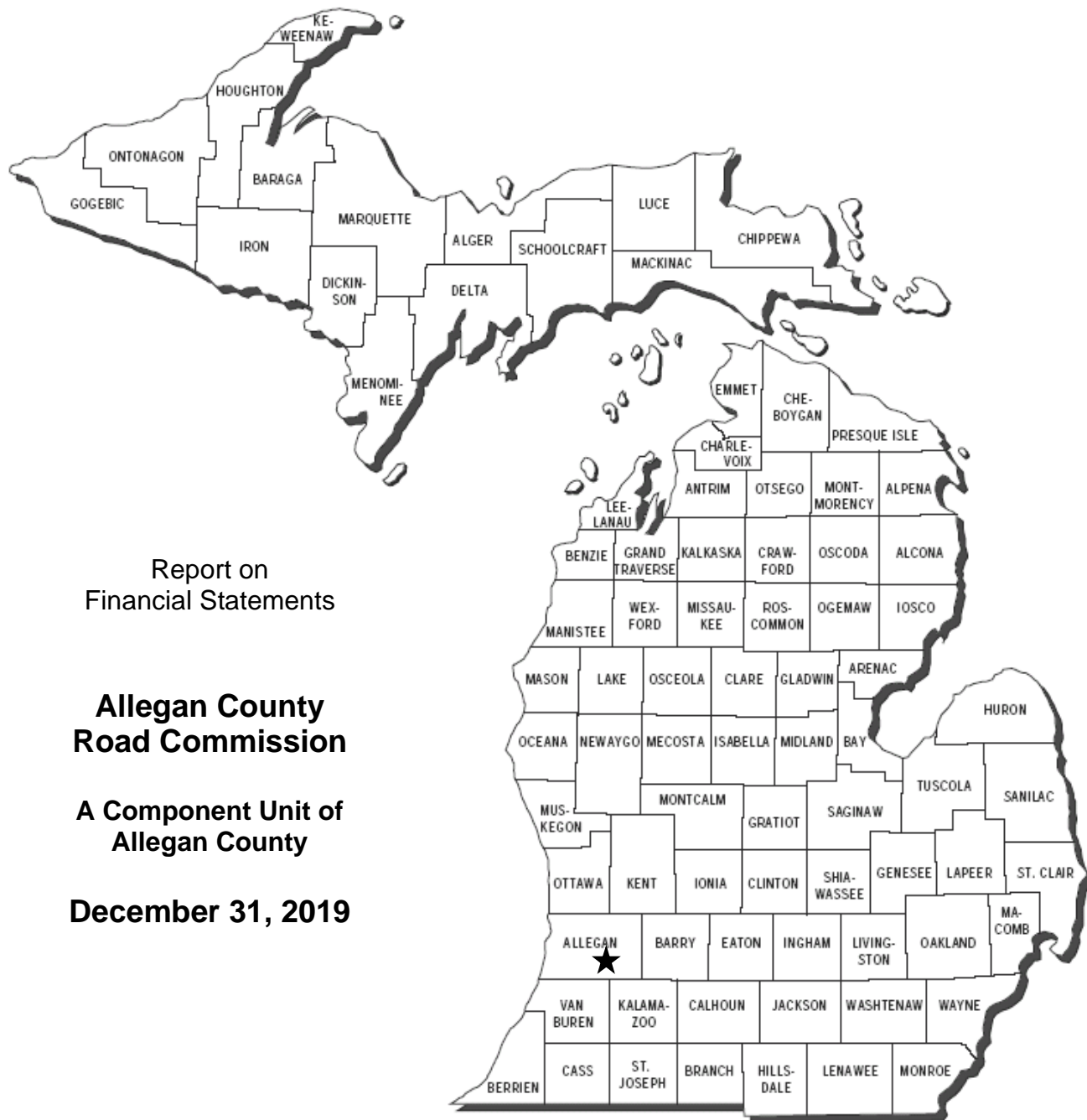


STATE OF MICHIGAN

Gretchen Whitmer, Governor

DEPARTMENT OF TREASURY

Rachael Eubanks, State Treasurer



Report on
Financial Statements

**Allegan County
Road Commission**

**A Component Unit of
Allegan County**

December 31, 2019

ALLEGAN COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

(June 23, 2020)

John Kleinheksel
Chairman

James Rybicki
Vice-Chairman

Larry Brown
Member

Craig Atwood, P.E.
Managing Director

Sheryl Parrish
Finance Director

COUNTY POPULATION--2010
111,408

STATE EQUALIZED VALUATION--2019
\$6,814,054,463



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

June 23, 2020

Board of County Road Commissioners
Allegan County Road Commission
1308 Lincoln Road
Allegan, Michigan 49010

Independent Auditor's Report

Dear Board Members:

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 Allegan County Road Commission, a component unit of Allegan County, Michigan, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Allegan County 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 of 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, major fund, and the aggregate remaining fund information of the Allegan County Road Commission, Allegan County, Michigan, as of December 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Allegan County Road Commission's basic financial statements. The accompanying supplementary and related information presented in Exhibits O through Q is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary and related information presented in Exhibits O through Q is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and

June 23, 2020

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 accompanying supplementary and related information presented in Exhibits O through Q is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2020, on our consideration of the Allegan County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Allegan County Road Commission's 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 Allegan County Road Commission's internal control over financial reporting and compliance.

Sincerely,



Cary Jay Vaughn, CPA, CGFM
Audit Manager

Community Engagement and Finance Division

ALLEGAN COUNTY ROAD COMMISSION

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ALLEGAN COUNTY ROAD COMMISSION

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ALLEGAN COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2019

Our discussion and analysis of the Allegan County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the year ended December 31, 2019.

FINANCIAL HIGHLIGHTS

- The Road Commission received \$2,071,675 more than the prior year in motor transportation funds.
- The Road Commission contributed an additional \$2,066,000 towards its net pension liability and \$780,000 towards its net OPEB liability to continue to reduce the overall unfunded balances.

USING THIS ANNUAL REPORT

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. This report also contains supplementary information in addition to the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities on Exhibits A and B provide information about the activities of the Road Commission as a whole and present a longer-term view of the Road Commission's finances. Fund financial statements start with Exhibit C. The fund 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 statements by providing information about the Road Commission's general operating fund.

Reporting the Road Commission as a Whole

The Statement of Net Position and the Statement of Activities

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Road Commission's net position and changes in them. You can think of the Road Commission's net position (the difference between assets and liabilities) as one way to measure the Road Commission's financial health, or financial position. Over time, increases or decreases in the Road Commission's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the Road Commission's property tax base and the condition of Road Commission's infrastructure, to assess the overall health of the Road Commission.

In the Statement of Net Position and the Statement of Activities, the Road Commission presents Governmental activities. All of the Road Commission's basic services are reported here. State and Federal grants along with township contributions finance most activities.

ALLEGAN COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2019

Report the Road Commission's Major Fund

Fund Financial Statements

The Road Commission currently presents only a general operating fund, which is a governmental fund. All of the Road Commission's basic services are reported in this fund, which focuses on how money flows into and out of the fund and the balance left at year-end that is available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The fund financial statements provide a detailed short-term view of the Road Commission's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements as Exhibits D and F.

Additional Required Supplementary Information (RSI)

Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. The Required Supplementary Information includes budgetary comparison schedules, pension trend data, and OPEB trend data.

Other Supplementary Information

Other supplementary information includes combining financial statements. The Road Commission's general fund is split between the primary road, local road and county road commissions funds to comply with the reporting provisions issued by the Michigan Department of Transportation under 1951 Public Act (PA) 51.

The Road Commission as a Whole

The Road Commission's net position increased from \$208,625,690 to \$219,003,617 for the year ended December 31, 2019. This is a 5% increase over 2018's net position. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the Road Commission's governmental activities.

ALLEGAN COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2019

Table 1
Net Position of Governmental Activities

	12/31/18 Governmental Activities	12/31/19 Governmental Activities	Variance
Current and Other Assets	\$ 19,224,287	\$ 17,970,975	\$ (1,253,312)
Net Capital Assets	<u>211,386,306</u>	<u>216,256,866</u>	<u>4,870,560</u>
Total Assets	<u>230,610,593</u>	<u>234,227,841</u>	<u>3,617,248</u>
Deferred Outflow of Resources	<u>2,955,886</u>	<u>4,296,032</u>	<u>1,340,146</u>
Current Liabilities	3,548,233	475,552	(3,072,681)
Non-current Liabilities	<u>17,608,596</u>	<u>15,258,272</u>	<u>(2,350,324)</u>
Total Liabilities	<u>21,156,829</u>	<u>15,733,824</u>	<u>(5,423,005)</u>
Deferred Inflow of Resources	<u>3,783,960</u>	<u>3,786,432</u>	<u>2,472</u>
Total Deferred Inflow of Resources	<u>3,783,960</u>	<u>3,786,432</u>	<u>2,472</u>
Net Position			
Net Investment in Capital Assets	205,457,991	210,583,446	5,125,455
Restricted/(Unrestricted)	<u>3,167,699</u>	<u>8,420,171</u>	<u>5,252,472</u>
Total Net Position	<u>\$ 208,625,690</u>	<u>\$ 219,003,617</u>	<u>\$ 10,377,927</u>

The Road Commission's governmental activities total net position increased by 5% or \$10,377,927. Total net investment in capital assets increased \$5,125,455 primarily due to the road commission investing funds in the county's road and bridge infrastructure. The restricted net position are the funds used for the Road Commission's operations within the provisions of 1951 PA 51. The increase in the unrestricted net position (in the amount of \$5,252,472 noted above) was due to primarily to an increase in gas tax along and a decrease in the net OPEB liability as the Road Commission was able to negotiate a set capped amount for the benefit with its employees.

ALLEGAN COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2019

Table 2
Changes in Net Position of Governmental Activities

	2018	2019	Difference
Program Revenue			
Licenses and Permits	\$ 80,240	\$ 70,887	\$ (9,353)
Federal Grants	2,910,751	490,697	(2,420,054)
State Grants	17,045,242	15,384,949	(1,660,293)
Contributions From Local Units	6,751,382	9,589,155	2,837,773
Charges for Services	62,697	18,889	(43,808)
Investment Earnings	157,207	387,822	230,615
Other Contributions	72,507	(14,241)	(86,748)
General Revenue			
Taxes	3,474,566	3,571,797	97,231
Gain on Equipment Disposal	-	23,160	23,160
Total Revenue	<u>30,554,592</u>	<u>29,523,115</u>	<u>(1,031,477)</u>
Expenses			
Primary Road Maintenance	3,594,672	4,510,694	916,022
Local Road Maintenance	9,200,565	9,564,015	363,450
Nonroad Projects	72,507	-	(72,507)
Net Equipment Expense	(103,946)	(586,019)	(482,073)
Net Administrative Expense	1,117,156	1,287,597	170,441
Infrastructure Depreciation Expense	7,517,689	7,832,522	314,833
Compensated Absences	(3,983)	27,138	31,121
Pension Expense	(1,483,754)	(1,616,685)	(132,931)
Other Postemployment Benefit Expense	(44,788)	(2,053,211)	(2,008,423)
Interest Expense	187,136	179,137	(7,999)
Total Expenses	<u>20,053,254</u>	<u>19,145,188</u>	<u>(908,066)</u>
Change in Net Position	<u>10,501,338</u>	<u>10,377,927</u>	<u>(123,411)</u>
Ending Net Position	<u>\$ 208,625,690</u>	<u>\$ 219,003,617</u>	<u>\$ 10,377,927</u>

Governmental Activities

The Road Commission's governmental activities revenues decreased 3.4% or \$1,031,477, while expenses decreased 4.5% or \$908,066 as compared with the prior fiscal year. The decrease in revenue is from the decreased amount of federal and state aid received for infrastructure projects offset by the increase in gas tax funds and township contributions received. The expenses decreased primarily due to the decreased OPEB liability as the Road Commission negotiated a set, maximum amount for the benefit reducing the overall liability.

ALLEGAN COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2019

THE ROAD COMMISSION'S FUND

As the Road Commission completed the year, its general operating fund (as presented in the balance sheet on Exhibit C) reported a fund balance of \$13,708,991 which is more than last year's \$12,099,277. The primary reasons for the General Operating Fund's increase is mirrored by the governmental activities analysis highlighted in the prior paragraph.

GENERAL OPERATING FUND BUDGETARY HIGHLIGHT

Over the course of the year, the Board of County Road Commissioners revised the budget several times. These budget amendments fall into two categories. The first category includes amendments based on the Federal and State grants received or not received for road and bridge projects. The second category includes year-end adjustments to account for accruals and then the spread of the distributive and non-distributive expenses incurred by the Road Commission.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2019, the Road Commission had \$216,256,866 invested in a broad range of capital assets, including land, buildings, equipment, roads, and bridges. This amount represents a net increase (including additions and deductions) of \$4,870,560.

ALLEGAN COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2019

Table 3
Capital Assets at Year-End

	12/31/18	12/31/19
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 155,035	\$ 155,035
Land/Right of Way	2,203,781	2,203,781
Infrastructure--Land and Improvements	94,227,023	96,465,484
Subtotal	96,585,839	98,824,300
Capital Assets Being Depreciated		
Buildings	9,807,608	9,842,493
Road Equipment	14,956,777	15,181,039
Shop Equipment	124,368	237,014
Office Equipment	66,371	58,326
Engineer's Equipment	50,185	75,685
Yard and Storage	1,052,529	1,254,022
Infrastructure--Traffic Signals	63,924	63,924
Infrastructure--Bridges	28,115,511	28,382,711
Infrastructure--Roads	147,790,942	153,609,823
Subtotal	202,028,215	208,705,037
Total Capital Assets	298,614,054	307,529,337
Total Accumulated Depreciation	(87,227,748)	(91,272,471)
Total Net Capital Assets	\$ 211,386,306	\$ 216,256,866

This year's major capital asset additions included the following:

Reconstruction of Bridges	\$ 267,200
Resurfacing Projects and Related Land Improvements	12,975,230
Building Improvements	69,424
Trucks/Road Equipment	317,355
Shop/Engineer/Office Equipment	139,545
Yard and Storage	224,344
Total Additions	\$ 13,993,098

The Road Commission's fiscal-year 2020 capital budget calls for it to continue to spend funds for equipment purchases and on road and bridge projects. More detailed information about capital assets can be found in Note D to the financial statements.

ALLEGAN COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2019

Debt

At the fiscal year end, the Road Commission had \$5,673,420 in bonds payable versus \$5,928,315 during the prior period, a decrease of \$254,895 or 4%. The Road Commission also records other debt in the form of employee vested benefits which is not shown below. More detailed information about the debt of the Road Commission can be found in Note E of the financial statements.

Table 4
Outstanding Debt, at Year-End

	<u>2018</u>	<u>2019</u>	<u>Variance</u>
Unamortized Bond Premium	\$ 78,315	\$ 73,420	\$ (4,895)
Bonds Payable	<u>5,850,000</u>	<u>5,600,000</u>	<u>(250,000)</u>
Total	<u>\$ 5,928,315</u>	<u>\$ 5,673,420</u>	<u>\$ (254,895)</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board of County Road Commissioners considered many factors when setting the fiscal year 2019 budget. The economy and the weather are two factors that make budgeting expenditures difficult. The economy has affected both revenues and expenditures. MTF funds increased in 2019 by 15.74%. The Road Commission took a conservative approach in spending the increase in funds. Funds for unfunded pension liability and OPEB costs were set aside. The Road Commission continues to carefully select projects that have the most need and only replace necessary positions as people retire so that our solvency remains intact.

The budgeted overall revenues for 2020 will reflect the estimated increases in Fuel Tax and Registration Fees. As we have realized the new revenues, more projects were added. While our operating funds are increasing, it is still difficult to keep State and Federal grants at a consistent dollar amount. We will continue with our county-wide primary millage funded by our local citizens. We will strive to perform necessary maintenance. Our townships continue to provide a substantial part of our funding. Townships contributed 27.14% of 2019 revenues. The Allegan County Road Commission strives to provide excellent service with the available funds.

CONTACTING THE ROAD COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Allegan County Road Commission's administrative offices at 1308 Lincoln Road, Allegan, Michigan 49010.

ALLEGAN COUNTY ROAD COMMISSION
STATEMENT OF NET POSITION
December 31, 2019

EXHIBIT A

ASSETS

Cash	\$ 616,644
Investments	6,174,904
Accounts Receivable	
Taxes	3,473,090
Sundry Accounts	3,668
Michigan Transportation Funds	2,479,172
Due From Townships Road Agreements	3,468,374
Inventories	
Road Materials	823,699
Equipment Parts and Materials	754,762
Prepaid Expenses	176,662
Capital Assets-Non-Depreciating	98,824,300
Capital Assets-Depreciating	117,432,566
	<hr/>
Total Assets	234,227,841

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows-Investments-Pension Related	1,083,198
Deferred Outflow-Change in Experience-Pension Related	254,523
Deferred Outflow-Employer Contributions-Pension Related	2,958,311
	<hr/>
Total Deferred Outflow of Resources	4,296,032

LIABILITIES

Current Liabilities	
Accounts Payable	168,942
Due to State of Michigan	95,915
Accrued Liabilities	144,700
Performance Bonds Payable	65,995
Non-Current Liabilities	
Unamortized Bond Premium--Due in One Year	4,895
Unamortized Bond Premium--Due in More Than One Year	68,525
Bonds Payable--Due in One Year	250,000
Bonds Payable--Due in More Than One Year	5,350,000
Vested Employee Benefits Payable--Due Within One Year	227,512
Vested Employee Benefits Payable--Due in More Than One Year	172,254
Net Pension Liability	9,126,656
Net OPEB Liability	58,430
	<hr/>
Total Liabilities	15,733,824

DEFERRED INFLOW OF RESOURCES

Unavailable Revenue--Property Taxes	3,786,432
	<hr/>
Total Deferred Inflow of Resources	3,786,432

NET POSITION

Net Investment in Capital Assets	210,583,446
Unrestricted	8,420,171
	<hr/>
Total Net Position	\$ 219,003,617

The Notes to Financial Statements are an integral part of this statement.

ALLEGAN COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2019

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 4,510,694
Local Road Maintenance	9,564,015
Net Equipment Expense	(586,019)
Net Administrative Expense	1,287,597
Infrastructure Depreciation	7,832,522
Compensated Absences	27,138
Net Pension Expense	(1,616,685)
OPEB Expense	(2,053,211)
Interest Expense	179,137
	<hr/>
Total Program Expenses	19,145,188
Program Revenue	
Charges for Services	
Licenses and Permits	70,887
Charges for Services	18,889
Operating Grants and Contributions	
Michigan Transportation Funds	15,234,133
Other State Grants	62,750
Investment Earnings	387,822
Contributions From Local Units	1,193,365
Reimbursements	(14,241)
Capital Grants and Contributions	
Federal Grants	490,697
State Grants	88,066
Contributions From Local Units	8,395,790
	<hr/>
Total Program Revenue	25,928,158
	<hr/>
Net Program Revenue	6,782,970
General Revenue	
Taxes	3,571,797
Gain on Equipment Disposal	23,160
	<hr/>
Total General Revenues	3,594,957
	<hr/>
Change in Net Position	10,377,927
Net Position	
Beginning of Year	208,625,690
	<hr/>
End of Year	\$ 219,003,617
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.

ALLEGAN COUNTY ROAD COMMISSION
 BALANCE SHEET--GOVERNMENTAL FUND
 December 31, 2019

EXHIBIT C

<u>ASSETS</u>	General Operating Fund
Cash	\$ 616,644
Investments	6,174,904
Accounts Receivable	
Taxes Receivable	3,473,090
Sundry Accounts	3,668
Michigan Transportation Funds	2,479,172
Due From Townships Road Agreements	3,468,374
Inventories	
Road Materials	823,699
Equipment Parts and Materials	754,762
Prepaid Expense	<u>176,662</u>
Total Assets	<u><u>\$ 17,970,975</u></u>
 <u>LIABILITIES</u>	
Liabilities	
Accounts Payable	\$ 168,942
Due to State of Michigan	95,915
Accrued Liabilities	144,700
Performance Bonds Payable	<u>65,995</u>
Total Liabilities	<u>475,552</u>
 <u>DEFERRED INFLOW OF RESOURCES</u>	
Unavailable Revenue--Property Taxes	<u>3,786,432</u>
Total Deferred Inflow of Resources	<u>3,786,432</u>
 <u>FUND BALANCE</u>	
Fund Balance	
Non-Spendable	1,755,123
Restricted	<u>11,953,868</u>
Total Fund Balance	<u>13,708,991</u>
Total Liabilities, Deferred Inflow of Resources, and Fund Balance	<u><u>\$ 17,970,975</u></u>

The Notes to Financial Statements are an integral part of this statement.

ALLEGAN COUNTY ROAD COMMISSION
 RECONCILIATION OF THE GOVERNMENTAL FUND
 BALANCE SHEET TO THE STATEMENT OF NET POSITION
 December 31, 2019

EXHIBIT D

Total Governmental Fund Balance	\$ 13,708,991
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	216,256,866
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	(5,673,420)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as financial resources; therefore, they are not reported as fund liabilities.	(399,766)
Other postemployment benefit obligations do not present a claim on current financial resources and are not reported as fund liabilities.	(58,430)
Net pension liability is not due and payable in the current period and is not reported in the funds.	(9,126,656)
Certain pension contributions and changes in pension plan net position are reported as deferred outflows of resources in the Statement of Net Position, but are reported as expenses in the governmental funds.	<u>4,296,032</u>
Net Position of Governmental Activities	<u><u>\$ 219,003,617</u></u>

The Notes to Financial Statements are an integral part of this statement.

ALLEGAN COUNTY ROAD COMMISSION
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE--
 GOVERNMENTAL FUND

EXHIBIT E

For the Year Ended December 31, 2019

	General Operating Fund
Revenues	
Taxes	\$ 3,571,797
Licenses and Permits	70,887
Federal Grants	490,697
State Grants	15,384,949
Contributions From Local Units	9,589,155
Charges for Services	18,889
Interest and Rents	387,822
Other Revenue	(14,241)
	<hr/>
Total Revenues	29,499,955
	<hr/>
Expenditures	
Public Works	28,018,716
Capital Outlay--Net	(539,347)
Debt Service	434,032
	<hr/>
Total Expenditures	27,913,401
	<hr/>
Excess of Revenues Over (Under) Expenditures	1,586,554
	<hr/>
Other Financing Sources	
Gain on Equipment Disposal	23,160
	<hr/>
Total Other Financing Sources	23,160
	<hr/>
Net Change in Fund Balance	1,609,714
	<hr/>
Fund Balance--January 1, 2019	12,099,277
	<hr/>
Fund Balance--December 31, 2019	\$ 13,708,991
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.

ALLEGAN COUNTY ROAD COMMISSION
 RECONCILIATION OF THE GOVERNMENTAL FUND--
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
 For the Year Ended December 31, 2019

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ 1,609,714

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

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

Add--Capital Outlay	13,993,097
Deduct--Depreciation Expense	(9,122,537)

Repayment of bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Position.	254,895
--	---------

(Increase)/Decrease in accumulated employee sick and vacation pay and other similar expenses reported in the Statement of Activities do not require the use of current resources, and therefore, are not reported in the fund financial statements until they come due for payment.	(27,138)
--	----------

Other postemployment benefit obligation expense is recognized in the Statement of Activities, but not in the governmental funds.	2,053,211
---	-----------

Increase in pension liability reported in the Statement of Activities does not require the use of resources, and therefore, is not reported in the fund statements until it comes due for payment.	<u>1,616,685</u>
--	------------------

Change in Net Position of Governmental Activities	<u><u>\$ 10,377,927</u></u>
---	-----------------------------

The Notes to Financial Statements are an integral part of this statement.

ALLEGAN COUNTY ROAD COMMISSION
 STATEMENT OF NET POSITION--
 FIDUCIARY FUND
 December 31, 2019

EXHIBIT G

	<u>OPEB Trust</u>	<u>Healthcare Savings Program</u>	<u>Total</u>
<u>ASSETS</u>			
Investments at Fair Market Value			
MERS Total Market Funds	\$ 796,628	\$ 472,990	\$ 1,269,618
Total Assets	<u>796,628</u>	<u>472,990</u>	<u>1,269,618</u>
<u>LIABILITIES</u>			
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
<u>NET POSITION</u>			
Held in Trust for Retiree Healthcare Benefits	<u>\$ 796,628</u>	<u>\$ 472,990</u>	<u>\$ 1,269,618</u>

The Notes to Financial Statements are an integral part of this statement.

ALLEGAN COUNTY ROAD COMMISSION
STATEMENT OF CHANGES IN NET POSITION--
FIDUCIARY FUND
For the Year Ended December 31, 2019

EXHIBIT H

	<u>OPEB Trust</u>	<u>Healthcare Savings Program</u>	<u>Total</u>
Additions			
Contributions			
Employer	\$ 780,000	\$ 1,633	\$ 781,633
Employee	-	4,106	4,106
Total Contributions	<u>780,000</u>	<u>5,739</u>	<u>785,739</u>
Investment Income			
Net Change in Fair Value of Investments	<u>17,040</u>	<u>66,336</u>	<u>83,376</u>
Net Investment Income (Loss)	<u>17,040</u>	<u>66,336</u>	<u>83,376</u>
Total Additions	<u>797,040</u>	<u>72,075</u>	<u>869,115</u>
Benefits Paid	-	91,660	91,660
Administrative Expenses	<u>412</u>	<u>74</u>	<u>486</u>
Total Deductions	<u>412</u>	<u>91,734</u>	<u>92,146</u>
Change in Net Position	<u>796,628</u>	<u>(19,659)</u>	<u>776,969</u>
Net Position Restricted for Retiree Healthcare Benefits			
Beginning of Year	<u>-</u>	<u>492,649</u>	<u>492,649</u>
End of Year	<u>\$ 796,628</u>	<u>\$ 472,990</u>	<u>\$ 1,269,618</u>

The Notes to the Financial Statements are an integral part of this statement.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Allegan County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Road Commission:

Reporting Entity

The Road Commission, which was established pursuant to the County Road Law, Michigan Compiled Law (MCL) 224.1, is governed by an appointed 3-member Board of County Road Commissioners. The Road Commission may not issue debt without the county's approval and the property tax levy for road purposes is subject to County Board of Commissioners' approval. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors, and would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity*, for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Road Commission, a discretely presented component unit of Allegan County.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund (MTF) monies distributed to the county, which are earmarked by law for roads and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission General Operating Fund.

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all non-fiduciary activities of the Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Position presents the Road Commission's assets, deferred outflows, liabilities, and deferred inflows of resources with the difference being reported as either net investment in capital assets or unrestricted net position. The net position not related to capital assets is classified as unrestricted.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are 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. Taxes and other items not properly included among program revenues are reported instead as general revenue.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the General Operating Fund (governmental fund). The General Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; 2) Michigan Transportation Funds, State/Federal contracts, and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as needed.

The Road Commission reports the following major governmental fund:

The Operating Fund is the general operating fund of the Commission. It is used to account for all financial resources, except those required to be accounted for in another fund.

Additionally, the Road Commission reports the following fund type:

Agency Funds--The Other Postemployment Benefit Trust Funds are used to account for assets held in a trustee capacity on behalf of retirees for postretirement health care insurance and savings plans.

Healthcare Savings Program--The Healthcare Savings Program Trust (the "Trust") is used to account for assets held by the Municipal Employees Retirement System (MERS) in a trustee capacity that will be used to fund future payment of medical benefits for eligible retirees and their spouses, if applicable. The Trust is a single-employer retiree healthcare trust. All assets placed in the Trust Fund are administered by MERS, which acts as investment fiduciary and trustee. The Road Commission's has the responsibility to direct payment of fund monies for the benefit of eligible employees under the Road Commission's retiree healthcare benefit program.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the 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, are recorded only when payment is due.

Michigan Transportation Funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Cash and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, based on quoted market prices.

Receivables

Receivables consist primarily of the balance of fuel tax fees due from the State of Michigan and the balances due from local units of government and individuals for goods and services provided. These balances are reported net of estimated uncollectible balances (though estimated uncollectible balances were zero at year-end).

Property Taxes Receivable

The property tax is levied on each December 1 on the taxable valuation of property located in the county as of the preceding December 31. The 2019 taxable valuation of Allegan County amounted to \$4,858,118,797 less \$1,075,398,015 for cities and villages on which ad valorem taxes of .9919 mill was levied for the Road Commission for road construction purposes for a total of \$3,752,081. The taxes receivable at December 31, 2019, amounted to \$3,473,090 due to the County transmitting \$265,724 of the taxes levied prior to fiscal year end.

The county's 2019 ad valorem tax is levied and collectible on December 1, 2019 and is reported as taxes receivable and is offset by unavailable revenue at December 31, 2019.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

Prepaid Expenses

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

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, and similar items) are reported in the General Operating Fund in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at cost or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to a depreciation account for non-infrastructure related assets. Accordingly, the annual depreciation expense does not affect the available operating equities of the General Operating Fund for the non-infrastructure related assets; the infrastructure asset depreciation is reported as a separate line-item in the Statement of Activities.

The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Road Commission's tax is levied and collectible on December 1, 2018 and is recognized as revenue in the year ended December 31, 2019, when the proceeds of the levy are budgeted and available for the financing of operations.

Compensated Absences

Under the Road Commission's personnel policy and contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused leave under formulas and conditions specified in the policy and contracts. Accumulated leave of the Operating Fund is recorded on the statement of net position and not on the Operating Fund balance sheet because it is not expected to be liquidated with expendable available financial resources.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position and/or balance sheet 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. In this category, deferred outflows of resources are related to the defined benefit pension plan.

In addition to liabilities, the Statement of Financial Position and/or governmental fund balance sheet will sometimes report a separate section of deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources are reported related to the defined benefit pension plan. In addition, a deferred inflow of resources is reported in the government-wide Exhibit A and governmental fund financial statement Exhibit C for property

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

taxes levied in the amount of \$3,786,432 during the year that are intended to finance future periods and is unavailable.

Long-Term Obligations

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Fund Balance Classifications

In the fund financial statements, governmental funds report the following components of fund balance which comprise a hierarchy based on the extent to which the Road Commission is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Non-spendable Fund Balances

Non-spendable fund balances include amounts in governmental funds to designate amounts which are not available for spending or are legally or contractually required to be maintained. The non-spendable amount reported on Exhibit C is related to the inventory on hand in the amount of \$1,578,461 and prepaid expenses in the amount of \$176,662.

Restricted Fund Balances

Restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The remaining Road Commission Funds are restricted as they can only be used in accordance with Public Act 51 of 1951.

The Road Commission does not have a formal minimum balance policy.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Budgetary procedures are established pursuant to 1968 PA 2, MCL 141.421, which requires the Board of County Road Commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board does not conduct a public budget hearing; the budget is submitted to the county and included in its public hearing. The budget is amended as necessary during the year, and is approved by the Board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

NOTE C--CASH AND INVESTMENTS

Deposits are carried at cost. Deposits of the Road Commission are made in banks in the name of the Allegan County Treasurer. MCL 129.91, as amended by 1997 PA 196, authorizes the county treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase; and obligations of the State of Michigan or its political subdivisions which are rated investment grade. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated three (3) financial institutions for the deposit of Road Commission funds. The investment policy adopted by the Board in accordance with 1943 PA 20, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposit and investment policy are in accordance with statutory authority.

The OPEB Trust Fund and Health Care Savings Trust Fund were established with the Municipal Employees' Retirement System (MERS) as governmental trust under Section 115 of the Internal Revenue Code to hold the assets of the retiree health funding vehicle and is administered under the discretion of MERS as fiduciary, directly by (or through a combination of) MERS or MERS duly-appointed Program Administrator.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

NOTE C--CASH AND INVESTMENTS (Continued)

At year end, the Road Commission’s deposits and investments were reported in the basic financial statements in the following categories:

	Operating Fund	Trust Fund	Total
Cash	\$ 616,644	\$ -	\$ 616,644
Investments	6,174,904	1,269,618	7,444,522
	\$ 6,791,548	\$ 1,269,618	\$ 8,061,166

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. At year end, the Road Commission had \$1,087,061 of bank deposits which \$232,414 was FDIC insured and the remaining \$854,647 was uninsured and uncollateralized. The Road Commission also maintains \$100 in imprest cash.

Investments Authorized by the Road Commission’s Investment Policy

The Road Commission’s investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited its investments to government operating money markets and government securities purchased in the name of the Road Commission.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment. The Michigan Class investment account has a weighted average maturity of 44 days. The Fifth Third Securities weighted average is less than 12 months.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Michigan Class investment account and Fifth Third Securities are rated AAAM by S&P. The MERS Trust Funds are not rated.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

NOTE C--CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to the Road Commission's investment.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs. There are three (3) levels of inputs that may be used to measure fair value. Level 1 is quoted prices in active markets for identical securities; Level 2 is prices determined using other significant observable inputs; and Level 3 is prices determined using significant unobservable inputs. The Road Commission's investment in Fifth Third Securities of \$610,090 and Michigan Class of \$5,564,813 use a market approach for its valuing methodology and are categorized as a Level 1 and Level 2 input; respectively.

Investments in Entities that Calculate Net Asset Value per Share

The Road Commission holds \$1,269,618 in shares or interests in the MERS total market fund where the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient. MERS invests assets in a manner which will seek the highest investment return consistent with the preservation of principal and meet the daily liquidity needs of participants.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

NOTE D--CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Account Balances 12/31/2018	Additions	Deductions	Account Balances 12/31/2019
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 155,035	\$ -	\$ -	\$ 155,035
Land/Right-of-Way	2,203,781	-	-	2,203,781
Infrastructure Land Improvements	94,227,023	2,238,461	-	96,465,484
Subtotal	96,585,839	2,238,461	-	98,824,300
Capital Assets Being Depreciated				
Buildings	9,807,608	69,424	34,539	9,842,493
Road Equipment	14,956,777	317,355	93,093	15,181,039
Shop Equipment	124,368	114,045	1,399	237,014
Office Equipment	66,371	-	8,045	58,326
Engineer's Equipment	50,185	25,500	-	75,685
Yard and Storage	1,052,529	224,344	22,851	1,254,022
Infrastructure--Traffic Signals	63,924	-	-	63,924
Infrastructure--Bridges	28,115,511	267,200	-	28,382,711
Infrastructure--Roads	147,790,942	10,736,769	4,917,888	153,609,823
Total	202,028,215	11,754,637	5,077,815	208,705,037
Less Accumulated Depreciation				
Buildings	1,417,290	268,289	34,539	1,651,040
Road Equipment	12,846,213	925,486	93,093	13,678,606
Shop Equipment	97,687	26,212	1,399	122,500
Office Equipment	40,851	11,443	8,045	44,249
Engineer's Equipment	21,273	21,290	-	42,563
Yard and Storage	439,782	37,295	22,851	454,226
Infrastructure--Traffic Signals	45,165	4,262	-	49,427
Infrastructure--Bridges	7,901,099	684,098	-	8,585,197
Infrastructure--Roads	64,418,388	7,144,163	4,917,888	66,644,663
Total	87,227,748	9,122,538	5,077,815	91,272,471
Net Capital Assets Being Depreciated	114,800,467	2,632,099	-	117,432,566
Total Net Capital Assets	\$ 211,386,306	\$ 4,870,560	\$ -	\$ 216,256,866

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

NOTE D--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 925,487
Indirect Equipment	331,796
Net Administrative Expense	
Office Equipment	11,443
Engineering	21,290
Infrastructure Depreciation Expense	<u>7,832,522</u>
Total Depreciation Expense	<u><u>\$ 9,122,538</u></u>

NOTE E--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	Balances 1/1/2019	Additions	(Reductions)	Balances 12/31/2019	Due Within One Year
Michigan Transportation Fund Bonds, Series 2014, maturing serially through 2034 with biennial payments ranging from \$200,000 to \$500,000 at an interest rate ranging from 2.00% to 3.75%	\$ 5,850,000	\$ -	\$ (250,000)	\$ 5,600,000	\$ 250,000
Michigan Transportation Fund Bonds, Series 2014, bond premium amortized over the life of the bond (20 years)	78,315	-	(4,895)	73,420	4,895
Vested Employee Benefits Vacation and Sick Leave	<u>372,628</u>	<u>254,650</u>	<u>(227,512)</u>	<u>399,766</u>	<u>227,512</u>
Total	<u><u>\$ 6,300,943</u></u>	<u><u>\$ 254,650</u></u>	<u><u>\$ (482,407)</u></u>	<u><u>\$ 6,073,186</u></u>	<u><u>\$ 482,407</u></u>

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

NOTE E--LONG-TERM DEBT (Continued)

On December 4, 2014, the County of Allegan, on behalf of the Allegan County Road Commission, issued Michigan Transportation Fund Bonds, Series 2014, in the amount of \$6,500,000 for the purpose of constructing, furnishing, and equipping new garage and office facilities for the Road Commission. In addition to the bond proceeds received, \$97,895 in bond premiums was received. The premium will be amortized over the 20 year life of the bond. The annual interest and principal requirements of the bond is summarized as follows.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2020	\$ 250,000	\$ 176,031	\$ 426,031
2021	300,000	167,781	467,781
2022	300,000	158,781	458,781
2023	300,000	149,781	449,781
2024	350,000	140,031	490,031
2025-2029	1,850,000	528,157	2,378,157
2030-2034	<u>2,250,000</u>	<u>201,454</u>	<u>2,451,454</u>
Total	<u>\$ 5,600,000</u>	<u>\$ 1,522,016</u>	<u>\$ 7,122,016</u>

Vested Employee Benefits

Employees with 6 months of seniority are granted leave time of 16 hours per month. Office employees get an additional 16 hours of leave pay on January 1 of each year. Employees of Local Union No. 517M, with 6 months or more of seniority, shall be granted 5 hours of leave pay on January 1 of each year. This leave time may be used to cover absences because of illness or vacation. Such leave may be accumulated to a maximum of 768 hours.

On the first payday of June each year, employees are paid an amount equal to all leave accrued in excess of 576 hours as shown in the records on December 31 of the preceding year. Accumulated leave time is payable in full upon resignation or retirement. Office employees leave time is payable in full upon resignation, termination or retirement. As of December 31, 2019, the balance of the vested employee benefits is \$399,766.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

NOTE F--DEFERRED COMPENSATION PLAN

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans were held in trust (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Allegan County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements. The Road Commission contributed \$10 per pay period through October and then \$50 per pay period to each non-union employee. For the fiscal year 2019, 13 employees qualified for the benefit and \$16,650 was paid by the Road Commission.

NOTE G--EMPLOYEES' RETIREMENT SYSTEM

General Information about the Pension Plan

Plan Description. The Road Commission participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under 1945 PA 135 and administered by a nine member Retirement Board. MERS is a nonprofit organization that was granted independence from the State of Michigan pursuant to 1996 PA 220, effective August 15, 1996. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS Web site at <http://www.mersofmich.com> or in writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For 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.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Benefits Provided--Defined Benefit. The Road Commission's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. 1984 PA 427, established and amends the benefit provisions of the participants in MERS. Benefit terms, within the guidelines established by MERS, are established and amended by the Road Commission Board, usually after negotiation of terms with applicable unions. Any changes to the plan, including cost of living adjustments, would have to be approved by the Road Commission Board in this manner also.

Benefits Provided by Division

Division 1 - All employees hired pre-2013: Closed to new hires, linked to Division 13

	2018 Valuation
Benefit Multiplier	2.25% Multiplier (80% Max)
Normal Retirement Age	60
Vesting	10 Years
Early Retirement (Unreduced)	55/25
Early Retirement (Reduced)	50/25
	55/15
Final Average Compensation	3 Years
Employee Contributions	4.70%
Act 88	Yes (Adopted 2/15/1971)

Division 12 - All Employees Post 12/31/2012: Closed to New Hires, Linked to Division 13

	2018 Valuation
Benefit Multiplier	2.25% Multiplier (80% Max)
Normal Retirement Age	60
Vesting	10 Years
Early Retirement (Unreduced)	55/25
Early Retirement (Reduced)	50/25
	55/15
Final Average Compensation	3 Years
Employee Contributions	6.00%
Act 88	Yes (Adopted 2/15/1971)

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Division 13 - All Employees after 2/1/16: Open Division, Linked to Division 1, 12	<u>2018 Valuation</u>
Benefit Multiplier	1.50% Multiplier (80% Max)
Normal Retirement Age	60
Vesting	10 Years
Early Retirement (Reduced)	50/25 55/15
Final Average Compensation	5 Years
Employee Contributions	4.00%
Act 88	Yes (Adopted 2/15/1971)

Division 14 - Commissioners Appt before 1/1/1: Closed to New Hires	<u>2018 Valuation</u>
Benefit Multiplier	2.00% Multiplier (No Max)
Normal Retirement Age	60
Vesting	6 Years
Early Retirement (Reduced)	50/25 55/15
Final Average Compensation	5 Years
Employee Contributions	4.00%
Act 88	Yes (Adopted 2/15/1971)

Employees covered by benefit terms. At the December 31, 2018, measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	83
Inactive employees entitled to but not yet receiving benefits	9
Active employees	<u>55</u>
 Total employees covered by MERS Plan	 <u><u>147</u></u>

Contributions. Const 1963, article 9, §24 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 unfunded accrued liability. The Road Commission has also established contribution rates to be paid by its covered employees. As of December 31, 2018, the contribution rates are as follows.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Division	Employee Contribution Rate	Employer Contribution Rate*
All Employees Hired Pre 2013	4.7%	\$ 556,776
All Employees Post 12/31/2012	6.0%	\$ 28,200
All Employees after 2/1/16	4.0%	3.43%
Commissioners appt before 1/1/1	4.0%	\$ -

*Employer contributions are based on percentages for open divisions and annual payments for closed divisions.

Net Pension Liability

The net pension liability reported as of December 31, 2019, was determined using a measure of the total pension liability and the pension net position as of December 31, 2018. The December 31, 2018, total pension liability was determined by an actuarial valuation performed as of that date.

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

Inflation	2.50%
Salary Increases	3.75% in the long-term
Investment Rate of Return	7.75%, net of investment and administrative expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with the price inflation of 3%-4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of the most recent actuarial experience study completed as of 2015 for the periods of 2009-2013.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

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 as of December 31, 2018, the measurement date, for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	55.5%	3.41%
Global Fixed Income	18.5%	0.23%
Real Assets	13.5%	0.97%
Diversifying Strategies	12.5%	0.63%

Discount Rate. The discount rate used to measure the total pension liability is 8% for 2018. The projection of cash flows used to determine the discount rate assumes that the employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

<u>Changes in Net Pension Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance at December 31, 2017	<u>\$ 23,546,422</u>	<u>\$ 14,350,410</u>	<u>\$ 9,196,012</u>
Changes for the Year:			
Service Cost	266,444	-	266,444
Interest	1,816,274	-	1,816,274
Difference Between Expected and Actual Experience	346,596	-	346,596
Contributions - Employer	-	2,855,925	(2,855,925)
Contributions - Employee	-	129,919	(129,919)
Net Investment Income	-	(539,120)	539,120
Benefit Payments, Including Refunds	(1,952,426)	(1,952,426)	-
Transfers	-	79,215	(79,215)
Administrative Expenses	-	(27,269)	27,269
Net Changes	<u>476,888</u>	<u>546,244</u>	<u>(69,356)</u>
Balance at December 31, 2018	<u>\$ 24,023,310</u>	<u>\$ 14,896,654</u>	<u>\$ 9,126,656</u>

Sensitivity of the net pension liability to changes in the discount rate. The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1.00% lower (7%) or 1.00% higher (9%) than the current rate.

	<u>1.00% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1.00% Increase (9%)</u>
Net Pension Liability of the Road Commission	\$ 11,420,708	\$ 9,126,656	\$ 7,155,129

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

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

For the year ending December 31, 2019, the Road Commission recognized pension expense of (\$1,616,685). At December 31, 2019, the Road Commission reported deferred outflow of resources related to pensions from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Excess (Deficit) Investment Returns	\$ 1,083,198	\$ -
Differences in Experience	254,523	-
Contributions subsequent to the measurement date*	2,958,311	-
Total	\$ 4,296,032	\$ -

*The amount reported as deferred outflow of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the fiscal year ending December 31, 2019.

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

Years Ending December 31	Amount
2019	\$ 527,210
2020	249,586
2021	215,530
2022	345,395

NOTE H--OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description: In addition to the pension benefits described in Note G, the Road Commission administered a single-employer defined benefit healthcare plan. The Road Commission provides postemployment healthcare benefits through the Road Commission group health insurance plan in accordance with the respective bargaining agreements and personnel policy. Benefit provisions are established through negotiations between the Road Commission and the union in accordance with the labor contract and personnel policy which is negotiated every four-year bargaining period.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

NOTE H--OTHER POST-EMPLOYMENT HEALTHCARE BENEFITS (Continued)

Funding Policy: The Road Commission provides healthcare insurance coverage, or payments towards such coverage, for a period of five years, for all members who retire and received benefits from MERS. For non-union members, the Road Commission will provide benefits only to the employee and the Road Commission's obligation do not include the coverage of a retired employee's spouse or dependents. The Road Commission shall provide no benefits to any employee after reaching the age of 65. The retired employee shall be responsible for his/her healthcare insurance premium after five years from the date of retirement or at age 65, whichever comes sooner.

Non-union employees who retire and who elect not to take the paid health insurance benefit from the Road Commission, will receive a lump sum payment of \$250 per month for all eligible time as an opt-out of taking the insurance. The amount will be placed into a health insurance plan.

For union employees, the Road Commission will provide a stipend of \$700 per month, for each eligible month up to a maximum of 60 months to all eligible employees who retire after January 1, 2020 with 20 or more years of service and receive benefits from MERS. The Road Commission will provide no stipend to any employee after reaching the age of 65. The entire lump sum payment of the stipend will be placed in the employee's MERS Health Care Savings Plan. Employees hired after January 1, 2020 will not be eligible for any post-retirement health benefits.

Employees covered by benefit terms. At the December 31, 2019, the following employees were covered by the benefit terms:

Inactive plan members receiving benefits	8
Active Plan Participants	41
Total Participants	49

Contributions. The Road Commission had no obligation to make contributions in advance of when the insurance premiums were due for payment (in other words, this was financed on a "pay-as-you go" basis). For the year ending December 31, 2019, the Road Commission's actuarially determined contribution was \$28,502. The Road Commission paid retiree premiums of \$59,199 during the year and contributed \$780,000 to pre-fund the liability.

Net OPEB Liability. The Road Commission's total OPEB liability was measured as of December 31, 2019 and was determined using the alternative measurement method as permitted by GASB 75 for employers with less than one hundred (100) total plan members.

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of December 31, 2019 using the alternative measurement method with the following assumptions:

Inflation	5%
Investment rate of return	7%

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

NOTE H--OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

Discount Rate. The discount rate used to measure the total OPEB liability was 7% reflecting a similar rate used by MERS for its pension determinations. This discount rate is used to determine the Net OPEB Liability.

Changes in Total OPEB Liability

<u>Changes in Net OPEB Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance at December 31, 2018	\$ 2,111,461	\$ -	\$ 2,111,461
Changes for the Year:			
Change in Liability	(1,197,204)	-	(1,197,204)
Contributions - Employer	-	839,199	(839,199)
Net Investment Income	-	17,040	(17,040)
Benefit Payments, Including Refunds	(59,199)	(59,199)	-
Administrative Expenses	-	(412)	412
Net Changes	(1,256,403)	796,628	(2,053,031)
Balance at December 31, 2019	\$ 855,058	\$ 796,628	\$ 58,430

Sensitivity of the total OPEB liability to changes in the discount rate and healthcare cost trend rates. The following presents the total OPEB liability of the Road Commission, as well as what the Road Commission's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6%) or 1-percentage-point higher (8%) than the current discount rate:

	<u>1% Decrease (6%)</u>	<u>Current Discount Rate (7%)</u>	<u>1% Increase (8%)</u>
Net OPEB Liability of the Road Commission	\$ 181,760	\$ 58,430	\$ (42,362)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Road Commission, as well as what the Road Commission's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease (4%)</u>	<u>Current Health Care Trend Rate (5%)</u>	<u>1% Increase (6%)</u>
Net OPEB Liability of the Road Commission	\$ (2,946)	\$ 58,430	\$ 134,002

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

NOTE H--OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended December 31, 2019, the Road Commission recognized OPEB expense of (\$2,053,211). The Road Commission does not report deferred outflows or inflows of resources related to OPEB as it uses the alternative measurement method to determine the balance of the liability.

Healthcare Savings Program

In addition to the defined benefit healthcare plan described above, the Road Commission administers a healthcare savings plan reported as the Health Care Savings Plan (HCSP) (Fiduciary Trust Fund) on Exhibits G and H. The Road Commission provides a HCSP for three employee groups. The HCSP complements the Road Commission's defined benefit healthcare plan. The HCSP is an employer-sponsored savings account administered by the MERS designed to set aside money to cover the escalating costs of postemployment healthcare. Under the program, contributions are made by active employees and by the Road Commission. Once employees leave employment with the Road Commission, regardless of the reason or age at the time of leave, reimbursement may be made, tax exempt, for healthcare related expenses. The Road Commission matches employee's contributions up to \$10 per month.

As of December 31, 2019, the Health Care Savings Plan has 15 active participants and 31 terminated participants. For the year ended December 31, 2019, the employees contributed \$4,106 and the Road Commission contributed \$1,633.

NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance from Inland Marine for physical damage (building and contents) and medical benefit claims. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool (Pool) for claims relating to general liability, excess liability, auto liability, errors and omissions, and physical damage (equipment). The Road Commission participates in the County Road Commission Self-Insurance Fund (CRCSIF) for workers' compensation insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 fiscal years.

The county road commissions in the State of Michigan established a trust fund, known as the Pool pursuant to the provisions of 1982 PA 138. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Road Commission became a member in the Pool in April 1984 and became a member of CRCSIF in 1981.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

NOTE I--RISK MANAGEMENT (Continued)

The Pool program operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE J--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2019, the Federal grants received and expended by the Road Commission was \$490,697 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit.

Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administered by the Road Commission which are subject to single audit requirements, if the amount expended is \$750,000 or more. A single audit was not performed during the fiscal year ended December 31, 2019.

NOTE K--TAX ABATEMENTS

Industrial property tax abatements are granted in the State of Michigan under Public Act 198, as amended, to promote economic development, creation of jobs, and new or improvement facilities. The industrial facilities tax (IFT) exemption must be approved by both the local unit (after a public hearing is held) and the State of Michigan. IFT exemptions can cover real and/or personal property. By State law, the exemption must be applied for no later than six months after commencement of the project, and must be accompanied by a written agreement between the taxpayer and the local unit. An exemption allows for taxation on IFT property at 50% of the local property tax millage rate for a period of 1 to 12 years. Accordingly, such agreements meet the criteria of "tax abatements" under GASB Statement No. 77. Property taxes abated by the local units in 2018 amounted to \$21,790.

NOTE L--RESTATEMENT OF FUND BALANCES

After the 2018 was issued, the Michigan Department of Transportation approved a change in the amount transferred between the Primary Road Fund and the Local Road Fund. The restatement to fund balance does not change the total ending fund balance, only the ending fund balance between these two funds as follows.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

NOTE L--RESTATEMENT OF FUND BALANCES (Continued)

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Beginning Fund Balance--January 1, 2019	\$ 6,307,922	\$ 4,075,008	\$ 1,716,347	\$ 12,099,277
Restatement to Fund Balance	<u>(226,942)</u>	<u>226,942</u>	<u>-</u>	<u>-</u>
Restated Beginning Fund Balance--January 1, 2019	<u>\$ 6,080,980</u>	<u>\$ 4,301,950</u>	<u>\$ 1,716,347</u>	<u>\$ 12,099,277</u>

NOTE M--UPCOMING REPORTING CHANGE

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. The Statement establishes criteria for identifying fiduciary activities for all state and local governments, focusing on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries for whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2020 fiscal year.

In June 2017, the GASB issued Statement No. 87, Leases. The Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provision of the contract. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2021 fiscal year.

In April 2018, the GASB issued Statements No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. This Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt, will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2020 fiscal year.

NOTE N--SUBSEQUENT EVENT

Beginning with the 2019 pension actuarial reports, the MERS Retirement Board approved adjustments to key economic assumptions. According to MERS, "these assumptions, in particular the investment return assumption, have a significant effect on a plan's required contribution and funding level. Historically low interest rates, along with high equity market valuations, have led to reductions in projected returns for most asset classes. This has resulted in a Board adopted

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

NOTE N--SUBSEQUENT EVENT (Continued)

reduction in the investment rate of return assumption to 7.35%, effective with the December 31, 2019 valuation first impacting 2021 contributions. The Board also changed the assumed rate of wage inflation from 3.75% to 3.00%, with the same effective date.” Exact amounts and changes in the unfunded liability will not be known until the 2019 pension actuarial reports are issued.

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The COVID-19 outbreak in the United States has resulted in the temporary reduction of operating hours for many local units of government as well as temporary local government closures that were mandated. Michigan’s Governor, Gretchen Whitmer, issued an executive order to temporarily suspend activities that are not necessary to sustain or protect life. At the current time, we are unable to quantify the potential effects of this pandemic on our future financial statements.

ALLEGAN COUNTY ROAD COMMISSION
 REQUIRED SUPPLEMENTARY INFORMATION
 GENERAL OPERATING FUND--SCHEDULE OF REVENUES
 BUDGETARY COMPARISON SCHEDULE
 For the Year Ended December 31, 2019

EXHIBIT I

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Property Taxes	\$ 3,285,000	\$ 3,571,797	\$ 3,571,797	\$ -
Licenses and Permits				
Permits	60,000	70,887	70,887	-
Federal Grants				
Surface Transportation Program	1,108,000	338,288	338,288	-
Critical Bridge	751,000	136,987	136,987	-
Congestion Mitigation and Air Quality	355,000	442	442	-
Highway Safety Improvement Program	556,000	14,980	14,980	-
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	8,440,000	9,279,849	9,279,849	-
Local Road	4,687,000	5,162,017	5,162,016	(1)
Primary Urban Road	425,000	457,528	457,527	(1)
Local Urban Road	138,000	146,975	146,975	-
Snow Removal	124,000	177,766	177,766	-
Critical Bridge	-	84,492	84,492	-
Economic Development Funds				
D Funds	165,000	3,574	3,574	-
Other State Grants	1,670,000	3,230	3,230	-
FEMA	-	59,520	59,520	-
Contributions--Local Units				
Townships	7,825,000	9,562,684	9,562,684	-
Other Governments	-	26,471	26,471	-
Charges for Services				
Salvage Sales	10,000	10,830	10,830	-
Service Charge	5,000	8,059	8,059	-
Interest and Rents				
Interest Earned	30,000	387,820	387,822	2
Other Revenue				
Reimbursements	8,000	(14,241)	(14,241)	-
Total Revenue	<u>29,652,000</u>	<u>29,499,955</u>	<u>29,499,955</u>	<u>-</u>
Other Financing Sources				
Gain on Equipment Disposal	<u>50,000</u>	<u>23,160</u>	<u>23,160</u>	<u>-</u>
Total Other Financing Sources	<u>50,000</u>	<u>23,160</u>	<u>23,160</u>	<u>-</u>
Total Revenues and Other Financing Sources	<u>29,702,000</u>	<u>29,523,115</u>	<u>\$ 29,523,115</u>	<u>\$ -</u>
Fund Balance--January 1, 2019	<u>12,099,276</u>	<u>12,099,276</u>		
Total Budget	<u>\$ 41,801,276</u>	<u>\$ 41,622,391</u>		

ALLEGAN COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL OPERATING FUND
SCHEDULE OF EXPENDITURES
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2019

EXHIBIT J

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 6,585,000	\$ 4,033,704	\$ 4,033,704	\$ -
Routine and Preventive Maintenance	4,374,360	4,494,519	4,494,519	-
Local Road				
Preservation/Structural Improvements	6,330,000	8,941,525	8,941,525	-
Routine and Preventive Maintenance	9,951,000	9,525,355	9,525,355	-
Primary Road Structure				
Preservation/Structural Improvements	38,934	259,730	259,730	-
Routine and Preventive Maintenance	15,000	16,175	16,175	-
Local Road Structure				
Preservation/Structural Improvements	867,000	7,470	7,470	-
Routine and Preventive Maintenance	15,000	38,660	38,660	-
Equipment Expense--Net				
Direct			\$ 1,959,938	
Indirect			1,350,724	
Operating			513,649	
Less: Equipment Rentals	(187,000)	(586,019)	<u>(4,410,330)</u>	(586,019)
Administrative Expense--Net				
Administrative Expense	1,318,000	1,287,597	1,291,963	
Less: Purchase Discounts			<u>(4,366)</u>	1,287,597
Capital Outlay--Net				
Capital Outlay	(97,000)	(539,347)	750,668	
Less: Depreciation Credits			<u>(1,290,015)</u>	(539,347)
Debt Service				
Principal Expense	250,000	250,000	250,000	-
Interest Expense	183,531	184,032	184,032	-
Total Expenditures	<u>29,643,825</u>	<u>27,913,401</u>	<u>\$ 27,913,401</u>	<u>\$ -</u>
Fund Balance--December 31, 2019	<u>12,157,451</u>	<u>13,708,990</u>		
Total Budget	<u>\$ 41,801,276</u>	<u>\$ 41,622,391</u>		

ALLEGAN COUNTY ROAD COMMISSION
SCHEDULE OF CHANGES IN THE ROAD COMMISSION'S
NET PENSION LIABILITY AND RELATED RATIOS*

EXHIBIT K

For the Measurement Date December 31, 2018

	2018	2017	2016	2015	2014
Total Pension Liability					
Service Cost	\$ 266,444	\$ 246,970	\$ 253,281	\$ 240,776	\$ 259,860
Interest	1,816,274	1,796,691	1,764,333	1,710,298	1,678,704
Difference Between Expected and Actual Experience	346,596	70,379	159,128	70,811	-
Changes in Assumptions	-	-	-	953,487	-
Benefit Payments Including Employee Refunds	(1,952,426)	(1,805,541)	(1,726,058)	(1,590,655)	(1,501,450)
Other Changes	-	-	(3,317)	-	-
Net Change in Total Pension Liability	476,888	308,499	447,367	1,384,717	437,114
Total Pension Liability Beginning Balance	23,546,422	23,237,923	22,790,556	21,405,839	20,968,725
Total Pension Liability Ending Balance	<u>\$ 24,023,310</u>	<u>\$ 23,546,422</u>	<u>\$ 23,237,923</u>	<u>\$ 22,790,556</u>	<u>\$ 21,405,839</u>
Plan Fiduciary Net Position					
Contributions-Employer	\$ 2,855,925	\$ 1,273,723	\$ 877,534	\$ 645,661	\$ 498,149
Contributions-Employee	129,919	178,310	121,938	119,593	117,653
Net Investment Income	(539,120)	1,678,305	1,371,952	(193,796)	838,943
Benefit Payments Including Employee Refunds	(1,952,426)	(1,805,541)	(1,726,058)	(1,590,655)	(1,501,450)
Transfers	79,215	-	-	-	-
Administrative Expense	(27,269)	(26,645)	(27,122)	(28,732)	(30,628)
Net Change in Plan Fiduciary Net Position	546,244	1,298,152	618,244	(1,047,929)	(77,333)
Plan Fiduciary Net Position Beginning Balance	14,350,410	13,052,258	12,434,014	13,481,943	13,559,276
Plan Fiduciary Net Position Ending Balance	<u>\$ 14,896,654</u>	<u>\$ 14,350,410</u>	<u>\$ 13,052,258</u>	<u>\$ 12,434,014</u>	<u>\$ 13,481,943</u>
Employer Net Pension Liability	<u>\$ 9,126,656</u>	<u>\$ 9,196,012</u>	<u>\$ 10,185,665</u>	<u>\$ 10,356,542</u>	<u>\$ 7,923,896</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62%	61%	56%	55%	63%
Covered Employee Payroll	\$ 2,683,057	\$ 2,412,648	\$ 2,413,337	\$ 2,273,078	\$ 2,461,564
Employer's Net Pension Liability as a Percentage of Covered Employee Payroll	340%	381%	422%	456%	322%

Notes to schedule:

There were no benefit changes or changes in assumptions or methods affecting the 2018 valuation.

Above dates are based on measurement date, which may not necessarily tie to the fiscal year.

*10-year schedule as required by GASB Statement No. 68 will be built prospectively upon implementation of the standard.

ALLEGAN COUNTY ROAD COMMISSION
 SCHEDULE OF ROAD COMMISSION'S CONTRIBUTIONS
 For the Year Ended December 31, 2019

EXHIBIT L

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarial Determined Contributions	\$ 892,311	\$ 789,925	\$ 707,736	\$ 565,070	\$ 498,149	\$ 446,578	\$ 378,332	\$ 323,762	\$ 306,808	\$ 275,858
Contributions in Relation to the Actuarially										
Determined Contribution	2,958,311	2,855,925	1,273,736	645,661	498,149	446,578	378,332	323,762	306,808	275,858
Contribution Deficiency (excess)	<u>\$ (2,066,000)</u>	<u>\$ (2,066,000)</u>	<u>\$ (566,000)</u>	<u>\$ (80,591)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Employee Payroll	\$ 2,683,057	\$ 2,412,648	\$ 2,413,337	\$ 2,273,078	\$ 2,461,564	\$ 2,419,145	\$ 2,080,085	\$ 2,162,334	\$ 2,634,198	\$ 2,610,201
Contributions as a Percentage of Covered Employee Payroll	110%	118%	53%	28%	20%	18%	18%	15%	12%	11%

Notes to Schedule

Actuarial Valuation Information Relative to the Determination of Contributions:

Valuation Date Actuarially determined contribution rates are calculated as of December 31 each year, which is 12 months prior to the beginning of the fiscal year in which the contributions are required

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method Entry Age
 Amortization Method Level percentage of payroll, open
 Remaining Amortization Period 23 years
 Asset Valuation Method 5 year smoothed
 Inflation 2.5%
 Salary Increases 3.75% in the long-term
 Investment Rate of Return 7.75%
 Retirement Age Varies depending on plan adoption
 Mortality 50% Female/50% Male based on RP-2014 Group Annuity Mortality Table

ALLEGAN COUNTY ROAD COMMISSION
 SCHEDULE OF CHANGES IN THE ROAD COMMISSION'S
 TOTAL OPEB LIABILITY AND RELATED RATIOS
 For the Year Ended December 31, 2019

EXHIBIT M

	<u>2019</u>	<u>2018</u>
Total OPEB Liability		
Change in Liability	\$ (1,197,204)	\$ 12,714
Benefit Payments Including Employee Refunds	<u>(59,199)</u>	<u>(57,682)</u>
Net Change in Total OPEB Liability	<u>(1,256,403)</u>	<u>(44,968)</u>
Total OPEB Liability Beginning	<u>2,111,461</u>	<u>2,156,429</u>
Total OPEB Liability Ending	<u>\$ 855,058</u>	<u>\$ 2,111,461</u>
Plan Fiduciary Net Position		
Contributions-Employer	\$ 780,000	\$ -
Net Investment Income	17,040	-
Administrative Expense	<u>(412)</u>	<u>-</u>
Plan Fiduciary Net Position Beginning	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position Ending	<u>\$ 796,628</u>	<u>\$ -</u>
Employer Net OPEB Liability	<u>\$ 58,430</u>	<u>\$ 2,111,461</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	93%	0%
Covered Employee Payroll	\$ 2,261,135	\$ 2,124,460
Employer's Net OPEB Liability as a Percentage of Covered Employee Payroll	3%	99%

Notes to Schedule:

The Road Commission utilizes the alternative method to calculate its OPEB liability.

The Road Commission approved a benefit change to union employees will receive \$700/month up to a maximum of 60 months capping the amount paid at \$42,000 instead of provided the benefit outright for up to five years after retirement.

The Road Commission changed its discount rate from 3% to 7% after it began contributing to an OPEB Trust Fund as it was no longer required to utilize the 20 year AA municipal bond rate.

*10-year schedule as required by GASB Statement No. 75 will be built prospectively upon implementation of the standard.

ALLEGAN COUNTY ROAD COMMISSION
 SCHEDULE OF ROAD COMMISSION'S CONTRIBUTIONS--OPEB
 For the Year Ended December 31, 2019

EXHIBIT N

	<u>2019</u>	<u>2018</u>
Actuarial Determined Contributions	\$ 28,502	\$ 70,388
Contributions in Relation to the Actuarially Determined Contribution	<u>780,000</u>	<u>57,682</u>
Contribution Deficiency (excess)	<u>\$ (751,498)</u>	<u>\$ 12,706</u>
Covered Employee Payroll	\$ 2,261,135	\$ 2,124,460
Contributions as a Percentage of Covered Employee Payroll	34%	3%

Notes to Schedule

10 Year Requirement for Disclosure The ten year requirement of information will be built prospectively.

Actuarial Valuation Information Relative to the Determination of Contributions:

Valuation Date December 31, 2019
 Measurement Date December 31, 2019

Methods and Assumptions Used to Determine Contribution Rates:

Discount Rate 7.0%
 Inflation 5.0%

ALLEGAN COUNTY ROAD COMMISSION
GENERAL OPERATING FUND--
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended December 31, 2019

EXHIBIT O

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 14,250,786	\$ 15,078,627	\$ 170,542	\$ 29,499,955
Total Expenditures	<u>8,964,515</u>	<u>18,972,948</u>	<u>(24,062)</u>	<u>27,913,401</u>
Excess of Revenues Over (Under) Expenditures	<u>5,286,271</u>	<u>(3,894,321)</u>	<u>194,604</u>	<u>1,586,554</u>
Other Financing Sources (Uses)				
Gain on Equipment Disposal	23,153	7	-	23,160
Optional Transfers	<u>(4,871,901)</u>	<u>4,871,901</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(4,848,748)</u>	<u>4,871,908</u>	<u>-</u>	<u>23,160</u>
Net Change in Fund Balance	437,523	977,587	194,604	1,609,714
Fund Balance--January 1, 2019	<u>6,307,922</u>	<u>4,075,008</u>	<u>1,716,347</u>	<u>12,099,277</u>
Restatement to Fund Balance	(226,942)	226,942	-	-
Restated Fund Balance--January 1, 2019	<u>6,080,980</u>	<u>4,301,950</u>	<u>1,716,347</u>	<u>12,099,277</u>
Fund Balance--December 31, 2019	<u><u>\$ 6,518,503</u></u>	<u><u>\$ 5,279,537</u></u>	<u><u>\$ 1,910,951</u></u>	<u><u>\$ 13,708,991</u></u>

ALLEGAN COUNTY ROAD COMMISSION
GENERAL OPERATING FUND--ANALYSIS OF REVENUES
For the Year Ended December 31, 2019

EXHIBIT P

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes				
Property Taxes	\$ 3,571,797	\$ -	\$ -	\$ 3,571,797
Licenses and Permits				
Permits	-	-	70,887	70,887
Federal Grants				
Surface Transportation Program	338,288	-	-	338,288
Critical Bridge	136,072	915	-	136,987
Congestion Mitigation and Air Quality	442	-	-	442
Highway Safety Improvement Program	14,980	-	-	14,980
State Grants				
Michigan Transportation Fund				
Engineering	6,426	3,574	-	10,000
Allocation	9,279,849	5,162,016	-	14,441,865
Urban Roads	457,527	146,975	-	604,502
Snow Removal	-	177,766	-	177,766
Critical Bridge	84,320	172	-	84,492
Economic Development Funds				
D Funds	3,574	-	-	3,574
Other State Grants	3,230	-	-	3,230
FEMA	-	59,520	-	59,520
Contributions--Local Units				
Townships	157,622	9,405,062	-	9,562,684
Other Governmental	-	-	26,471	26,471
Charges for Services				
Salvage Sales	-	-	10,830	10,830
Service Charge	-	-	8,059	8,059
Interest and Rents				
Interest Earned	193,911	139,616	54,295	387,822
Other Revenue				
Reimbursements	2,748	(16,989)	-	(14,241)
Total Revenue	<u>\$ 14,250,786</u>	<u>\$ 15,078,627</u>	<u>\$ 170,542</u>	<u>\$ 29,499,955</u>

ALLEGAN COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF EXPENDITURES
For the Year Ended December 31, 2019

EXHIBIT Q

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 4,033,704	\$ -	\$ -	\$ 4,033,704
Routine and Preventive Maintenance	4,494,519	-	-	4,494,519
Local Road				
Preservation/Structural Improvements	-	8,941,525	-	8,941,525
Routine and Preventive Maintenance	-	9,525,355	-	9,525,355
Primary Road Structures				
Preservation/Structural Improvements	259,730	-	-	259,730
Routine and Preventive Maintenance	16,175	-	-	16,175
Local Road Structures				
Preservation/Structural Improvements	-	7,470	-	7,470
Routine and Preventive Maintenance	-	38,660	-	38,660
Equipment Expense--Net (Per Exhibit J)	(149,668)	(412,289)	(24,062)	(586,019)
Administrative Expense--Net (Per Exhibit J)	414,984	872,613	-	1,287,597
Capital Outlay--Net (Per Exhibit J)	(538,961)	(386)	-	(539,347)
Debt Service				
Principal Expense	250,000	-	-	250,000
Interest Expense	184,032	-	-	184,032
Total Expenditures	\$ 8,964,515	\$ 18,972,948	\$ (24,062)	\$ 27,913,401



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

June 23, 2020

Board of County Road Commissioners
Allegan County Road Commission
1308 Lincoln Road
Allegan, Michigan 49010

Independent Auditor's Report

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements Performed in Accordance With *Government
Auditing Standards*

Dear Commissioners:

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 Allegan County Road Commission, Allegan County, Michigan, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Allegan County Road Commission's basic financial statements, and have issued our report thereon dated June 23, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Allegan County Road Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in circumstance 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 Allegan County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Allegan 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Allegan 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, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, not to provide an opinion on the effectiveness of the Allegan County 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 Allegan County Road Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



Cary Jay Vaughn, CPA, CGFM

Audit Manager

Community Engagement and Finance Division



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

June 23, 2020

Board of County Road Commissioners
Allegan County Road Commission
1308 Lincoln Road
Allegan, Michigan 49010

RE: Report to Those Charged With Governance

Dear Commissioners:

We have audited the financial statements of the governmental activities, major fund and the aggregate remaining fund information of the Allegan County Road Commission, Allegan County, Michigan, for the fiscal year ended December 31, 2019, and have issued our report thereon dated June 23, 2020. Professional standards require that we provide you with information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in the engagement letter dated December 17, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Allegan County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Allegan County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described in professional standards, is to evaluate the presentation of supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or the financial statements themselves.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters April 13, 2020, with management.

Significant Results of the Audit

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Allegan County Road Commission are described in Note A to the financial statements. We noted no transactions entered into by the Allegan County Road Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate affecting the governmental activities in the government-wide statements relates to depreciation, the net pension liability, and the liability related to other post-employment benefits. Management's estimate of the depreciation is based on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. For the pension, estimates and assumptions are determined by MERS and its actuary, based on the

Road Commission's negotiations with its bargaining units and resolutions of the Board of County Road Commissioners. For retiree healthcare, the estimates and assumptions are based on actuarial techniques. We evaluated the key factors and assumptions used to develop the depreciation in determining that it is reasonable in relation to the financial statements, taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 23, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Allegan County Road Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Allegan County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Allegan County Road Commission's Board of County Road Commissioners and management of the Allegan County Road Commission and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, appearing to read 'CJ Vaughn', written over a light gray rectangular background.

Cary Jay Vaughn, CPA, CGFM

Audit Manager

Community Engagement and Finance Division