

Lake
County
Road
Commission

(A Component Unit of Lake County, Michigan)

Financial Statements

For the Year Ended December 31, 2020



SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

Lake County Road Commission

(A Component Unit of Lake County)

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Lake County Road Commission

(A Component Unit of Lake County)

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SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

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A VETERAN OWNED BUSINESS

Independent Auditor's Report

To the Board of County Road Commissioners
County of Lake, Michigan
Baldwin, 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 *Lake County Road Commission*, a component unit of Lake County, Michigan, as of and for the year ended December 31, 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 *Lake County Road Commission*, as of December 31, 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.

Implementation of GASB Statement No. 84

As described in Note A, the Road Commission implemented the provisions of GASB Statement No. 84, *Fiduciary Activities* in the current year. Accordingly, the Employee Healthcare Benefit Trust Fund is now reported as a Fiduciary Component Unit. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-9), budgetary comparison information (pages 35-36), schedules related to the pension plan (pages 37-39) and schedules related to the OPEB plan (pages 40-43) 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 **Lake 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 June 10, 2021, on our consideration of the **Lake 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 **Lake County Road Commission's** internal control over financial reporting and compliance.

Smith + Klayhewitz PC

Saginaw, Michigan

June 10, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lake County Road Commission

Management's Discussion and Analysis

Our discussion and analysis of *Lake County Road Commission's* financial performance provides an overview of the Road Commission's financial activities for the year ended December 31, 2020. The annual report consists of a series of financial statements. The Statements of Net Position and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and an additional section that presents the operating fund separated by primary, local and county road funds. The basic financial statements include two types of statements that present different views of the Road Commission:

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

Note that Lake County's government-wide financial statements are not herein presented because the Road Commission is a component unit of the County. The County presents their financial statements elsewhere and, in a manner, partially resembling private-sector business in its government-wide financial statements in compliance with GASB Statement No. 34.

Government-wide Statements

The *Statement of Net Position* presents information on all of the Road Commission's assets, deferred outflows, liabilities and deferred inflows, 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 about how the Road Commission'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 past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Lake County Road Commission

Management's Discussion and Analysis

The operations of the Road Commission are principally supported by gas and weight taxes (operating grants). The governmental activities of the Road Commission include providing construction, repair, maintenance and snow removal of roads within Lake County.

The government-wide financial statements include only the Road Commission itself. The Road Commission has no legally separate component units for which the Road Commission is financial accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Lake County, which reports the Road Commission as a component unit.

The government-wide financial statements can be found on pages 10 and 12 of this report.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Operating / Road Fund).

Governmental funds

Governmental funds are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, the General Operating / Road 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 the General Operating / Road Fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the General Operating / Road Fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the General Operating / Road Fund Balance Sheet and the General Operating / Road Fund Statement of Revenues, Expenditures and Changes in Fund Balance provide a reconciliation to facilitate this comparison between the General Operating / Road Fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Operating / Road Fund). Information is presented in the General Operating / Road Fund Balance Sheet and in the General Operating / Road Fund Statement of Revenues, Expenditures and Changes in Fund Balance for the Road Commission. The General Operating / Road Fund is a major fund for financial reporting purposes as defined by GASB Statement No. 34. The Road Commission also maintains the Employee Healthcare Benefit Trust Fund to account for the financial activity of assets held to fund postemployment health benefits. The Road Commission does not maintain proprietary funds.

The Road Commission adopts an annual appropriated budget for its General Operating / Road Fund. A budgetary comparison schedule has been provided herein to demonstrate compliance with that budget. The Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Operating / Road Fund can be found on pages 35 and 36 of this report.

Lake County Road Commission Management's Discussion and Analysis

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements can be found on pages 16 through 34 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management's discussion and analysis, budgetary comparison schedules and the schedules related to the Road Commission's defined benefit pension plan and the postemployment healthcare (OPEB) plan.

Government-wide Financial Analysis

The Road Commission's net position decreased approximately 2% or \$166,049, from \$10,937,897 to \$10,771,848 during the year. The net position and change in net position are summarized as follows:

	<u>2020</u>	<u>2019</u>
Current assets	\$ 2,640,979	\$ 2,908,958
Capital assets, net	<u>16,172,308</u>	<u>15,603,848</u>
Total assets	<u>16,172,308</u>	<u>18,512,806</u>
Deferred outflows of resources	<u>369,282</u>	<u>1,058,566</u>
Current liabilities	529,985	467,257
Net pension liability	5,134,460	5,336,766
Net OPEB liability	771,797	874,171
Long-term liabilities	<u>1,319,833</u>	<u>1,598,130</u>
Total liabilities	<u>7,756,075</u>	<u>8,276,324</u>
Deferred inflows of resources	<u>654,646</u>	<u>348,340</u>
Net position:		
Invested in capital assets	15,156,029	14,309,272
Restricted (deficit)	<u>(4,384,181)</u>	<u>(3,362,564)</u>
Total net position	<u>\$ 10,771,848</u>	<u>\$ 10,946,708</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of *Lake County Road Commission*, assets and deferred outflows exceeded liabilities by \$10,771,848 at the close of the year. By far the largest portion of the *Lake County Road Commission's* net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), net of accumulated depreciation and corresponding debt used to finance the assets.

Lake County Road Commission
Management's Discussion and Analysis

Governmental Activities

Following is a summary of changes in net position:

	<u>2020</u>	<u>2019</u>
Program revenue		
Charges for services	\$ 1,279,171	\$ 1,216,204
Operating grants and contributions	5,270,575	5,751,879
Capital grants and contributions	1,000,000	168,377
General revenue		
Interest and rents	10,656	15,799
Sundry refunds	35,871	149,996
ORV fines - other	<u>27,694</u>	<u>10,783</u>
Total revenue	<u>7,623,967</u>	<u>7,313,038</u>
Expenses		
Public works and debt service	<u>7,790,016</u>	<u>7,205,552</u>
Increase (decrease) in net position	<u>\$ (166,049)</u>	<u>\$ 107,486</u>

Activity of the governmental activities decreased the Road Commission's net position by \$166,049. The key elements of this increase are as follows:

- Revenue from State transportation funds increased as a result of increased distributions of fuel taxes and State General Fund allocations.
- Revenue from capital grants and contributions increased from the prior year, due to non-recurring federal revenue for road projects in the prior year.
- Expenses increased due mainly to non-recurring maintenance expenses that were undertaken in the current year and increased expenditures on preservation projects which are capitalized rather than expensed.

Lake County Road Commission
Management's Discussion and Analysis

A summary of activity in the General Operating / Road Fund is as follows:

	<u>For the Year Ended December 31, 2020</u>			Actual for the
	<u>Final Budget</u>	<u>Actual</u>	Over (Under) Budget	Year Ended December 31, 2019
Revenues				
Licenses and permits	\$ 25,000	\$ 27,296	\$ 2,296	\$ 30,837
Federal sources	-	1,000,000	1,000,000	168,377
State sources	4,739,074	4,780,032	40,958	4,862,358
Contributions	393,503	211,906	(181,597)	748,237
Charges for services	445,304	1,067,969	622,665	899,539
Interest and rentals	8,400	10,656	2,256	15,799
Proceeds from sale of capital assets	290,529	254,637	(35,892)	304,010
Other revenue	<u>27,500</u>	<u>299,471</u>	<u>271,971</u>	<u>239,070</u>
Total revenue	<u>5,929,310</u>	<u>7,651,967</u>	<u>1,722,657</u>	<u>7,268,227</u>
Expenditures				
Primary road maintenance	1,910,806	1,682,450	(228,356)	3,308,973
Local road maintenance	1,831,861	3,596,143	1,764,282	2,279,155
State trunkline maintenance	396,086	497,338	101,252	667,178
State trunkline non-maintenance	-	-	-	159,675
Administrative expense, net	425,899	416,587	(9,312)	483,212
Equipment expense, net	1,053,581	640,781	(412,800)	263,957
Capital outlay, net	(24,090)	55,753	79,843	146,865
Debt service	541,769	642,552	100,783	379,178
Other	<u>-</u>	<u>686,519</u>	<u>686,519</u>	<u>-</u>
Total expenditures	<u>6,135,912</u>	<u>8,218,123</u>	<u>2,082,211</u>	<u>7,688,193</u>
Revenue over (under) expenditures	(206,602)	(556,156)	(359,554)	(419,966)
Installment purchase proceeds	<u>273,852</u>	<u>272,260</u>	<u>(1,592)</u>	<u>433,852</u>
Change in fund balance	67,250	(293,896)	(361,146)	13,886
Fund balance, beginning of year	<u>3,149,006</u>	<u>2,396,890</u>	<u>(752,116)</u>	<u>2,383,004</u>
Fund balance, end of year	<u>\$ 3,216,256</u>	<u>\$ 2,102,994</u>	<u>\$ (1,113,262)</u>	<u>\$ 2,396,890</u>

Lake County Road Commission
Management's Discussion and Analysis

General Operating / Road Fund Budgetary Highlights

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

The final amended revenue budget was \$2,829,175 less than the original budget primarily due to changes in projections for revenue from Federal and State sources, contributions from local units, charges for services related to State trunkline non-maintenance activities and other revenue. Actual revenue recognized during the year was \$1,722,657 more than the final amended budget primarily due primarily to revenue from Federal sources, charged for services and other contributions being higher than anticipated in the budget.

The final amended expenditure budget was \$3,311,181 less than the original budget primarily due to changes in projections for road maintenance, State trunkline maintenance, net equipment expenditures, debt service and capital outlay expenditures. The actual expenditures recognized during the year were more than the final amended budget by \$2,082,211. There were variances in several expenditure line items, as presented on the budgetary comparison schedules in the financial statements.

Capital Assets and Debt Administration

Capital Assets

At year-end, the Road Commission had invested \$16,172,308 in capital assets, net of accumulated depreciation. This amount represents a net increase of \$586,460 or approximately 4%. Following is a summary of the capital assets balances:

	<u>2020</u>	<u>2019</u>
Capital assets not being depreciated		
Land and improvements	\$ 2,005,604	\$ 2,005,604
Depletable assets	29,709	29,709
Construction in progress	-	56,832
Subtotal	<u>2,035,313</u>	<u>2,092,145</u>
Capital assets being depreciated		
Buildings	1,531,325	1,396,480
Equipment	7,831,015	8,035,749
Infrastructure	<u>26,042,331</u>	<u>24,093,771</u>
Subtotal	<u>35,386,671</u>	<u>33,526,000</u>
Total capital assets	37,421,984	35,618,145
Total accumulated depreciation	<u>(21,249,676)</u>	<u>(20,014,297)</u>
Total net capital assets	<u>\$ 16,172,308</u>	<u>\$ 15,603,848</u>

Major capital asset events during the year included the following:

Purchases of equipment and buildings	\$ 913,849
Various resurfacing and improvements to roads	1,948,560
Net disposals of road equipment	(366,546)
Depreciation on capital assets	<u>(1,927,403)</u>
Net capital asset events	<u>\$ 568,460</u>

Lake County Road Commission

Management's Discussion and Analysis

Additional information about the Road Commission's capital assets can be found in note C to the financial statements.

Long-term debt

At the year end, the Road Commission's long-term obligations consisted of outstanding installment purchase agreements and accrued compensated absences. Major long-term debt activity for the year included paying scheduled principal and interest payments on installment purchase agreements and entering into an additional installment purchase agreement for the acquisition of equipment. More detailed information about the Road Commission's long-term liabilities is presented in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The Board of County Road Commissioners considered many factors when setting the 2020 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 projects under the Lake County Road Commission cost-share program with townships and others. Another key factor is the economy and its effect on tax revenue collected for road maintenance. In 2020, the Road Commission derived 79% of its revenue from gas tax. With most of the Road Commission's revenue coming from gas tax, the impacts from COVID-19 and emergency orders restricting travel were significant to the Road Commission. The economic loss due to COVID-19 to the Road Commission is estimated to be \$480,135. On March 31, 2021, President Biden introduced The American Jobs Plan, which allocates 621 billion to transportation infrastructure, including roads and bridges. The impact of this plan for Lake County Road Commission is yet unknown. On November 10, 2015, the Michigan State Legislature and Governor Snyder signed nine bills into law which will raise an additional \$1.2 billion in revenue for Michigan roads. Of that total, Lake County is expected to receive an additional \$1.9 million in revenues by 2021. As the incremental revenue increases begin to be realized, the Lake County Road Commission is working to develop the best possible approach to utilize the new road funding revenue to provide the best possible roadways for the motoring public. The Road Commission adopted a balanced budget for 2020 that projected the revenue from fuel taxes will remain relatively consistent as compared to 2019. The Board realizes, and the reader should understand, that even with the new funding that will be coming in future years, there are not sufficient funds available to repair and/or rebuild every road and bridge in Lake 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 Lake County.

Requests for Information

This financial report is designed to provide a general overview of the Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk, Lake County Road Commission, 1180 N. Michigan Ave., Baldwin, Michigan 49304.

BASIC FINANCIAL STATEMENTS

Lake County Road Commission

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

December 31, 2020

	General Operating / Road Fund	Adjustments	Statement of Net Position
ASSETS			
Cash and cash equivalents	\$ 759,154	\$ -	\$ 759,154
Investments	439,895	-	439,895
Receivables	1,017,415	-	1,017,415
Inventories			
Road materials	251,327	-	251,327
Equipment materials and parts	76,420	-	76,420
Prepaid items	96,768	-	96,768
Capital assets, net			
Assets not being depreciated	-	2,035,313	2,035,313
Assets being depreciated	-	14,136,995	14,136,995
Total assets	\$ 2,640,979	16,172,308	18,813,287
Deferred outflows of resources		369,282	369,282
LIABILITIES			
Accounts payable	\$ 111,487	-	111,487
Accrued liabilities	65,259	-	65,259
Advances - State trunkline equipment purchases	353,239	-	353,239
Deferred revenue - unavailable	8,000	(8,000)	-
Long-term liabilities			
Due within one year	-	599,394	599,394
Due after one year	-	720,439	720,439
Net pension liability	-	5,134,460	5,134,460
Net OPEB liability	-	771,797	771,797
Total liabilities	537,985	7,218,090	7,756,075
Deferred inflows of resources	-	654,646	654,646
FUND BALANCE			
Nonspendable			
Inventory	327,747	(327,747)	-
Prepaid items	96,768	(96,768)	-
Restricted for road system	1,678,479	(1,678,479)	-
Total fund balance	2,102,994	(2,102,994)	-
Total liabilities and fund balance	\$ 2,640,979		
Net Position:			
Net investment in capital assets		15,156,029	15,156,029
Restricted for road system		(4,384,181)	(4,384,181)
Total net position		\$ 10,771,848	\$ 10,771,848

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

Lake County Road Commission

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

December 31, 2020

Fund balance - General Operating / Road Fund	\$ 2,102,994
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 - assets not being depreciated	2,035,313
Add - assets being depreciated	35,386,671
Deduct - accumulated depreciation	(21,249,676)
Deferred revenue is reported in the fund statements because the related receivable is not available to fund current liabilities and therefore is not a current financial resource	
	8,000
Certain pension-related amounts such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the fund financial statements	
Net pension liability	(5,134,460)
Deferred outflows related to the net pension liability	280,392
Deferred inflows related to the net pension liability	(277,335)
Certain OPEB-related amounts such as the net OPEB liability 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 OPEB liability	(771,797)
Deferred outflows related to the net OPEB liability	88,890
Deferred inflows related to the net OPEB liability	(377,311)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements	
Installment purchase agreements	(972,934)
Accrued compensated absences	(346,899)
Net position of governmental activities	<u>\$ 10,771,848</u>

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

Lake County Road Commission

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

For the Year Ended December 31, 2020

	General Operating / Road Fund	Adjustments	Statement of Activities
Expenditures/expenses			
Public works	\$ 4,713,162	\$ 3,028,204	\$ 7,741,366
Debt service	642,552	(593,902)	48,650
Capital outlay	2,862,409	(2,862,409)	-
Total expenditures/expenses	8,218,123	(428,107)	7,790,016
Program revenue			
Charges for services	1,307,171	(28,000)	1,279,171
Operating grants and contributions			
State transportation funds	5,034,669	-	5,034,669
Contributions from private sources	235,906	-	235,906
Capital grants and contributions			
Federal, state and local sources	1,000,000	-	1,000,000
Total program revenue	7,577,746	(28,000)	7,549,746
Net program revenue			(240,270)
General revenue			
Interest and rents	10,656	-	10,656
Sundry refunds	35,871	-	35,871
Fines - ORV	27,694	-	27,694
Total general revenue	74,221	-	74,221
Total revenue	7,651,967		
Other financing sources			
Installment purchase proceeds	272,260	(272,260)	-
Revenue and other financing sources over (under) expenditures	(293,896)	293,896	-
Change in net position	-	(166,049)	(166,049)
Fund balance / net position:			
Beginning of the year, as restated	2,396,890	8,541,007	10,937,897
End of the year	\$ 2,102,994	\$ 8,668,854	\$ 10,771,848

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

Lake 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 December 31, 2020

Change in fund balance - General Operating / Road Fund	\$ (293,896)
<p>Amounts reported for <i>governmental activities</i> in the Statement of Activities are different because:</p> <p>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.</p>	
Add - capital outlay	913,849
Add - infrastructure purchases	1,948,560
Deduct - loss on disposal	(366,546)
Deduct - depreciation expense	(1,927,403)
<p>Deferred revenues are reported in the fund financial statements because the related receivable is not a current financial resource. Therefore, the revenue is reported only in the Statement of Activities.</p>	
	(28,000)
<p>Repayment of principal on long-term debt consumes financial resources of governmental funds, but reduces long-term liabilities in the Statement of Net Position.</p>	
	593,902
<p>Proceeds from installment purchase agreements are reported as other financing sources in the Road Fund but increases long-term debt in the Statement of Activities.</p>	
	(272,260)
<p>The change in the net pension liability and related deferred amounts does not impact current financial resources and therefore is not reported in the fund financial statements</p>	
	(766,282)
<p>The change in the net OPEB liability and related deferred amounts does not impact current financial resources and therefore is not reported in the fund financial statements</p>	
	75,372
<p>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.</p>	
	(43,345)
Change in net position of governmental activities	\$ (166,049)

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

Lake County Road Commission
Fiduciary Component Unit
Statement of Fiduciary Net Position
Employee Healthcare Benefit Trust

December 31, 2020

Assets	
Investments	\$ 495,191
Receivables	-
	<hr/>
Total assets	<u><u>\$ 495,191</u></u>
Net position - held in trust for postemployment health benefits	<u><u>\$ 495,191</u></u>

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

Lake County Road Commission

Fiduciary Component Unit Statement of Changes in Fiduciary Net Position Employee Healthcare Benefit Trust

For the Year Ended December 31, 2020

Additions

Contributions

Employer contributions	\$ 75,000
Employer contributions - benefits paid from general operating funds	97,755
Total contributions	<u>172,755</u>

Investment earnings

Net increase in fair value of investments	47,767
Less investment activity costs	<u>(653)</u>
Net investment earnings	<u>47,114</u>

Total additions 219,869

Deductions - participant benefits paid from general operating funds 97,755

Change in net position 122,114

Net position

Beginning of the year	<u>373,077</u>
End of the year	<u>\$ 495,191</u>

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

Lake County Road Commission

Notes to Financial Statements

NOTE A - Summary of Significant Accounting Policies

The accounting policies adopted by the *Lake 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 *Lake County Road Commission* is a discrete component unit of the County of Lake, 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 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 three-member Board of County Road Commissioners that is elected by the citizens of Lake County. The Board of County Road Commissioners establishes policies and reviews operations of the Road Commission.

Fiduciary Component Unit

The *Employee Healthcare Benefit Trust* is a single-employer defined benefit postemployment healthcare benefits plan established and administered by the Road Commission to provide medical and healthcare benefits for retirees and their beneficiaries. Benefit provisions are established and may be amended by the Board of County Road Commissioners, subject to collective bargaining agreements.

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 special purpose government. *Governmental Activities* are supported by intergovernmental revenues and charges for services.

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, fines and other similar items are reported as general revenues.

A combined financial statement is provided for the General Operating / Road Fund Balance Sheet and the Statement of Net Position and the General Operating / Road Fund 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.

Lake County Road Commission

Notes to Financial Statements

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and the Statement of Activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue when 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 and claims and judgments not expected to be paid until a subsequent year 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 so 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 Road Commission reports the following major *governmental* fund:

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

The Road Commission also reports the following *fiduciary* fund type:

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

Assets, Liabilities, Deferred Outflows / Inflows of Resources and Net Position / Equity

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposits in demand and time deposit accounts, money market deposits and certificates of deposits with original maturities of less than 90 days.

Investments

Investments consist of certificates of deposit with original maturities of 90 or more days and money market deposits and are reported at fair value.

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, as determined on the average unit cost method. Inventory items are charged to road preservation and maintenance, equipment repairs and operations as they are used.

Lake County Road Commission

Notes to Financial Statements

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

Capital assets consist of property, land improvements, equipment and infrastructure assets (roads, bridges and similar items) and are reported in the government-wide financial statements. No minimum cost is used to record road equipment capital assets (those with published Schedule C rates). Other capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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. Donated capital assets are recorded at estimated fair market value at the date donated.

Capital asset purchases are recorded as capital outlay expenditures at the time of purchase in the fund financial statements and are capitalized on the government-wide statements through an adjustment to the governmental fund (General Operating / Road Fund) column. Infrastructure is reported prospectively from 1980, except for rights-of-way, bridges and traffic signals, which are required to be reported regardless of the date of purchase. The Uniform Accounting Procedures Manual for Michigan County Road Commissions (the "Manual") provides for removing roads from capital assets at the time the group of individually recorded roads becomes fully depreciated.

The Manual also 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.

The Manual also provides for the net book value of road equipment that is retired to be reported as an equipment retirement in the equipment retirement credit account that is offset against capital outlay. The net of any proceeds received for the retirement (sale, abandonment, trade-in, etc.) is reported as a gain or loss on disposal of equipment. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating / Road Fund

Since the year ended December 31, 2004, costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets (roads, bridges, traffic signals and similar items) have been capitalized and are reported as infrastructure capital assets in the Statement of Net Position. The Road Commission is a phase 3 government and has elected to retroactively report major general infrastructure assets that were acquired, constructed or significantly reconstructed in all fiscal years ending after December 31, 1980. Infrastructure capital assets continue to be capitalized prospectively.

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

Buildings	30 to 50 years
Road equipment	5 to 8 years
Other equipment	4 to 10 years
Infrastructure – bridges	12 to 50 years
Infrastructure – roads	5 to 30 years

Lake County Road Commission

Notes to Financial Statements

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 several items that qualify for reporting in this category related to the defined benefit pension plan and the defined benefit OPEB plan.

Advances from the State of Michigan

The State of Michigan advances funds on a State maintenance agreement it has with the Road Commission for maintenance performed by the Road Commission during the year and for equipment purchases. These advances are considered current liabilities because they are subject to repayment annually, upon results of audit procedures performed by the State of Michigan.

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 in the applicable governmental activities. Debt issuance costs are reported as expenditures when incurred.

Compensated Absences

The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors. Vacation and sick leave payable is 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 accounted for 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.

Deferred Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred Inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until that time. The Road Commission has several items that qualify for reporting in this category related to the defined benefit pension plan and the defined benefit OPEB plan.

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.

Lake County Road Commission

Notes to Financial Statements

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 not adopted a policy to authorize anyone 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.

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 pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits Plan

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

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

Equipment Rental

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

Handling and Overhead Credits

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

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, for the current year cannot be reasonably determined. Based on past experience, the Road Commission anticipates that the adjustment could be for a material amount.

Lake County Road Commission
Notes to Financial Statements

Estimates

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

NOTE B - Stewardship, Compliance and Accountability

Auditing and Reporting

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States as described in the Independent Auditors' Report and with the types of compliance requirements described in Public Act 51 of 1951, as amended. The financial statements were prepared in accordance with U.S. GAAP, as described in the Independent Auditor's Report and also with applicable rules of the Michigan State Department of Transportation.

NOTE C - Detailed Notes on Select Financial Statement Captions

Deposits and Investments

The carrying amounts of the Road Commission's deposits and investments at year-end were:

	General Operating / Road Fund	Fiduciary Component Unit
Deposits with financial institutions:		
Interest bearing deposits – demand	\$ 759,154	\$ -
Certificates of deposit	397,654	-
Money market deposits	42,241	-
MERS capital appreciation fund	-	495,191
Total	\$ 1,199,049	\$ 495,191

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

Deposit and Investment Risk

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

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

Lake County Road Commission

Notes to Financial Statements

- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by PA 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 Capital Appreciation Fund. At year-end, the target asset breakdown in the MERS Capital Appreciation Fund was comprised of the following:

<u>Investment Type</u>	<u>% of Pool Total</u>	<u>Maturity in Years</u>
U.S. stocks	40.0%	Not applicable
International stocks	28.0%	Not applicable
Emerging market stocks	12.0%	Not applicable
U.S. Bonds	20.0%	Not available

Credit Risk

The Road Commission's investment policy allows for investments in the MERS Total Market Fund and does not have specific limits in excess of State law on investment credit risk. The Road Commission's investments are not rated as to risk. The MERS Capital Appreciation Fund is required to comply with State laws.

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, \$636,894 of the Road Commission's bank balance of \$1,136,894 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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 Road Commission evaluates each financial institution and assesses the level of risk associated with each financial institution. The Road Commission's policy is to conduct business only with financial institutions that have an acceptable estimated level of risk as a depository.

Custodial Credit Risk – Investments

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

Lake County Road Commission
Notes to Financial Statements

Concentration of Credit Risk

State law limits allowable investments but does not limit concentration of credit risk. The Road Commission's investment policy does not have specific limits in excess of State law on concentration of credit risk. At year end, the Road Commission's investments are comprised of a single investment account; the MERS Capital Appreciation Fund. The Road Commission categorizes its fair value measurements of investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Road Commission has the following recurring fair value measurements at year-end:

- The Road Commission does not have any investments valued using quoted market prices (Level 1 inputs)
- The investments of the MERS Capital Appreciation Fund are valued using a pricing model utilizing observable fair value measures of fund/pool investments and other observable inputs to determining the fair value of the securities making up the of investments fund/pool (Level 2 inputs)
- The Road Commission does not have any investments that report fair value based on significant unobservable inputs (Level 3 inputs)

Receivables

The balance in receivables at year end is comprised of the following:

State trunkline maintenance	\$ 62,471
Due on County Road Agreements	198,958
Michigan Transportation Fund	<u>755,986</u>
Total	<u>\$ 1,017,415</u>

Lake County Road Commission
Notes to Financial Statements

Capital Assets

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land and improvements	\$ 2,005,604	\$ -	\$ -	\$ 2,005,604
Depletable assets	29,709	-	-	29,709
Construction in progress	<u>56,832</u>	<u>-</u>	<u>(56,832)</u>	<u>-</u>
Total capital assets not being depreciated	<u>2,092,145</u>	<u>-</u>	<u>(56,832)</u>	<u>2,035,313</u>
Capital assets being depreciated				
Buildings	1,396,480	134,845	-	1,531,325
Road equipment	7,514,784	827,656	(1,058,570)	7,283,870
Shop equipment	143,974	6,290	-	150,264
Engineering equipment	27,167	1,890	-	29,057
Yard and storage equipment	284,175	-	-	284,175
Office equipment	65,649	-	-	65,649
Infrastructure – bridges	5,246,079	391,373	-	5,637,452
Infrastructure – roads	<u>18,847,692</u>	<u>1,557,187</u>	<u>-</u>	<u>20,404,879</u>
Total capital assets being depreciated	<u>33,526,000</u>	<u>2,919,241</u>	<u>(1,058,570)</u>	<u>35,386,671</u>
Less accumulated depreciation				
Buildings	(867,081)	(24,001)	-	(891,082)
Road equipment	(5,481,775)	(771,248)	692,024	(5,560,999)
Shop equipment	(140,352)	(2,742)	-	(143,094)
Engineering equipment	(27,167)	-	-	(27,167)
Yard and storage equipment	(184,777)	(7,040)	-	(191,817)
Office equipment	(33,688)	(10,159)	-	(43,847)
Infrastructure – bridges	(3,060,791)	(232,027)	-	(3,292,818)
Infrastructure – roads	<u>(10,218,666)</u>	<u>(880,186)</u>	<u>-</u>	<u>(11,098,852)</u>
Total accumulated depreciation	<u>(20,014,297)</u>	<u>(1,927,403)</u>	<u>692,024</u>	<u>(21,249,676)</u>
Net capital assets being depreciated	<u>13,511,703</u>	<u>991,838</u>	<u>(366,546)</u>	<u>14,136,995</u>
Total net capital assets	<u>\$ 15,603,848</u>	<u>\$ 991,838</u>	<u>\$ (423,379)</u>	<u>\$ 16,172,308</u>

Lake County Road Commission
Notes to Financial Statements

Long-term Debt

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

	Beginning Balance	Increases	(Decreases)	Ending Balance	Due Within One Year
Installment purchase agreements	\$ 1,294,576	\$ 272,260	\$ (593,902)	\$ 972,934	\$ 449,394
Compensated absences	303,554	194,665	(151,320)	346,899	150,000
Total	\$ 1,598,130	\$ 466,925	\$ (745,222)	\$ 1,319,833	\$ 599,394

The amount of interest expense included as a direct functional expense in the Statement of Activities for the year was \$48,650.

Following is a summary of outstanding debt at year-end:

Capital lease payable to Caterpillar Financial Services, secured by equipment, due in monthly installments of \$3,414, including interest at 4.25% through August 2025, with a \$107,828 balloon payment.	\$ 264,080
Capital lease payable to Caterpillar Financial Services, secured by equipment, due in monthly installments of \$1,343, including interest at 3.59% through January 2022, with a \$160,000 balloon payment.	209,606
Capital lease payable to Caterpillar Financial Services, secured by equipment, due in monthly installments of \$907, including interest at 2.89% through May 2022, with a \$105,000 balloon payment.	115,425
Capital lease payable to Caterpillar Financial Services, secured by equipment, due in monthly installments of \$388, including interest at 2.69% through April 2021, with a \$30,000 balloon payment.	31,147
Capital lease payable to Caterpillar Financial Services, secured by equipment, due in monthly installments of \$752, including interest at 2.69% through April 2021, with a \$65,000 balloon payment.	67,329
Capital lease payable to Caterpillar Financial Services, secured by equipment, due in monthly installments of \$1,106, including interest at 2.69% through June 2021, with a \$179,000 balloon payment.	182,533
Capital lease payable to Caterpillar Financial Services secured by equipment, due in monthly installments of \$1,106, including interest at 2.69% through October 2021, with a \$92,500 balloon payment.	102,814
Subtotal	972,934
Compensated absences	346,899
Total	\$ 1,319,833

Lake County Road Commission
Notes to Financial Statements

The Road Commission’s annual debt service requirements to maturity for installment purchase agreements are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 449,394	\$ 24,195
2022	324,898	14,682
2023	32,719	8,247
2024	32,719	8,247
2025	<u>133,204</u>	<u>8,247</u>
Total	<u>\$ 972,934</u>	<u>\$ 63,618</u>

Compensated absences

In accordance with Board policy and the labor agreement with the Road Commission, employees have a vested right upon termination of employment to receive compensation for unused accumulated sick and vacation leave under formulas and conditions specified in the contracts. The estimated balances of these vested rights have been accrued in the government-wide financial statements at year-end.

NOTE D – Other Information

Defined Benefit Pension Plan

Plan Description

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

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.

General employees hired before April 1, 2013

Retirement benefits are calculated as 2.5% 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 55 with 25 years of service (unreduced), 50 with 25 years of service (reduced) or 55 with 15 years of service (reduced). The vesting period is 10 years. Benefit terms for current retirees also provide for annual cost-of-living adjustments to each employee’s retirement allowance subsequent to the employee’s retirement date of 2.5% (non-compound).

General employees hired after April 1, 2013 (“new hires”)

Retirement benefits are calculated as 2.0% 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 55 with 25 years of service (unreduced), 50 with 25 years of service (reduced) or 55 with 15 years of service (reduced). The vesting period is 10 years. Benefit terms for current retirees also provide for annual cost-of-living adjustments to each employee’s retirement allowance subsequent to the employee’s retirement date of 2.5% (non-compound).

Lake County Road Commission
Notes to Financial Statements

Employees are eligible for non-duty disability benefits after 10 years of service 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. Death benefits may also be provided. 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.

Employees Covered by the Benefit Term

At the December 31, 2020 measurement date, the following participants were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	44
Inactive plan members entitled to but not yet receiving benefits	5
Active employees	<u>31</u>
Total participants covered by MERS	<u><u>80</u></u>

Contribution Requirements

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement Board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ended December 31, 2020, the Road Commission’s actuarially determined contribution was a combination of a fixed monthly dollar amount of \$37,421 for the closed group and 8.26% of covered payroll for the open group. Employees are required to contribute 2.00% of their annual covered payroll to the plan, regardless of group.

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

During the year the Road Commission recognized pension expense of \$766,282. At year-end, the Road Commission reported deferred outflows & inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 179,108
Differences between expected and actual experience	35,444	98,227
Differences in assumptions	<u>244,948</u>	<u>-</u>
Total	<u><u>\$ 280,392</u></u>	<u><u>\$ 277,335</u></u>

Lake County Road Commission
Notes to Financial Statements

The amounts reported as deferred outflows and deferred inflows of resources related to projected and actual earnings on pension plan investments, differences in experience and differences in assumptions will be recognized as pension expense as follows:

Year Ending December 31,	Net Amount
2021	\$ 61,024
2022	60,804
2023	(63,356)
2024	(55,415)
Total	<u>\$ 3,057</u>

Actuarial Assumptions

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	7.35%, 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 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 Rate of Return	Expected Real Rate of Return
Global equity	55.50%	8.65%	4.80%
Global fixed income	18.50	3.76	0.70
Real assets	13.50	9.72	1.31
Diversifying strategies	12.50	7.50	0.94
	<u>100.00%</u>		<u>7.75%</u>

Lake County Road Commission
Notes to Financial Statements

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 employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

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.

Net Pension Liability - The net pension liability reported at year-end was determined using a measure of the total pension liability and the pension net position as of December 31, 2019. The December 31, 2019 total pension liability was determined by an actuarial valuation performed as of that date.

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

<u>Changes in Net Pension Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Net Position</u>	<u>Net Pension Liability</u>
Beginning balance	\$ 10,967,486	\$ 5,630,720	\$ 5,336,766
Service cost	144,640	-	144,640
Interest on total pension liability	821,221	-	821,221
Expected and actual experience	(130,970)	-	(130,970)
Changes in assumptions	326,598	-	326,598
Employer contributions	-	690,277	(690,277)
Employee contributions	-	29,732	(29,732)
Net investment income (loss)	-	706,560	(706,560)
Benefit payments	(886,823)	(886,823)	-
Administrative expenses	-	(11,248)	11,248
Other changes	51,526	-	51,526
Net changes	<u>326,192</u>	<u>528,498</u>	<u>(202,306)</u>
Ending balance	<u>\$ 11,293,678</u>	<u>\$ 6,159,219</u>	<u>\$ 5,134,460</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the Road Commission's net pension liability, calculated using the discount rate of 7.60%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.60%) or 1% higher (8.60%) than the current rate:

	1% Decrease in Rate to 6.60%	Assumed Discount Rate 7.60%	1% Increase in Rate to 8.60%
Net Pension Liability	<u>\$ 6,297,999</u>	<u>\$ 5,134,460</u>	<u>\$ 4,144,095</u>

Lake County Road Commission

Notes to Financial Statements

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

Postemployment Benefits Other than Pensions (OPEB)

Plan Description

The Road Commission provides postemployment health care to eligible employees and / or their spouses who retire from the Road Commission on or after attaining retirement age with at least ten (10) or twenty five (25) years of service, depending on position. This is a single employer defined benefit plan that is administered by the Road Commission. The benefits are provided under the collective bargaining agreement for union employees and by resolution of the Board of County Road Commissioners for nonunion employees. The collective bargaining agreements require the Road Commission to pay the insurance premium / claim costs of the retiree and spouse until the retiree reaches age sixty-five (65). The Road Commission obtains healthcare coverage for retirees through private insurers. Upon eligibility for Medicare, the Road Commission pays for group Medicare Advantage coverage.

Funding Policy

The Road Commission has no obligation to make contributions in advance of when the insurance premiums or claims are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). The plan's funding policy is that the employer will fund the plan on a pay-as-you-go basis with an annual contribution to the OPEB Trust of \$75,000. There are no long-term contracts for contributions to the plan.

Annual OPEB Cost and Net OPEB Liability

The Road Commission's annual other postemployment benefit (OPEB) cost (expense) is calculated based the *actuarially determined contribution of the employer (ADC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 75. The ADC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 (thirty) years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectation and new estimates are made about the future.

Participants Covered by the Benefit Terms

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

Active members	34
Inactive members	-
Retirees and beneficiaries	<u>9</u>
Total participants	<u><u>43</u></u>

Lake County Road Commission
Notes to Financial Statements

Contributions

Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due. During the year, the Road Commission paid current retiree premiums of \$97,755 and made an advance funding contribution of \$75,000. The premiums for postemployment healthcare benefits and the advance funding payment were paid from and recorded as expenditures in the General Operating / Road Fund.

Net OPEB Liability

The net OPEB liability reported at year-end was determined using a measure of the total OPEB liability and the OPEB net position as of December 31, 2020. The December 31, 2020 total OPEB liability was determined by an actuarial valuation performed as of that date. Changes in the Road Commission's proportionate share of the net OPEB liability during the year were as follows:

<u>Changes in Net OPEB Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability</u>	<u>Plan Net Position</u>	<u>Net OPEB Liability</u>
Beginning balances	\$ 1,247,248	\$ 373,077	\$ 874,171
Service cost	93,395	-	93,395
Interest on total OPEB liability	64,588	-	64,588
Expected / actual experience differences	13,639	-	13,639
Changes in actuarial assumptions	(54,127)	-	(54,127)
Contributions to OPEB trust	-	75,000	(75,000)
Contributions – benefits paid	-	97,755	(97,755)
Net investment income (loss)	-	47,767	(47,767)
Benefit payments	(97,755)	(97,755)	-
Administrative expenses	-	(653)	653
Net changes	<u>19,740</u>	<u>122,114</u>	<u>(102,374)</u>
Ending balances	<u>\$ 1,266,988</u>	<u>\$ 495,191</u>	<u>\$ 771,797</u>

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

During the year the Road Commission recognized an OPEB expense of \$97,383. At year-end, the Road Commission reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 12,243	\$ 176,031
Changes of assumptions	76,647	164,510
Net difference between projected and actual earnings on OPEB plan investments	<u>-</u>	<u>36,770</u>
Total	<u>\$ 88,890</u>	<u>\$ 377,311</u>

Lake County Road Commission
Notes to Financial Statements

The amounts reported as deferred outflows and inflows of resources will be recognized as OPEB expense as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Net</u> <u>Amount</u>
2021	\$ (40,112)
2022	(36,751)
2023	(42,589)
2024	(34,662)
2025	(29,336)
Thereafter	<u>(104,971)</u>
Total	<u>\$ (288,421)</u>

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial 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 calculations. The valuation of the total OPEB liability was determined using the entry-age normal cost method and the market value asset valuation method.

The valuation of the total OPEB liability was determined using the following actuarial assumptions (a) 5.40% discount rate, (b) projected salary increases of 3.50%, (c) 5.40% net investment rate of return, (d) 20-year Aa municipal bond rate of 1.93%, (e) projected health care premium increases of 8.50% graded down 0.25% per year to 4.50% Pre-Medicare; 7.00% graded down 0.25% per year to 4.50% Post-Medicare, and (e) mortality rates using the Public General Headcount-weighted 2010 Employee and Healthy Retiree with MP-2020 Mortality Improvement Scale.

Discount Rate

The discount rate used to measure the total OPEB liability was 5.40%. The projection of cash flows used to determine the discount rate assumed that the Road Commission will make contributions of \$75,000 annually to the OPEB Trust in addition to paying benefits on a pay-as-you-go basis. Based on this assumption, the retirement plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. This discount rate is used to determine the Total OPEB Liability.

Investment Rate of Return

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 OPEB 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. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation are summarized below. The sum of each target allocation times its long-term expected real rate is 2.90%. The long-term expected rate of return after including inflation is 5.00%.

Lake County Road Commission
Notes to Financial Statements

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Capital Appreciation Fund	100%	2.90%

Concentrations: The Plan is invested 100% in the Capital Appreciation Fund.

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

The following presents the Road Commission's net OPEB liability, calculated using the discount rate of 5.40%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1% lower (4.40%) or 1% higher (6.40%) than the current rate:

	1% Decrease in Rate to 4.40%	Assumed Discount Rate 5.40%	1% Increase in Rate to 6.40%
Net OPEB liability	\$ 858,363	\$ 771,797	\$ 692,502

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

The following presents the Road Commission's net OPEB liability, calculated using the assumed cost trend rate, as well as what the net OPEB liability would be if it were calculated using a cost trend rate that is 1% lower or 1% higher than the current rate:

	1% Decrease in Cost Trend Rate	Assumed Cost Trend Rate	1% Increase in Cost Trend Rate
Net OPEB liability	\$ 664,239	\$ 771,797	\$ 895,902

Equipment Expenditure Net Balance

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

Equipment –	
Direct	\$ 1,354,016
Indirect	570,104
Operating	204,885
Less equipment rental	(1,488,224)
Total	\$ 640,781

Lake County Road Commission
Notes to Financial Statements

Administrative Expenditure Net Balance

On the governmental financial statements, the Road Commission reports an overhead credit as a result of administering the State trunkline maintenance contract to offset administrative expenditures. Purchase discounts are also reported as a credit against administrative expenditures. The balance in administrative expenditures during the year was comprised of the following:

Administrative expenditures	\$ 494,269
Overhead – State trunkline maintenance	(41,166)
Purchase discounts	<u>(36,516)</u>
Total	<u>\$ 416,587</u>

Capital Outlay Expenditure Net Balance

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

Capital outlay	\$ 907,559
Less depreciation / depletion	<u>(851,806)</u>
Total	<u>\$ 55,753</u>

Risk Management

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (worker’s compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for healthcare claims.

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The Michigan County Road Commission Self-insurance Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. The Road Commission’s exposure is limited to \$1,000 per claim; all other risk is transferred to the Pool. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three (3) fiscal years.

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

Contingencies

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

Lake County Road Commission
Notes to Financial Statements

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

Federal Award Expenditures / Single Audit

The Michigan Department of Transportation (MDOT) requires that Road Commissions report all Federal and State grants pertaining to their County. During the year, the Road Commission recorded expenditures of federal awards in the amount of \$1,000,000. The amount of Federal aid received and expended by the Road Commission was \$1,000,000 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the Road Commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if \$750,000 or more was expended for negotiated projects. The amount of federal award expenditures that were administered by the Road Commission was less than \$750,000; therefore a single audit was not required.

Restatement / Prior Period Adjustment

During the year, restatements were necessary to properly account for beginning fund balance and net position. The adjustments were required to properly state receivable balances. The error has been corrected and had the following effects on beginning fund balance and net position:

	<u>Fund Balance</u>	<u>Net Position</u>
Beginning balances	\$ 2,405,701	\$ 10,946,708
Adjustment for receivables	<u>(8,811)</u>	<u>(8,811)</u>
Beginning balances, as restated	<u>\$ 2,396,890</u>	<u>\$ 10,937,897</u>



REQUIRED SUPPLEMENTARY INFORMATION

Lake County Road Commission

General Operating / Road Fund

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

For the Year Ended December 31, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Licenses and permits	\$ 20,000	\$ 25,000	\$ 27,296	\$ 2,296
Federal sources				
Surface transportation program (STP)	561,107	-	1,000,000	1,000,000
Federal safety grant	585,000	-	-	-
Federal forestry grant	1,000,000	-	-	-
State sources				
Michigan transportation funds				
Engineering	10,000	10,000	10,000	-
Snow Removal	85,000	130,259	130,258	(1)
Allocation	4,913,886	4,500,981	4,541,940	40,959
Economic development funds				
Rural primary (D)	77,019	-	-	-
Forest road	97,836	97,834	97,834	-
Contributions from local units				
Townships	194,385	147,356	211,906	64,550
Sale of federal aid - other counties	22,000	27,000	-	(27,000)
Other contributions	400,000	219,147	-	(219,147)
Charges for services				
State trunkline maintenance	500,000	442,304	504,775	62,471
State trunkline non-maintenance	-	-	-	-
Salvage sales	5,000	3,000	2,131	(869)
Other	-	-	561,063	561,063
Interest and rentals	7,400	8,400	10,656	2,256
Other revenue				
Sundry refunds	-	9,500	35,871	26,371
Proceeds from sale of capital assets	273,852	290,529	254,637	(35,892)
Contributions from private sources	-	-	235,906	235,906
Fines - ORV	6,000	18,000	27,694	9,694
Total revenue	<u>\$ 8,758,485</u>	<u>\$ 5,929,310</u>	<u>\$ 7,651,967</u>	<u>\$ 1,722,657</u>

Lake County Road Commission

General Operating / Road Fund

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

For the Year Ended December 31, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Primary Road				
Preservation / structural improvements	\$ 1,937,860	\$ 171,235	\$ 246,060	\$ 74,825
Maintenance	2,577,490	1,739,571	1,436,390	(303,181)
Local Road				
Preservation / structural improvements	1,484,830	561,166	1,702,500	1,141,334
Maintenance	1,672,236	1,270,695	1,893,643	622,948
Total preservation and maintenance	7,672,416	3,742,667	5,278,593	1,535,926
State trunkline maintenance	510,000	396,086	497,338	101,252
State trunkline non-maintenance	-	-	-	-
Administrative, net	398,226	425,899	416,587	(9,312)
Equipment, net	524,689	1,053,581	640,781	(412,800)
Capital outlay, net	(75,402)	(24,090)	55,753	79,843
Debt service	417,164	541,769	642,552	100,783
Other	-	-	686,519	686,519
Total expenditures	<u>9,447,093</u>	<u>6,135,912</u>	<u>8,218,123</u>	<u>2,082,211</u>
Revenue over (under) expenditures	(688,608)	(206,602)	(566,156)	(359,554)
Other financing sources				
Installment purchase proceeds	273,852	273,852	272,260	(1,592)
Net change in fund balance	(414,756)	67,250	(293,896)	(361,146)
Fund balance				
Beginning of the year, as restated	3,149,006	3,149,006	2,396,890	(752,116)
End of the year	<u>\$ 2,734,250</u>	<u>\$ 3,216,256</u>	<u>\$ 2,102,994</u>	<u>\$ (1,113,262)</u>

Lake County Road Commission
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Last 10 Fiscal Years Ended December 31,

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015*</u>
Total pension liability						
Service cost	\$ 144,640	\$ 146,630	\$ 133,017	\$ 120,620	\$ 112,907	\$ 115,066
Interest on total pension liability	821,221	837,496	811,792	784,317	752,766	738,118
Changes of benefit terms	-	-	-	-	-	-
Differences between expected and actual experience	(130,970)	7,157	127,457	159,478	104,172	-
Changes in assumptions	326,598	-	-	-	426,906	-
Benefit payments	(886,823)	(837,697)	(831,503)	(753,032)	(689,128)	(659,983)
Other changes	51,526	(333)	-	1	-	-
Net change in total pension liability	326,192	153,253	240,763	311,384	707,623	193,201
Total pension liability - beginning	10,967,486	10,814,233	10,573,470	10,262,086	9,554,463	9,361,262
Total pension liability - ending	<u>\$ 11,293,678</u>	<u>\$ 10,967,486</u>	<u>\$ 10,814,233</u>	<u>\$ 10,573,470</u>	<u>\$ 10,262,086</u>	<u>\$ 9,554,463</u>
Plan fiduciary net position						
Contributions - employer	\$ 690,277	\$ 687,539	\$ 576,174	\$ 466,521	\$ 422,319	\$ 312,292
Contributions - member	29,732	31,677	29,646	25,954	24,545	22,576
Net investment income (loss), net	706,560	685,101	(210,421)	537,008	(75,096)	322,929
Benefit payments, including refunds of member contributions	(886,823)	(837,697)	(831,503)	(753,032)	(689,128)	(659,983)
Administrative expenses	(11,248)	(11,819)	(10,544)	(10,613)	(11,097)	(11,800)
Other	-	-	-	-	-	-
Net change in fiduciary net position	528,498	554,801	(446,648)	265,838	(328,457)	(13,986)
Fiduciary net position - beginning	5,630,720	5,075,919	5,522,567	5,256,729	5,585,186	5,599,172
Fiduciary net position - ending	<u>\$ 6,159,218</u>	<u>\$ 5,630,720</u>	<u>\$ 5,075,919</u>	<u>\$ 5,522,567</u>	<u>\$ 5,256,729</u>	<u>\$ 5,585,186</u>
Net pension liability - ending	<u>\$ 5,134,460</u>	<u>\$ 5,336,766</u>	<u>\$ 5,738,314</u>	<u>\$ 5,050,903</u>	<u>\$ 5,005,357</u>	<u>\$ 3,969,277</u>
Fiduciary net position as a percentage of the total pension liability	54.54%	51.34%	46.94%	52.23%	51.22%	58.46%
Covered-employee payroll	\$ 1,456,663	\$ 1,497,873	\$ 1,393,348	\$ 1,255,078	\$ 1,173,008	\$ 1,186,748
Net pension liability as percentage of covered-employee payroll	352.48%	356.29%	411.84%	402.44%	426.71%	334.47%

* GASB Statement No. 68 was implemented as of December 31, 2015. Information from 2011 through 2014 is not available. Additional years will be presented on this schedule on a prospective basis.

See Notes to Required Supplementary Information

Lake County Road Commission
Required Supplementary Information
Schedule of Employer's Net Pension Liability
Last 10 Fiscal Years Ended December 31,

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015*</u>
Total pension liability	\$ 11,293,678	\$ 10,967,486	\$ 10,814,233	\$ 10,573,470	\$ 10,262,086	\$ 9,554,463
Plan net position	6,159,218	5,630,720	5,075,919	5,522,567	5,256,729	5,585,186
Net pension liability	5,134,460	5,336,766	5,738,314	5,050,903	5,005,357	3,969,277
Plan net position as a percent of total pension liability	54.54%	51.34%	46.94%	52.23%	51.22%	58.46%
Covered payroll	\$ 1,456,663	\$ 1,497,873	\$ 1,393,348	\$ 1,255,078	\$ 1,173,008	\$ 1,186,748
Net pension liability as a percent of covered payroll	352.48%	356.29%	411.84%	402.44%	426.71%	334.47%

* GASB Statement No. 68 was implemented as of December 31, 2015. Information from 2011 through 2014 is not available. Additional years will be presented on this schedule on a prospective basis.

See Notes to Required Supplementary Information

Lake County Road Commission
Required Supplementary Information
Schedule of Employer Contributions
Last 10 Fiscal Years Ended December 31,

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015*</u>
Actuarially determined contribution	\$ 554,919	\$ 496,408	\$ 476,174	\$ 366,521	\$ 322,319	\$ 312,292
Contributions in relation to the actuarially determined contribution	<u>690,277</u>	<u>687,539</u>	<u>576,174</u>	<u>466,521</u>	<u>422,319</u>	<u>312,292</u>
Contribution deficiency (excess)	<u>\$ (135,358)</u>	<u>\$ (191,131)</u>	<u>\$ (100,000)</u>	<u>\$ (100,000)</u>	<u>\$ (100,000)</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,456,663	\$ 1,497,873	\$ 1,393,348	\$ 1,255,078	\$ 1,173,008	\$ 1,186,748
Contributions as percentage of covered- employee payroll	47.39%	45.90%	41.35%	37.17%	36.00%	26.31%

* GASB Statement No. 68 was implemented as of December 31, 2015. Information from 2011 through 2014 is not available. Additional years will be presented on this schedule on a prospective basis.

See Notes to Required Supplementary Information

Lake County Road Commission
Required Supplementary Information
Schedule of Changes in Net OPEB Liability and Related Ratios

Last 10 Fiscal Years Ended December 31,

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017*</u>
Total OPEB liability				
Service cost	\$ 93,395	\$ 130,664	\$ 116,010	\$ 112,304
Interest on total OPEB liability	64,588	54,086	50,187	49,694
Changes of benefit terms	-	(171,785)	-	-
Differences between expected and actual experience	13,639	(207,080)	(13,064)	-
Changes in assumptions	(54,127)	(143,991)	107,469	-
Benefit payments	(97,755)	(80,067)	(100,577)	(100,359)
Other changes	-	-	-	-
Net change in total OPEB liability	<u>19,740</u>	<u>(418,173)</u>	<u>160,025</u>	<u>61,639</u>
Total OPEB liability - beginning	<u>1,247,248</u>	<u>1,665,421</u>	<u>1,505,396</u>	<u>1,443,757</u>
Total OPEB liability - ending	<u>\$ 1,266,988</u>	<u>\$ 1,247,248</u>	<u>\$ 1,665,421</u>	<u>\$ 1,505,396</u>
Plan fiduciary net position				
Contributions - employer contributions to OPEB trust	\$ 75,000	\$ 75,000	\$ 75,000	\$ -
Contributions - benefits paid from general operating funds	97,755	80,067	100,577	100,359
Contributions - member	-	-	-	-
Net investment income (loss)	47,767	52,890	(18,923)	25,736
Benefit payments and refunds	(97,755)	(80,067)	(100,577)	(100,359)
Administrative expenses	(653)	(495)	-	-
Other	-	-	(1,003)	(851)
Net change in fiduciary net position	<u>122,114</u>	<u>127,395</u>	<u>55,074</u>	<u>24,885</u>
Fiduciary net position - beginning	<u>373,077</u>	<u>245,682</u>	<u>190,608</u>	<u>165,723</u>
Fiduciary net position - ending	<u>\$ 495,191</u>	<u>\$ 373,077</u>	<u>\$ 245,682</u>	<u>\$ 190,608</u>
Net OPEB liability - ending	<u>\$ 771,797</u>	<u>\$ 874,171</u>	<u>\$ 1,419,739</u>	<u>\$ 1,314,788</u>
Fiduciary net position as a percentage of the total OPEB liability	39.08%	29.91%	14.75%	12.66%
Covered-employee payroll	\$ 1,222,678	\$ 1,661,289	\$ 1,769,048	\$ 1,723,975
Net OPEB liability as percentage of covered-employee payroll	63.12%	52.62%	80.25%	76.26%

* GASB Statement No. 74 was implemented as of December 31, 2017. Information from 2011 through 2016 is not available. Additional years will be presented on this schedule on a prospective basis.

See Notes to Required Supplementary Information

Lake County Road Commission
Required Supplementary Information
Schedule of Employer's Net OPEB Liability
Last 10 Fiscal Years Ended December 31,

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017*</u>
Total OPEB liability	\$ 1,266,988	\$ 1,247,248	\$ 1,665,421	\$ 1,505,396
Plan net position	495,191	373,077	245,682	190,608
Net OPEB liability	771,797	874,171	1,419,739	1,314,788
Plan net position as a percent of total OPEB liability	39.08%	29.91%	14.75%	12.66%
Covered payroll	\$ 1,222,678	\$ 1,661,289	\$ 1,769,048	\$ 1,723,975
Net OPEB liability as a percent of covered payroll	63.12%	52.62%	80.25%	76.26%

* GASB Statement No. 74 was implemented as of December 31, 2017. Information from 2011 through 2016 is not available. Additional years will be presented on this schedule on a prospective basis.

See Notes to Required Supplementary Information

Lake County Road Commission
Required Supplementary Information
Schedule of Employer Contributions - OPEB

Last 10 Fiscal Years Ended December 31,

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017*</u>
Actuarially determined contribution	\$ 180,753	\$ 253,935	\$ 173,911	\$ 220,274
Contributions in relation to the actuarially determined contribution	172,755	155,067	175,577	100,359
Contribution deficiency (excess)	<u>\$ 7,998</u>	<u>\$ 98,868</u>	<u>\$ (1,666)</u>	<u>\$ 119,915</u>
Covered-employee payroll	\$ 1,222,678	\$ 1,661,289	\$ 1,769,048	\$ 1,723,975
Contributions as percentage of covered- employee payroll	14.13%	9.33%	9.92%	5.82%

* GASB Statement No. 74 was implemented as of December 31, 2017. Information from 2011 through 2016 is not available. Additional years will be presented on this schedule on a prospective basis.

See Notes to Required Supplementary Information

Lake County Road Commission
Required Supplementary Information
Schedule of Employer Contributions - OPEB
Last 10 Fiscal Years Ended December 31,

	2020	2019	2018	2017*
Annual money-weighted rate of return, net of investment expenses	11.88%	22.35%	-10.51%	14.44%

* GASB Statement No. 74 was implemented as of December 31, 2017. Information from 2010 through 2016 is not available. Additional years will be presented on this schedule on a prospective basis.

See Notes to Required Supplementary Information

Lake County Road Commission

Notes to Required Supplementary Information

Budgetary Data

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

- * The Finance & Human Resources Manager prepares a proposed operating budget for the calendar year commencing January 1st, using data submitted by other administrative staff. The proposed operating budget includes identification of expenditures and resources to finance them.
- * Prior to December 31st, the proposed budget is presented to the Board of County Road Commissioners. The budget is reviewed and may be amended by the Board and a public hearing is held regarding the proposed budget. The budget is then legally enacted through passage of a resolution adopted by the Board of County Road Commissioners and is placed in the Board minutes.
- * The Road Commission's approved budget was adopted at the activity level. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act, since the Board of County Road Commissioners must approve amendments to the budget at the activity level.
- * The budget for the General Operating / Road Fund is adopted on a basis consistent with U.S GAAP. Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.
- * The Road Commission adopts a budget for the General Operating / Road Fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the State-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.
- * Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. The General Operating / Road Fund had expenditures that exceeded budgeted appropriations at the activity level, which is the Road Commission's legal level of budgetary control. The General Operating / Road Fund had expenditures that exceeded budgeted appropriations at the activity level, which is the Road Commission's legal level of budgetary control, as follows:

	Final Budget	Actual	Over (Under) Budget
Public works	\$ 5,618,233	\$ 7,519,818	\$ 1,901,585
Capital outlay	(24,090)	55,753	79,843
Debt service	541,769	642,552	100,783

Revenues and existing fund balance were sufficient to cover all expenditures in the General Operating / Road Fund.

Lake County Road Commission
Notes to Required Supplementary Information

Methods and Assumptions Used to Determine Contribution Rates:

Defined Benefit Pension Plan

Valuation date	December 31, 2019
Notes	Actuarially determined contribution rates are calculated as of the December 31 that is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	19 years
Asset valuation method	Open; 10-year smoothed market
Inflation	2.50%
Salary increases	3.75% (plus 0.00% to 11.00% for merit and longevity)
Investment rate of return	7.35% (net of administrative and investment expenses)
Retirement age	Age-based table of rates that are specific to the type of eligibility condition.
Mortality	RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend for non-disabled plan members and 50% Male and 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables for disabled plan members.

Other Information: Changes to price inflation, salary increase rates and mortality tables as the result of an assumption study were adopted by the Retirement Board for use in the annual valuations of the Retirement System beginning with the December 31, 2015 actuarial valuation.

Changes to the investment rate of return assumption and salary increase rates were adopted by the Retirement Board for use in the 2019 valuation of the Retirement System.

Other Post-employment Benefits (OPEB) Plan

Valuation date	December 31, 2020
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Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	Current market
Inflation	2.50%
Salary increases	3.50%
Investment rate of return	5.40% (including inflation)
20-year Aa municipal bond rate	1.93% (S&P Municipal Bond 20-Year High Grade Rate Index)
Discount rate	5.40%
Retirement age	Earlier of age 55 and 25 years of service or age 60 and 10 years of service
Medical trend	Pre-Medicare: 8.50% graded down to 4.50% by 0.25% per year; Post-Medicare: 7.00% graded down to 4.50% by .25% per year.
Mortality	2010 Public General Employees and Healthy Retirees, Headcount weighted. Improvement Scale MP-2020

Other Information: Mortality Improvement changed from 2018 to 2020. Trend rates updated from rates prescribed by Public Act 202 for 2019 to 2020. Discount rate changed from 5.00% to 5.40%

OTHER SUPPLEMENTARY INFORMATION

Lake County Road Commission

General Operating / Road Fund

Schedule of Revenues by Component

For the Year Ended December 31, 2020

	<u>Primary Roads</u>	<u>Local Roads</u>	<u>County Roads</u>	<u>Total</u>
Revenues				
Licenses and permits	\$ -	\$ -	\$ 27,296	\$ 27,296
Federal sources				
Surface transportation program (STP)	-	1,000,000	-	1,000,000
State sources				
Michigan transportation funds				
Engineering	5,120	4,880	-	10,000
Snow removal	66,684	63,574	-	130,258
Allocation	2,325,373	2,216,567	-	4,541,940
Economic Development Fund				
Forest road	28,565	69,269	-	97,834
Contributions from local units				
Townships	-	211,906	-	211,906
Charges for services				
State trunkline maintenance	-	-	504,775	504,775
State trunkline non-maintenance	-	-	-	-
Salvage sales	-	-	2,131	2,131
Other	-	-	561,063	561,063
Interest and rentals	-	356	10,300	10,656
Other				
Sundry refunds	-	-	35,871	35,871
Proceeds from sale of capital assets	-	-	254,637	254,637
Contributions from private sources	-	235,906	-	235,906
Fines - ORV	-	-	27,694	27,694
Total revenues	<u>\$ 2,425,742</u>	<u>\$ 3,802,458</u>	<u>\$ 1,423,767</u>	<u>\$ 7,651,967</u>

Lake County Road Commission
General Operating / Road Fund
Schedule of Expenditures by Component
For the Year Ended December 31, 2020

	<u>Primary Roads</u>	<u>Local Roads</u>	<u>County Roads</u>	<u>Total</u>
Expenditures				
Preservation / Structural Improvements				
Roads	\$ 26,407	\$ 1,519,319	\$ -	\$ 1,545,726
Structures	208,192	183,181	-	391,373
Other - safety projects	11,461	-	-	11,461
Maintenance				
Roads	1,128,021	1,638,313	-	2,766,334
Winter maintenance	240,852	217,781	-	458,633
Traffic control	67,517	37,549	-	105,066
Total preservation and maintenance	1,682,450	3,596,143	-	5,278,593
State trunkline maintenance	-	-	497,338	497,338
State trunkline non-maintenance	-	-	-	-
Administrative (net)	132,779	283,808	-	416,587
Equipment (net)	154,454	327,427	158,900	640,781
Capital outlay (net)	-	-	55,753	55,753
Debt service				
Principal	-	-	593,902	593,902
Interest	-	-	48,650	48,650
Other maintenance	-	-	686,519	686,519
Total expenditures	<u>\$ 1,969,683</u>	<u>\$ 4,207,378</u>	<u>\$ 2,041,062</u>	<u>\$ 8,218,123</u>

Lake County Road Commission

General Operating / Road Fund

Schedule of Changes in Fund Balance by Component

For the Year Ended December 31, 2020

	<u>Primary Roads</u>	<u>Local Roads</u>	<u>County Roads</u>	<u>Total</u>
Total revenues	\$ 2,425,742	\$ 3,802,458	\$ 1,423,767	\$ 7,651,967
Total expenditures	<u>1,969,683</u>	<u>4,207,378</u>	<u>2,041,062</u>	<u>8,218,123</u>
Excess of revenue over (under) expenditures	456,059	(404,920)	(617,295)	(566,156)
Other financing sources (uses)				
Optional transfers	-	301,738	(301,738)	-
Installment purchase proceeds	<u>-</u>	<u>-</u>	<u>272,260</u>	<u>272,260</u>
Total other financing sources (uses)	<u>-</u>	<u>301,738</u>	<u>(29,478)</u>	<u>272,260</u>
Excess of revenue and other financing sources (uses) over (under) expenditures	456,059	(103,182)	(646,773)	(293,896)
Fund balance				
Beginning of the year, as restated	<u>-</u>	<u>103,182</u>	<u>2,293,708</u>	<u>2,396,890</u>
End of the year	<u>\$ 456,059</u>	<u>\$ -</u>	<u>\$ 1,646,935</u>	<u>\$ 2,102,994</u>

INTERNAL CONTROL AND COMPLIANCE



SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

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A VETERAN OWNED BUSINESS

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

To the Board of County Road Commissioners
County of Lake, Michigan
Baldwin, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the **Lake County Road Commission**, a component unit of Lake County, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the **Lake County Road Commission's** basic financial statements and have issued our report thereon dated June 10, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, as described as findings 2020-1 and 2020-2 in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

Compliance and Other Matters

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

Road Commission's Responses to Findings

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

Purpose of this Report

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

Smith + Klaehowitz PC

Saginaw, Michigan

June 10, 2021

Lake County Road Commission

Schedule of Findings and Responses

Finding 2020-1 – Preparation of Financial Statements in Accordance with U.S. GAAP (repeat comment)

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

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

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

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

**View of
Responsible
Officials:**

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

Lake County Road Commission
Schedule of Findings and Responses

Finding 2020-2 – **Lack of Segregation of Incompatible Duties** (*repeat comment*)

Criteria: An important component of any internal control system is appropriate segregation of duties over key accounting functions.

Condition: The Clerk at the Road Commission performs several accounting functions related to cash receipts, cash disbursements and recording of financial activity to the general ledger. To provide a system of checks and balances, these functions are generally assigned to different employees to minimize the potential for unauthorized transactions.

Cause: Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the additional personnel that would be required to segregate all incompatible duties.

Effect: This condition creates opportunities for inaccurate or unauthorized disbursements or transfers of Road Commission assets and increases the potential for inaccurate reporting of financial activity.

**View of
Responsible
Officials:**

The Road Commission is aware of the weakness in this area and has determined that the strong oversight and involvement of the Board of County Road Commissioners reduces the risk of unauthorized disbursements and inaccurate financial reporting to an acceptably low level.