and for the year ended December 31, 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 Road Commission'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 Road Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise St. Clair County Road Commission's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is 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 May 8, 2020 on our consideration of St. Clair 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 St. Clair County Road Commission's internal control over financial reporting and compliance.

UHY LLP

Port Huron, Michigan
May 8, 2020

ST. CLAIR COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the St. Clair County Road Commission (the "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 December 31, 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 St. Clair County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) General 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 Road Commission finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Road Commission assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference 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.

Fund Financial Statements

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

Because the focus of general fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the General Fund

with similar information presented for the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Road Commission's near-term financing decisions. Both the General Fund balance sheet and the statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between General Fund and the government-wide financial statements.

The St. Clair County Road Commission adopts an annual appropriated budget for the General 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 fund financial statements. The notes to the financial statements can be found on pages 11-30 of this report.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Analysis

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Net position is separated into two major components, net investment in capital assets and unrestricted net position, which may be used to meet the ongoing obligations to citizens and creditors. The Road Commission's combined net position decreased 1.4% from a year ago.

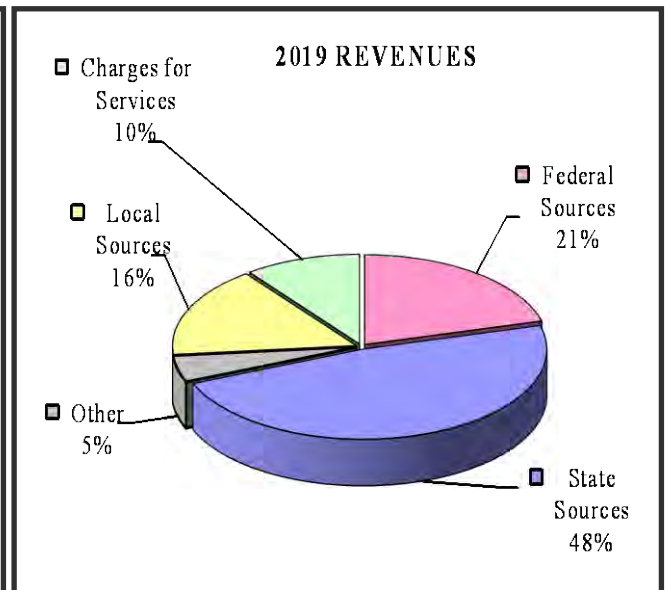
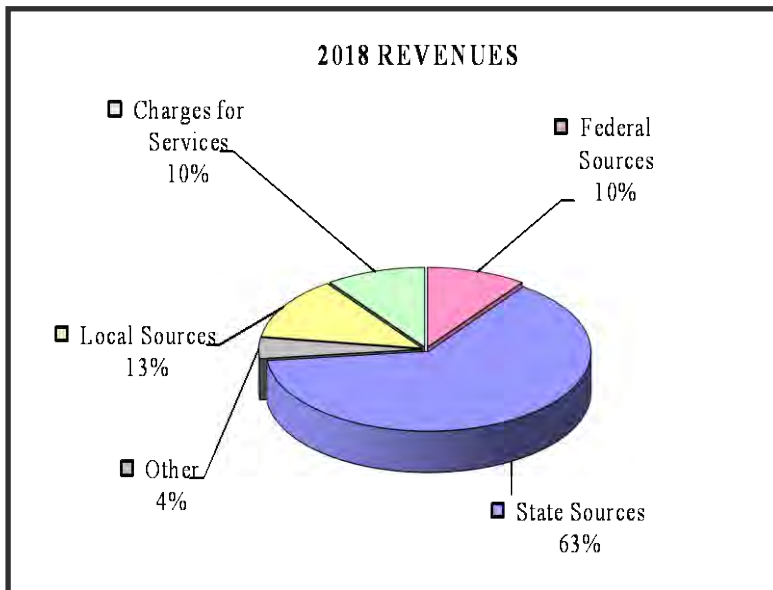
The table below shows a comparison of the net position (in thousands of dollars) as of December 31, 2018 and 2019 in a condensed format.

	<u>2018</u>	<u>2019</u>
Current and other unrestricted assets	\$ 17,436.9	\$ 14,307.2
Capital assets	<u>171,511.0</u>	<u>184,329.2</u>
Total Assets	<u>188,947.9</u>	<u>198,636.4</u>
Deferred Outflows of Resources	<u>4,868.4</u>	<u>9,156.1</u>
Long-term liabilities	35,451.7	22,197.9
Other liabilities	<u>1,977.7</u>	<u>2,328.5</u>
Total Liabilities	<u>37,429.4</u>	<u>24,526.4</u>
Deferred Inflows of Resources	<u>4,377.8</u>	<u>8,701.6</u>
Net Position		
Invested in capital assets-net of debt	171,511.0	184,329.2
Unrestricted	<u>(19,501.9)</u>	<u>(9,764.7)</u>
Total Net Position	<u>\$ 152,009.1</u>	<u>\$ 174,564.5</u>

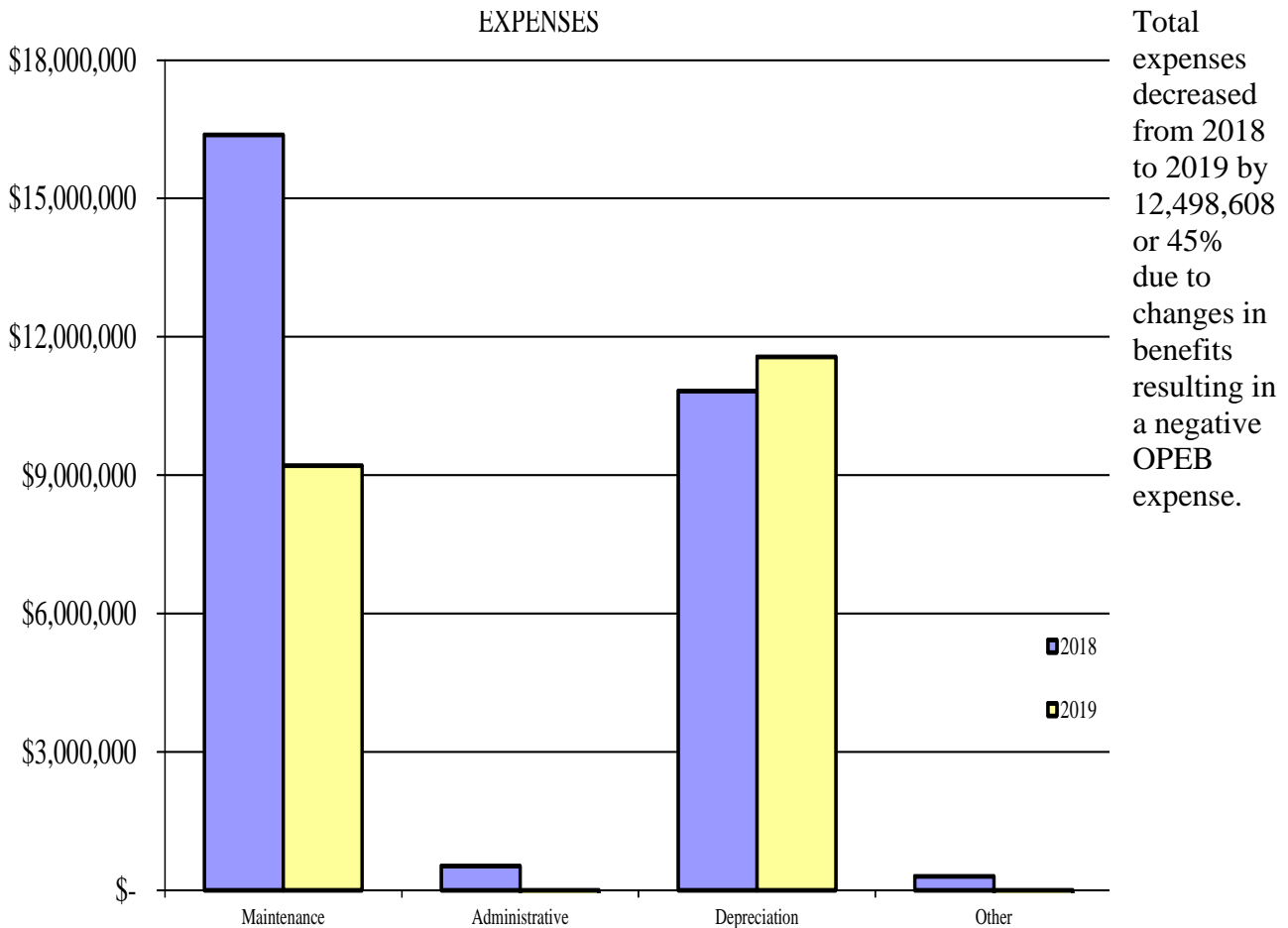
Statement of Activities

The following schedule compares the revenues and expenses (in thousands of dollars) for the current and previous fiscal years.

	<u>2018</u>	<u>2019</u>
Revenues		
Federal sources	\$ 3,808.0	\$ 7,910.4
State sources	24,275.2	18,274.3
Local sources	4,900.9	6,223.7
Charges for services	3,806.6	3,901.8
Other	1,609.7	1,779.2
Total Revenues	<u>38,400.4</u>	<u>38,089.4</u>
Expenses		
Maintenance	16,377.0	9,206.9
Administrative	526.2	(1,038.8)
Depreciation	10,826.8	11,568.3
Other	302.6	(4,202.4)
Total Expenses	<u>28,032.6</u>	<u>15,534.0</u>
Change in Net Position	10,367.8	22,555.4
Net Position - Beginning of Year	<u>141,641.3</u>	<u>152,009.1</u>
Net Postion - End of Year	<u>\$ 152,009.1</u>	<u>\$ 174,564.5</u>



As shown in the preceding table comparing 2018 and 2019 Statement of Activities amounts, total revenue increased by \$310,998 or .08%.



General Fund Financial Analysis

As noted earlier, the focus of the fund (modified accrual) financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$10,789,594, a decrease of \$3,532,747 from the prior year. Nonspendable fund balance is \$1,924,825, assigned fund balance is \$1,494,964, and unassigned fund balance is \$7,369,805 at the end of 2019.

BUDGETARY HIGHLIGHTS

The total difference between the original budget and the final amended budget was a decrease in appropriations of approximately \$1,840,339 or 4.8% of the original fund balance budget. Detail of the original budget, amended budget, and actual amounts may be seen on page 31. Some of the larger variances are described below:

- Federal revenue lower than budgeted mainly due to not completing the construction of the Wales Center Bridge over Pine River and the reconstruction of Capac Roads projects.
- Actual state revenue was higher due to actual MTF revenue being higher than forecasted.
- Local revenue was higher than budgeted due to higher actual than projected Match Money Program projects.

- Local preservation higher than budgeted and local maintenance lower than budgeted due to budgeting the Fisher Road Bridge project as local heavy maintenance instead of local preservation
- Other expenditures were higher due to higher than anticipated unscheduled emergency work performed for the townships plus recording the purchase of federal funds.
- Primary preservation higher than budgeted and primary maintenance lower than budgeted due to budgeting primary crush and shape and primary structure replacement program as primary maintenance instead of primary preservation.

**CAPITAL ASSETS AND DEBT
ADMINISTRATION**

Capital Assets - As of year-end, the Road Commission had \$184,329,215 invested in capital assets (net of accumulated depreciation) as reflected in the following schedule, representing an increase of \$12,818,124.

	<u>2018</u>	<u>2019</u>
Land	\$ 65,629	\$ 65,629
Buildings & Improvements	2,373,874	2,695,700
Equipment	3,703,440	4,207,468
Depletable Assets	117,113	117,113
Infrastructure	<u>165,251,035</u>	<u>177,243,305</u>
 Total	 <u><u>\$ 171,511,091</u></u>	 <u><u>\$ 184,329,215</u></u>

Major capital asset events during the current fiscal year included the following:

- Various equipment purchases including two graders, five pick-ups, two loaders, one excavator, two mowing tractors with boom mowers, one mini excavator, one sewer jet trailer, one dump truck and the refurbishing of the barge.
- Replacement of fueling station at the District 1 warehouse.
- Bridge replacement on Fisher Road over Black River.
- Michigan Road widening for left turn lane.
- Recor Road repaving.
- Fred Moore and Wadhams Rd intersection reconstruction.
- Bridge replacement on Wales Center over Pine River.
- State Road resurfacing.
- Bridge replacement on Starville Road over Beaubien Creek.

Additional information on the Road Commission's capital assets may be found in Note 7 to the financial statements.

Long-term Liabilities - At December 31, 2019, the Road Commission's long-term liability consisted of accrued vacation and sick in the amount of \$460,000 representing a \$40,000 increase over the prior year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In 2017, recently passed legislation provided additional MTF funds which the Road Commission has decided to use to help maintain or replace deteriorating bridges on our Primary system. The St. Clair County Road Commission will continue to look for innovative ways to capture additional revenues and to minimize our expenditures, thereby ensuring long term sustainability.

In 2020, we will be asking our county voters to renew a .25 mill road millage that we use to match federal and state aid on major projects. Some of our larger scheduled 2020 projects include installing a roundabout at Dove and Range, replacing the Meisner Road Bridge over Belle River, and replacing the Flamingo Road Bridge over unnamed canal.

2020 expenditures are forecasted to decrease approximately 10 percent from 2019 levels. Further reductions may be needed if MTF is negatively affected as a result of the COVID-19 pandemic.

CONTACTING THE ST. CLAIR COUNTY ROAD COMMISSION'S MANAGEMENT

This financial report is designed to provide a general overview of the Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the St. Clair County Road Commission, 21 Airport Drive, St. Clair, Michigan 48079.

BASIC FINANCIAL STATEMENTS

ST. CLAIR COUNTY ROAD COMMISSION
A Component Unit of St. Clair County, Michigan

BALANCE SHEET / STATEMENT OF NET POSITION
DECEMBER 31, 2019

	General Fund	Adjustments (Note 2)	Governmental Activities
Assets:			
Cash	\$ 7,458,208	\$ -	\$ 7,458,208
Due from other governmental units	3,696,651	-	3,696,651
Receivables -			
Accounts	26,412	-	26,412
Property taxes	1,201,138	-	1,201,138
Prepaid items	114,346	-	114,346
Inventory	1,810,479	-	1,810,479
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	27,045,012	27,045,012
Assets being depreciated	-	157,284,203	157,284,203
Total Assets	\$ 14,307,234	184,329,215	198,636,449
Deferred Outflows of Resources:			
Related to pension plan		4,670,011	4,670,011
Related to OPEB plan		4,486,097	4,486,097
		9,156,108	9,156,108
Liabilities:			
Accounts payable	\$ 414,919	12,000	426,919
Accrued liabilities	391,468	-	391,468
Advances and deposits	1,310,115	-	1,310,115
Unearned revenue	200,000	-	200,000
Noncurrent liabilities -			
Due within one year	-	360,000	360,000
Due in more than one year	-	21,837,915	21,837,915
Total Liabilities	2,316,502	22,209,915	24,526,417
Deferred Inflows of Resources:			
Taxes levied for subsequent period	1,201,138	-	1,201,138
Related to pension plan	-	1,189,270	1,189,270
Related to OPEB plan	-	6,311,163	6,311,163
Total Deferred Inflows of Resources	1,201,138	7,500,433	8,701,571
Fund Balance:			
Nonspendable - Prepaids and inventory	1,924,825	(1,924,825)	-
Assigned	2,808,517	(2,808,517)	-
Unassigned	6,056,252	(6,056,252)	-
Total Fund Balance	10,789,594	(10,789,594)	-
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 14,307,234		
Net Position:			
Net investment in capital assets		184,329,215	184,329,215
Unrestricted (deficit)		(9,764,646)	(9,764,646)
Total Net Position		\$ 174,564,569	\$ 174,564,569

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

ST. CLAIR COUNTY ROAD COMMISSION
A Component Unit of St. Clair County, Michigan

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	General Fund	Adjustments (Note 2)	Governmental Activities
Revenues:			
Property taxes	\$ 1,149,452	\$ -	\$ 1,149,452
Permits	115,565	-	115,565
Intergovernmental -			
Federal sources	7,910,380	-	7,910,380
State sources	18,274,258	-	18,274,258
Local sources	6,223,755	-	6,223,755
Charges for services	3,901,842	-	3,901,842
Interest and rents	216,884	-	216,884
Other	297,290	-	297,290
Total Revenues	38,089,426	-	38,089,426
Expenditures/Expenses:			
Current -			
Primary preservation - structural improvements	15,112,771	(15,112,771)	-
Local preservation - structural improvements	6,645,734	(6,645,734)	-
Primary maintenance	4,710,652	(2,976,422)	1,734,230
Local maintenance	7,712,417	(3,721,001)	3,991,416
State maintenance	3,481,237	-	3,481,237
Administrative	606,432	(1,645,269)	(1,038,837)
Equipment operations	4,722,872	(2,321,187)	2,401,685
Less: equipment rental charged to other activities	(3,967,559)	-	(3,967,559)
Other	1,771,763	(4,408,296)	(2,636,533)
Depreciation	-	11,568,355	11,568,355
Capital outlay	2,628,731	(2,628,731)	-
Less: depreciation credit and retirements	(1,802,877)	1,802,877	-
Total Expenditures/Expenses	41,622,173	(26,088,179)	15,533,994
Change in fund balance/net position	(3,532,747)	26,088,179	22,555,432
Fund Balance/Net Position at beginning of year	14,322,341	137,686,796	152,009,137
Fund Balance/Net Position at end of year	\$ 10,789,594	\$ 163,774,975	\$ 174,564,569

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

ST. CLAIR COUNTY ROAD COMMISSION
A Component Unit of St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Description of Road Commission Operations -

St. Clair County Road Commission (the "Road Commission"), is a component unit of the County of St. Clair, Michigan (the "County"), and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, reimbursements from the Department of Transportation (MDOT) for work performed within the County on state trunklines, a special County-wide road millage, and contributions from other local units of government (townships) for work performed by the Road Commission. The General Fund is a governmental fund and the only fund of the Road Commission.

The Road Commission, which is established pursuant to the County Road Law (MCL 224.1), operates under a Board appointed by St. Clair County Board of Commissioners. The Road Commission Board consists of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides services to twenty-three (23) townships in St. Clair County and maintains over 2,000 miles of state, local, and primary roads.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation -

The accounting methods and procedures adopted by the St. Clair County Road Commission conform to accounting principles generally accepted in the United States of America as applicable 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 more significant accounting policies are described as follows:

The government-wide financial statements (statement of net position and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are intended to finance operations (the December levy finances the next year's operations). Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The General Fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. The major revenue sources that are susceptible to accrual are motor vehicle highway funds, property taxes, and township contributions. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, pension and other postemployment benefit (OPEB) expenses, and claims and judgements are recorded only when payment is due.

ST. CLAIR COUNTY ROAD COMMISSION
A Component Unit of St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Balance or Net Position -

Cash - The Road Commission's cash is cash on hand, demand deposits, and savings deposits.

Inventories - Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost, which approximates market.

Prepaid Items - Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items in the General Fund and governmental activities financial statements.

Property Taxes - A County Road property tax is levied each December 1 based on the taxable value of real and personal property located in the County as of the preceding December 31 for the various municipalities within the County. Property taxes are recognized as revenues in the year for which they were levied.

The County of St. Clair levied .2500 mills for the year. The revenue generated is to be used to maintain and improve roads and as match funds for federal and state financed projects for roads within the County of St. Clair.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure, are reported in the government-wide financial statements (statement of net position). Capital assets for land, buildings and improvements, and all equipment except road equipment are defined by the Road Commission as assets with a purchase price greater than \$1,000 and an estimated useful life in excess of one year. Road equipment is capitalized as defined by the Michigan Department of Transportation without consideration of a minimum cost. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is computed on the sum-of-the-years digits method for road equipment and straight-line method for all other capital assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	20-50 years
Equipment	4-20 years
Roads	8-20 years
Bridges	25-50 years
Traffic Signals	15 years

ST. CLAIR COUNTY ROAD COMMISSION
A Component Unit of St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges, and traffic signals, which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource (gravel).

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the General Fund financial statements as a charge to various expenditure accounts, and a credit to a depreciation/depletion credit account that is offset against capital outlay. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity (fund balance) of the General Fund financial statements.

The Uniform Accounting Procedures Manual for Michigan County Road Commissions also provides for the net book value of road equipment that is retired to be reported as an equipment retirement in an equipment retirement credit account that is offset against capital outlay. The net of any proceeds received for the retirement (sale, abandonment, or trade-in) is reported as a gain or loss on disposal of equipment. As a result, fund balance of the General Fund is not affected.

Advances from the State of Michigan - The State of Michigan (State) advances funds on a State maintenance agreement that it has with St. Clair County Road Commission for specified maintenance, which the Road Commission will perform during the year, and for equipment purchased and used in performance of the specified maintenance. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

Accrued Vacation and Sick Pay - In accordance with contracts negotiated with the various employee groups, individual employees have a vested right upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts. All amounts vested are accrued in the government-wide financial statements (statement of net position).

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The Road Commission reports deferred outflows of resources related to the pension and OPEB plans. Contributions made subsequent to the measurement date are recognized in the following plan year; the net difference between projected and actual plan investment earnings is amortized over five (5) years; and the remaining deferred outflows of resources are amortized over the expected remaining service lives of the participants.

ST. CLAIR COUNTY ROAD COMMISSION
A Component Unit of St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) so will not be recognized as an inflow of resources (revenue) until that time. The Road Commission has the following items that qualify for reporting in this category: one reported on both the government-wide statement of net position (accrual basis of accounting) and the General Fund balance sheet (modified accrual basis of accounting) for taxes levied for a subsequent period, items reported on the government-wide statement of net position related to the pension and OPEB plans. The tax amounts are recognized as an inflow of resources in the period for which the tax is levied and in the period the amounts become available. The pension and OPEB related deferred inflows of resources are amortized over the expected remaining service lives of the participants, with the exception of the net difference between projected and actual plan investment earnings, which is amortized over five (5) years.

Equipment Rental - The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the cost of operating equipment, including depreciation, be charged (allocated) to the various activities. The credit of this allocation is an offset to equipment expenditures/expenses. As a result, the available fund balance and net position are not affected.

Handling and Overhead Credits - The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the charging of handling and overhead based on a calculation related to a specific project's cost, particularly the State Trunkline agreements, be reported as an expenditure/expense under the appropriate activity and a credit to a handling or overhead credit account that is offset against the Administrative activity. As a result, the available fund balance and net position are not affected.

Fund Balance - In the financial statements, the General Fund reported a fund balance in one or more of the following classifications:

Nonspendable fund balance - the portion of fund balance that cannot be spent because of its form or because it must be maintained intact.

Restricted fund balance - the portion of fund balance that has limitations imposed on use by external sources.

Committed fund balance - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action via board resolution (e.g., to establish, modify or rescind), of the highest level of decision-making authority (Board of County Road Commissioners).

Assigned fund balance - the portion of fund balance that reflects the Road Commission's intended use of resources. Such intent currently must be determined by the Director of Internal Services as provided via resolution of the Board of County Road Commissioners.

Unassigned fund balance - the portion of fund balance in the General Fund that cannot be classified into one of the four categories above.

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NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

When different classifications of fund balance are present, it is the Road Commission's policy that expenditures are to be spent from restricted fund balance first, if appropriate, followed in order by committed fund balance, then assigned and lastly unassigned.

Estimates - In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

A. Explanation of differences between the Balance Sheet and Statement of Net Position (Page 9).

Fund Balance - General Fund	\$ 10,789,594
<p>Capital assets used in governmental activities are not financial resources and therefore not reported in the General Fund statements.</p>	
Add - capital assets	303,305,626
Deduct - accumulated depreciation	(118,976,411)
<p>Certain pension and OPEB contributions and changes in pension and OPEB plan liabilities are reported as deferred outflows (inflows) of resources in the statement of net position.</p>	
Deferred outflows of resources	9,156,108
Deferred inflows of resources	(7,500,433)
<p>Liabilities that are not due in the current period are therefore not reported in the General Fund statements.</p>	
Insurance IBNR	(12,000)
Accrued vacation and sick	(460,000)
Net OPEB liability	(14,390,104)
Net pension liability	(<u>7,347,811</u>)
Net Position - Governmental Activities	<u>\$ 174,564,569</u>

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NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - (cont'd):

- B.** Explanation of differences between the Statement of Revenues, Expenditures, and Changes in Fund Balance and the Statement of Activities (Page 10).

Change in fund balance - General Fund	\$(3,532,747)
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The General Fund reports capital outlay as expenditures; however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay and infrastructure	24,389,126
Deduct - depreciation	(11,568,355)
Deduct - retirements	(2,647)

Some expenses reported in the government-wide Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the General Fund.

Decrease in IBNR	4,000
Increase in accrued sick and vacation	(40,000)
Decrease in net OPEB liability	17,255,387
Increase in net pension liability	(3,961,613)

Changes in deferred outflows/inflows of resources related to the pension and OPEB plans	12,281
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Change in Net Position - Governmental Activities	\$ 22,555,432
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NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Compliance -

The Director of Internal Services prepares from data submitted by the administrative staff a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

The budget for the General Fund is adopted on the modified accrual basis, which is consistent with accounting principles generally accepted in the United States of America.

Prior to May 1, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing in October or November and may add to, subtract from, or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioner's resolution. The budget is approved at the activity level by the Board of County Road Commissioners.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - (cont'd):

Expenditures may not exceed appropriations at the activity level. The Managing Director has been granted the authority by the Board of County Road Commissioners to amend the budget up to 10% of the activity amount. Budgetary control is exercised at the activity level. Individual amendments were material in relation to the original appropriation.

The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Michigan Public Act 621 of 1978, Section 18, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated at the legally enacted level. The Michigan Department of Treasury requires the reporting of any significant overages at the legal level of budgetary control (any overages at the legal level of budgetary control greater than 10% of total expenditures and the overage itself is larger than 10%). For the year ended December 31, 2019, the Road Commission had overages that exceeded these thresholds as follows:

	<u>Appropriations</u>	<u>Expended</u>	<u>Variance</u>
Primary Preservation - Structural Improvements	\$ 9,534,406	\$ 15,112,771	\$ 5,578,365
Local Preservation - Structural Improvements	4,574,378	6,645,734	2,071,356

NOTE 4 - DEPOSITS:

As of December 31, 2019, the carrying amount of deposits is as follows:

Cash on Hand	\$ 250
Deposits with Financial Institutions	<u>7,457,958</u>
	<u>\$ 7,458,208</u>

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

Custodial Credit Risk - Deposits - is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. Michigan Public Acts authorize road commissions to deposit into the accounts of federally insured banks, insured credit unions, and savings and loan associations with an office in Michigan. The Road Commission is in compliance with its investment policy in regards to custodial credit risk.

The Road Commission's deposits consist of demand and savings accounts/time deposits. At December 31, 2019, the bank balance of the Road Commission's deposits is \$7,667,039, of which \$5,173,868 is insured by depository insurance and \$2,493,171 is uninsured and uncollateralized.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS:

Due from other governmental units as of December 31, 2019 consists of the following:

State -			
Motor Vehicle Highway Funds	\$	2,926,064	
Trunkline Maintenance		299,971	
Transportation Department - Other		<u>104,881</u>	
		<u>3,330,916</u>	
Local -			
Township Road Agreements		194,268	
Other services		<u>171,467</u>	
		<u>365,735</u>	
	<u>\$</u>	<u>3,696,651</u>	

NOTE 6 - INVENTORY:

The inventory balance of \$1,810,479 at December 31, 2019 consisted of \$1,409,879 of road materials and \$400,600 of equipment parts and materials.

NOTE 7 - CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Balance January 1, 2019	Additions	Deletions/ Removals	Balance December 31, 2019
Capital Assets, not being depreciated -				
Land	\$ 65,629	\$ -	\$ -	\$ 65,629
Land Improvements	23,757,337	-	-	23,757,337
Right of Ways	<u>3,220,156</u>	<u>1,890</u>	-	<u>3,222,046</u>
Total Capital Assets, not being depreciated	<u>27,043,122</u>	<u>1,890</u>	-	<u>27,045,012</u>
Capital Assets, being depreciated -				
Building and Improvements	5,819,153	464,753	-	6,283,906
Road Equipment	15,919,626	2,156,701	1,607,892	16,468,435
Shop Equipment	747,113	7,277	5,650	748,740
Office Equipment	180,174	-	2,077	178,097
Engineering Equipment	337,188	-	16,404	320,784
Infrastructure -				
Roads	152,614,217	14,404,603	6,827,405	160,191,415
Bridges	84,091,067	7,353,902	-	91,444,969
Traffic Signals	460,813	-	-	460,813
Depletable Assets -				
Gravel Pits	<u>163,455</u>	<u>-</u>	<u>-</u>	<u>163,455</u>
	<u>260,332,806</u>	<u>24,387,236</u>	<u>8,459,428</u>	<u>276,260,614</u>

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 7 - CAPITAL ASSETS - (cont'd):

	Balance January 1, 2019	Additions	Deletions/ Removals	Balance December 31, 2019
Less - Accumulated Depreciation for -				
Buildings and Improvements	\$ 3,445,279	\$ 142,927	\$ -	\$ 3,588,206
Road Equipment	12,472,942	1,614,997	1,605,245	12,482,694
Shop Equipment	591,331	16,902	5,650	602,583
Office Equipment	167,105	6,700	2,077	171,728
Engineering Equipment	249,283	18,704	16,404	251,583
Infrastructure -				
Roads	73,586,421	7,816,226	6,827,405	74,575,242
Bridges	24,872,435	1,946,400	-	26,818,835
Traffic Signals	433,699	5,499	-	439,198
Depletable Assets	46,342	-	-	46,342
	<u>115,864,837</u>	<u>11,568,355</u>	<u>8,456,781</u>	<u>118,976,411</u>
Total Capital Assets, being depreciated, net	<u>144,467,969</u>	<u>12,818,881</u>	<u>2,647</u>	<u>157,284,203</u>
Governmental Activity Capital Assets, net	<u>\$ 171,511,091</u>	<u>\$ 12,820,771</u>	<u>\$ 2,647</u>	<u>\$ 184,329,215</u>

Total depreciation for the year ended December 31, 2019 was \$11,568,355.

NOTE 8 - FEDERAL AWARDS:

It is required by the Michigan Department of Transportation (MDOT) that road commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures are required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the remaining balance is administered by MDOT.

During the year ended December 31, 2019, St. Clair County Road Commission had less than \$750,000 of force account and other contract expenditures applicable to federal awards. As a result, an audit for compliance under the Single Audit Act has not been performed.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 9 - ADVANCES AND DEPOSITS:

Advances of \$1,310,115 at December 31, 2019 represent money advanced by the State of Michigan under the maintenance contract the Road Commission has with the State for cash flow and equipment purchases and advances from townships, contractors, and individuals for various projects. Both State advances are adjusted annually by the State and must be repaid if the maintenance contract is canceled. The following is a summary of the balance by source and use:

State -		
Trunkline maintenance	\$	896,507
Equipment		<u>292,191</u>
		1,188,698
Local -		
Other Governmental Units -		
Township advances		111,417
Contractors and Individuals -		
Permits		<u>10,000</u>
	<u>\$</u>	<u>1,310,115</u>

NOTE 10 - LETTER OF CREDIT:

The Road Commission has a letter of credit as a surety bond issued to the Michigan Department of Environmental Quality for \$40,250. The letter is set to mature on August 2, 2020 with interest of 1.0% in excess of the prime rate and collateralized by a hold on a checking account. As of December 31, 2019, there have been no claims on the letter of credit.

NOTE 11 - LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2019:

	Restated Balance January 1, <u>2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2019</u>	Due Within <u>One Year</u>
Accrued Vacation & Sick	\$ 420,000	\$ 600,000	\$ 560,000	\$ 460,000	\$ 360,000
Net Pension Liability (See Note 12)	3,386,198	3,961,613	-	7,347,811	-
Net OPEB Liability (See Note 13)	<u>31,645,491</u>	<u>-</u>	<u>17,255,387</u>	<u>14,390,104</u>	<u>-</u>
	<u>\$35,451,689</u>	<u>\$ 4,561,613</u>	<u>\$ 17,815,387</u>	<u>\$ 22,197,915</u>	<u>\$ 360,000</u>

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NOTES TO FINANCIAL STATEMENTS
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NOTE 11 - LONG-TERM LIABILITIES - (cont'd):

Significant details regarding outstanding long-term liabilities are presented below:

Accrued Sick and Vacation -

In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payment for unused sick leave and vacation under formulas and conditions specified in the contracts. The dollar amount of these vested rights, which has been accrued, on the government-wide financial statements amounted to approximately \$140,000 for sick leave and \$320,000 for vacation at December 31, 2019.

NOTE 12 - RETIREMENT PLANS:

DEFINED BENEFIT PLAN

Plan Description -

Full-time employees, hired prior to August 23, 2011, of St. Clair County Road Commission are covered under the St. Clair County Retirement System. The St. Clair County Retirement System is a single-employer defined benefit pension plan (the "Plan"), which was established by County ordinance in 1964 to provide retirement and pension benefits for eligible employees of St. Clair County, St. Clair County Road Commission, and St. Clair County Community Mental Health Authority. The Road Commission shares its experience risks and benefits with the County and as such, it is reported as a cost sharing multiple-employer plan. The system is administered, managed and operated by a Board composed of 9 Trustees, the chairperson of the Board of Commissioners or their appointee, a member of the Board of Commissioners, a member of the St. Clair County Road Commission Board, one appointed citizen, four elected employees of the retirement system, and one retired member elected by the retired members. The benefit provisions are governed by Act No. 427 of the Michigan Public Acts of 1984, as amended. The Plan may be amended by the County Board of Commissioners.

The County issues a publicly available annual financial statement that includes financial statements of the Plan. The report may be obtained from St. Clair County by writing to the Administrator/ Controller's office at 200 Grand River Suite 203, Port Huron, Michigan, 48060, or by calling (810) 989-6900. The Plan's financial statements are prepared using the accrual basis of accounting. Contributions are recognized as revenue when due and payable. Benefits and refunds are recognized when due and are payable in accordance with the Plan. Plan investments are reported at fair value or estimated fair value.

Benefits Provided -

In general, all employees are eligible for regular retirement when age plus service equals 80 with 25 years of service, or age 60 with 8 years of service. Maximum benefits are 75% of final average compensation.

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DECEMBER 31, 2019

NOTE 12 - RETIREMENT PLANS - (cont'd):

In addition to the regular retirement provisions, the system allows for the following retirement provisions at regular or reduced benefits:

- Deferred Retirement - 8 or more years of service, benefits begin at 60 or at age 55 with 25 or more years of service.
- Death In-Service - 10 or more years of service.
- Duty Disability - no age or service requirements but must be in receipt of workers' compensation payments.
- Non-Duty Disability - 10 or more years of service.
- Life insurance - \$3,500 policy to retirees.
- Supplemental Payments to Retirees Age 65 and Older - retirees with less than 20 years of service receive \$14 per month and those with 20 or more years of service at retirement receive \$16 per month.

Contributions -

The Plan provides for periodic employer contributions at actuarially determined rates. The required employer contributions were \$647,111 for the year ended December 31, 2019. Employee contributions represent 8.00% of covered payroll. During the year ended December 31, 2019, contributions totaling \$1,340,686 (\$1,067,495 employer and \$273,191 employee) were made in accordance with contribution requirements determined by an actuarial valuation for the Plan as of December 31, 2017. The contribution requirement of a Plan member and the Road Commission are established by the St. Clair County Retirement Board and may be amended by the St. Clair County Board of Commissioners. Most administrative costs of the Plan are paid with retirement assets.

Net Pension Liability -

The net pension liability of the Road Commission has been measured as of December 31, 2018 and has been determined on the same basis as used by the Plan. The Road Commission's net pension liability is 16.39 percent of the Plan's liability, compared to 18.13 percent at December 31, 2017, and is composed of the following:

Total pension liability	\$	42,440,864
Plan fiduciary net position		35,093,053
Net pension liability		\$ 7,347,811
Fiduciary net position as a percentage of the total pension liability		82.69%

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NOTES TO FINANCIAL STATEMENTS
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NOTE 12 - RETIREMENT PLANS - (cont'd):

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

For the year ended December 31, 2019, the Road Commission recognized pension expense of \$1,215,841. At December 31, 2019, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in proportion and differences between actual contributions and proportionate share of contributions	\$ -	\$ 701,025
Differences between expected and actual experience	-	380,160
Changes in assumptions	364,117	108,085
Net difference between projected and actual earnings on Plan investments	3,238,399	-
Contributions made subsequent to the measurement date	<u>1,067,495</u>	<u>-</u>
	<u>\$ 4,670,011</u>	<u>\$ 1,189,270</u>

The amounts of deferred outflows of resources and deferred inflows of resources related to pension, excluding contributions to the Plan subsequent to the measurement date, which will be recognized by the Plan in the next measurement period, will be recognized in pension expense as follows:

2020	\$ 688,674
2021	166,351
2022	604,731
2023	<u>953,490</u>
	<u>\$ 2,413,246</u>

Actuarial Assumptions -

The total pension liability was determined by an actuarial valuation as of December 31, 2017, which used updated procedures to roll forward the estimated liability to December 31, 2018. The valuation used the following actuarial assumptions based on the most recent study of Plan experience completed in December 2013:

Inflation	2.50 %
Salary increases	3.50-8.00
Investment rate of return	7.50

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NOTES TO FINANCIAL STATEMENTS
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NOTE 12 - RETIREMENT PLANS - (cont'd):

Mortality Rate - Mortality rates were based on RP2014 Mortality Table with generational improvements from 2006 based on the social security mortality improvement assumptions from the 2016 Trustees' Report.

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that County contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows -

Based on the assumptions above, the 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 Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of December 31, 2018 for each major asset class included in the Plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Fixed Income	25.0 %	2.83 %
Domestic Equity	35.0	8.03
International Equity	25.0	8.25
Hedge Funds	2.5	3.60
Real Estate	12.5	7.20
Cash	0.0	0.50

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

The following presents the net pension liability, calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Net pension liability	\$ 11,607,032	\$ 7,347,811	\$ 3,706,942

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 12 - RETIREMENT PLANS - (cont'd):

DEFINED CONTRIBUTION PLAN:

The Road Commission provides pension benefits through a defined contribution plan to employees not participating in the defined benefit Plan. In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus any investment earnings. The Road Commission matches employee contributions up to 8% of total wages and is subject to forfeiture by the employee based on a 5-year vesting schedule. Plan provisions may be changed by agreement of the Board of County Road Commissioners and the unions. Employee contributions are 100% vested at the time of contribution.

For the year ended December 31, 2019, the Road Commission contributed \$163,045 to the Plan.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS:

Plan Description and Benefits Provided -

In addition to the retirement benefits described above, St. Clair County Road Commission provides postemployment benefits for those employees that are part of the defined benefit St. Clair County Retirement System as described in Note 12. Postemployment benefits consist of health, dental, and prescription drug coverage. The plan is closed to all new participants. (The plan was closed to participants as of August 23, 2011 for clerical and TPOAM and as of September 14, 2011 for production and operating engineer divisions.)

The County issues publicly available annual financial statements that include financial statements for the plan. That report may be obtained from St. Clair County by writing to Administrator/Controller 200 Grand River, Port Huron, Michigan, 48060, or by calling (810) 989-6900.

Contribution and Funding Policy -

The funding policy provides for periodic employer contributions at actuarially determined rates. The plan requires no member contributions for Road Commission employees. During the year ended December 31, 2019, employer contributions of \$1,385,614 were made by the Road Commission. The actuarial valuation dated December 31, 2018 determined a required contribution for calendar 2019 of \$1,470,258.

The contributions of the OPEB Plan members and the Road Commission are established and may be amended by the St. Clair County Board of Commissioners. Most administrative costs of the OPEB Plan are paid with OPEB Plan assets.

The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculation.

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NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Net OPEB Liability -

The net OPEB liability of the Road Commission has been measured as of December 31, 2018 and has been determined on the same basis as used by the OPEB Plan. The Road Commission's net OPEB liability is 27.08 percent of the OPEB Plan's liability, compared to 21.52 percent at December 31, 2017, and is composed of the following:

Total OPEB liability	\$ 16,862,700
Plan fiduciary net position	<u>2,472,596</u>
Net OPEB liability	\$ <u>14,390,104</u>
 Fiduciary net position as a percentage of the total OPEB liability	 14.66%

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

For the year ended December 31, 2019, the Road Commission recognized OPEB expense of \$(12,068,789). At December 31, 2019, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in proportion and differences between actual contributions and proportionate share of contributions	\$ 1,142,995	\$ 646,631
Differences between expected and actual experience	114,200	2,368,072
Changes in assumptions	1,202,423	3,296,460
Net difference between projected and actual earnings on OPEB Plan investments	640,865	-
Contributions made subsequent to the measurement date	<u>1,385,614</u>	<u>-</u>
	\$ <u>4,486,097</u>	\$ <u>6,311,163</u>

The amounts of deferred outflows of resources and deferred inflows of resources related to OPEB, excluding contributions to the OPEB Plan subsequent to the measurement date, which will be recognized by the OPEB Plan in the next measurement period, will be recognized in OPEB expense as follows:

2020	\$(1,149,192)
2021	(1,149,192)
2022	(1,149,185)
2023	<u>236,889</u>
	\$ <u>(3,210,680)</u>

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NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Actuarial Assumptions -

The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, which used updated procedures to roll forward the estimated liability to December 31, 2018. The valuation used the following actuarial assumptions based on the most recent study of OPEB Plan experience completed in December 2013:

Inflation	2.00 %
Salary increases	3.50-8.00
Investment rate of return	6.34
Healthcare cost trend rate	8.50 decreasing to 5.00% by increments of 0.50% over 8 years

Mortality Rate - Mortality rates were based on RP2017 Mortality Table with generational improvements from 2006 based on the social security mortality improvement assumptions.

Discount Rate - The discount rate used to measure the total OPEB liability was 5.20 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that County contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

The following changes in assumptions were made in the December 31, 2017 valuation and had a significant effect on the OPEB liability:

- Discount rate changed from 5.00% to 6.50%
- Mortality Table changed from RP 2016 to RP 2017
- Annual healthcare trend rates for the Medicare Advantage Plan are based on projected premium decreases due to plan design changes of -42.32% from 2018 to 2019, -2.09% the following year, and 0.36% for the years thereafter.

Projected Cash Flows -

Based on the assumptions above, the OPEB Plan's fiduciary net position was projected to be available to make all projected future benefit payments through 2046. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to these periods of projected benefit payments to determine the total OPEB liability, and a bond index range of 3.64%-4.11% was used for the remaining years. The bond index is the average yield for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

ST. CLAIR COUNTY ROAD COMMISSION
A Component Unit of St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

The long-term expected rate of return on OPEB Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of December 31, 2018 for each major asset class included in the OPEB Plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	40.00 %	2.80 %
Domestic Equity	38.00	5.70
International Equity	16.00	6.20
Hedge Funds	0.00	1.10
Real Estate	1.00	4.70
Cash	5.00	0.20

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

The following presents the net OPEB liability, calculated using the discount rate of 5.20 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.20 percent) or 1-percentage-point higher (6.20 percent) than the current rate.

	1% Decrease (4.20%)	Current Discount Rate (5.20%)	1% Increase (6.20%)
Net OPEB liability	<u>\$ 16,906,962</u>	<u>\$ 14,390,104</u>	<u>\$ 12,351,478</u>

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

The following presents the net OPEB liability, calculated using assumed trend rates, as well as what the net OPEB liability would be using a trend rate that is 1-percentage-point lower (7.50-4.00 percent) or 1-percentage-point higher (9.50-6.00 percent) than the current rate.

	1% Decrease (7.50-4.00%)	Current Healthcare Cost Trend Rate (8.50-5.00%)	1% Increase (9.50-6.00%)
Net OPEB liability	<u>\$ 11,995,911</u>	<u>\$ 14,390,104</u>	<u>\$ 17,402,134</u>

ST. CLAIR COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 14 - ASSIGNED FUND BALANCE:

The Road Commission Fund Balance at December 31, 2019 has been assigned as follows:

Township Match Money/Berm Programs	\$ 575,000
Primary Preservation/Structural Improvements	100,000
Local Road Funding Assistance	350,000
Adair Site	156,776
Deanville Pit	313,188
2020 Operations	<u>1,313,553</u>
	<u>\$ 2,808,517</u>

NOTE 15 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

In the normal course of its operations, the St. Clair County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

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

Also, as part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State, cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

NOTE 16 - RISK MANAGEMENT:

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (the "Pool") established pursuant to the laws of the State of Michigan, which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts. The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop-loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

ST. CLAIR COUNTY ROAD COMMISSION
A Component Unit of St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 16 - RISK MANAGEMENT - (cont'd):

The Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage, and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also a member of the County Road Association Self Insurance Fund for workers' compensation insurance. The Fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The Fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Fund.

The Road Commission continues to carry commercial insurance for accident insurance. The amount of settlements (claims) for the past three years has not exceeded insurance coverage.

The Road Commission is self-insured for health care benefits. The administrative services for the self-insured program are performed on a contractual basis by a third party. The Road Commission makes monthly payments, based on estimated claims and a stop-loss provision (up to \$30,000 per contract per contract year), which are adjusted quarterly. Based on past history and current available data, the Road Commission has estimated accrued health care claims in excess of the last quarter payments, including an estimate for claims incurred but not reported (IBNR) of \$12,000 at December 31, 2019.

Changes in the balance of claims liability are as follows:

	2019	2018
Unpaid claims, beginning of year	\$ 16,000	\$ 42,000
Incurred claims (including IBNR's)	1,289,601	1,128,182
Claims paid	(1,293,601)	(1,154,182)
Unpaid claims, end of year	12,000	16,000
Less - Current portion	(12,000)	(16,000)
Long-term Liabilities	\$ -	\$ -

NOTE 17 - SUBSEQUENT EVENT:

Towards the end of December 2019, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. There have been mandates from Federal, State, and local authorities requiring forced closures of non-essential businesses and stay-at-home orders for most states, including Michigan, which could negatively impact the Road Commission's activities and funding. The initial effect has been a reduction of staff, projects being delayed, and the anticipation of a significant decrease in State funding; however, because the virus is just beginning to impact the service area, it is not possible to estimate the length or severity of this outbreak and hence its financial impact.

REQUIRED SUPPLEMENTARY INFORMATION

ST. CLAIR COUNTY ROAD COMMISSION
A Component Unit of St. Clair County, Michigan

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 1,100,000	\$ 1,100,000	\$ 1,149,452	\$ 49,452
Permits	150,000	150,000	115,565	(34,435)
Intergovernmental -				
Federal sources	7,672,605	8,520,760	7,910,380	(610,380)
State sources	18,080,000	17,110,000	18,274,258	1,164,258
Local sources	4,154,500	4,875,058	6,223,755	1,348,697
Charges for services	3,890,000	3,890,000	3,901,842	11,842
Interest and rents	205,000	205,000	216,884	11,884
Other	-	-	297,290	297,290
Total Revenues	<u>35,252,105</u>	<u>35,850,818</u>	<u>38,089,426</u>	<u>2,238,608</u>
Expenditures:				
Current -				
Primary preservation - structural improvements	11,031,429	9,534,406	15,112,771	(5,578,365)
Local preservation - structural improvements	1,800,000	4,574,378	6,645,734	(2,071,356)
Primary maintenance	10,572,000	9,885,764	4,710,652	5,175,112
Local maintenance	7,723,000	8,785,220	7,712,417	1,072,803
State maintenance	3,890,000	3,890,000	3,481,237	408,763
Administrative	565,000	565,000	606,432	(41,432)
Equipment operations - net	425,000	850,000	755,313	94,687
Other	575,000	575,000	1,771,763	(1,196,763)
Capital outlay - net	1,650,000	1,412,000	825,854	586,146
Total Expenditures	<u>38,231,429</u>	<u>40,071,768</u>	<u>41,622,173</u>	<u>(1,550,405)</u>
Net Change in fund balances	(2,979,324)	(4,220,950)	(3,532,747)	688,203
Fund Balance at beginning of year	<u>14,322,341</u>	<u>14,322,341</u>	<u>14,322,341</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 11,343,017</u>	<u>\$ 10,101,391</u>	<u>\$ 10,789,594</u>	<u>\$ 688,203</u>

ST. CLAIR COUNTY ROAD COMMISSION
A Component Unit of St. Clair County, Michigan

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST TEN YEARS
(PLAN YEAR END)

	<u>Proportion of Net Pension Liability</u>	<u>Proportionate Share of Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</u>
2018	16.39%	\$ 7,347,811	\$ 3,198,320	229.74%	82.69%
2017	18.13%	3,386,198	3,479,593	97.32%	91.94%
2016	19.28%	6,486,984	3,536,730	183.42%	84.68%
2015	22.86%	7,393,819	3,842,251	192.43%	82.46%
2014	21.76%	5,045,124	3,796,636	132.88%	87.65%

* GASB Statement No. 68 was implemented for fiscal year ended December 31, 2015. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

ST. CLAIR COUNTY ROAD COMMISSION
A Component Unit of St. Clair County, Michigan

SCHEDULE OF ROAD COMMISSION PENSION CONTRIBUTIONS
LAST TEN YEARS

<u>For the year ended December 31,</u>	<u>Actuarially Determined Contributions (ADC)</u>	<u>Contributions</u>	<u>Contribution Excess</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2019	\$ 647,111	\$ 1,067,495	\$(420,384)	\$ 3,414,891	31.26%
2018	725,154	1,075,163	(350,009)	3,439,420	31.26%
2017	910,369	1,088,454	(178,085)	3,481,943	31.26%
2016	964,059	1,137,998	(173,939)	3,640,430	31.26%
2015	961,297	1,162,712	(201,415)	3,719,490	31.26%

Valuation Date: December 31 two years prior to the end of the fiscal year

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of pay, open
Remaining amortization period	15 years
Asset valuation method	5-year smoothing
Salary increases	3.5%-8.0%, including inflation of 3.0%
Investment rate of return	7.50%
Retirement age	Replacement Index up to age 65, then 100%
Mortality	2018: RP-2014 Mortality Table with generational improvements from 2006 based on Social Security mortality improvement assumptions from the 2016 Trustees' Report 2017: RP-2014 Mortality Table with generational improvements from 2006 based on Social Security mortality improvement assumptions from the 2015 Trustees' Report 2016 and prior: RP 2000 Combined Healthy generational mortality with Scale AA

* GASB Statement No. 68 was implemented for fiscal year ended December 31, 2015. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

ST. CLAIR COUNTY ROAD COMMISSION
A Component Unit of St. Clair County, Michigan

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
LAST TEN YEARS
(PLAN YEAR END)

	<u>Proportion of net OPEB liability</u>	<u>Proportionate share of net OPEB liability</u>	<u>Covered Payroll</u>	<u>Proportionate share of net OPEB liability as a percentage of covered payroll</u>	<u>Plan fiduciary net position as a percentage of total OPEB liability</u>
2018	27.08%	\$ 14,390,104	\$ 3,392,127	424.22%	14.66%
2017	21.52%	31,645,491	3,596,775	879.83%	5.35%

* GASB Statement No. 75 was implemented for fiscal year ended December 31, 2018. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

ST. CLAIR COUNTY ROAD COMMISSION
A Component Unit of St. Clair County, Michigan

SCHEDULE OF ROAD COMMISSION OPEB CONTRIBUTIONS
LAST TEN YEARS

For the year ended December 31,	Actuarially Determined Contributions (ADC)	Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2019	\$ 1,470,258	\$ 1,385,614	\$ 84,644	\$ 3,277,260	42.28%
2018	1,516,284	1,491,527	24,757	3,439,420	43.37%

Valuation Date: December 31 of the year prior

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of salary, closed
Remaining amortization period	11 years
Asset valuation method	5-year smoothing
Salary increases	3.5%-8.0%, including inflation of 3.0%
Investment rate of return	6.50%
Retirement age	Replacement Index up to age 65, then 100%
Mortality	RP-2017 Mortality Table with generational improvements from 2006 based on Social Security mortality improvement assumptions

* GASB Statement No. 75 was implemented for fiscal year ended December 31, 2018. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

SUPPLEMENTARY INFORMATION

ST. CLAIR COUNTY ROAD COMMISSION
A Component Unit of St. Clair County, Michigan

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BY FUND BALANCE SUB-ACCOUNTS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	Primary	Local	County	Total
Revenues:				
Property taxes	\$ -	\$ -	\$ 1,149,452	\$ 1,149,452
Licenses and permits	-	-	115,565	115,565
Intergovernmental -				
Federal Sources	5,010,383	2,899,997	-	7,910,380
State Sources	12,909,048	5,365,210	-	18,274,258
Local Sources	-	3,541,679	2,682,076	6,223,755
Charges for services	-	-	3,901,842	3,901,842
Interest & rents	6,463	10,790	199,631	216,884
Other	-	-	297,290	297,290
Total Revenues	17,925,894	11,817,676	8,345,856	38,089,426
Expenditures:				
Preservation - structural improvements	15,112,771	6,645,734	-	21,758,505
Maintenance	4,710,652	7,712,417	-	12,423,069
Other -				
Trunkline maintenance	-	-	3,406,015	3,406,015
Trunkline nonmaintenance	-	-	75,222	75,222
Administrative - net	351,697	254,735	-	606,432
Equipment - net	213,227	331,768	210,318	755,313
Other	285,398	-	1,486,365	1,771,763
Capital outlay - net	-	-	825,854	825,854
Total Expenditures	20,673,745	14,944,654	6,003,774	41,622,173
Net Change in Fund Balance Sub Accounts	(2,747,851)	(3,126,978)	2,342,082	(3,532,747)
Fund Balance at beginning of year	841,240	1,403,122	12,077,979	14,322,341
Interfund adjustments	2,256,611	1,773,856	(4,030,467)	-
Fund Balance at end of year	\$ 350,000	\$ 50,000	\$ 10,389,594	\$ 10,789,594