

**TUSCOLA COUNTY ROAD COMMISSION**

A Component Unit of Tuscola County  
Caro, Michigan

Report on Financial Statements  
(with required and other supplementary information)  
Year Ended December 31, 2020

**TUSCOLA COUNTY ROAD COMMISSION**  
A Component Unit of Tuscola County

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ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

Thomas B. Doran, CPA  
Valerie J. Hartel, CPA  
Jamie L. Peasley, CPA  
Angela M. Burnette, CPA

David A. Ondrajka, CPA  
Chelsie M. Peruski, CPA  
Kendra K. Bednarski, CPA  
Bryan M. McShane, CPA

## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Tuscola County Road Commission  
Caro, Michigan 48723

### 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 Tuscola County Road Commission (a component unit of the County of Tuscola), State of Michigan as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Tuscola 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 from material misstatement.

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Tuscola County Road Commission (a component unit of the County of Tuscola), State of Michigan, as of December 31, 2020, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

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

### ***Other Information – Other Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Tuscola County Road Commission's basic financial statements. The other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as indicated in the table of contents, 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. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information 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 July 27, 2021 on our consideration of the Tuscola County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tuscola County Road Commission's internal control over financial reporting and compliance.

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
CARO, MICHIGAN

July 27, 2021

## **TUSCOLA COUNTY ROAD COMMISSION MANAGEMENT'S DISCUSSION & ANALYSIS**

### Using this Annual Report

The Tuscola County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the Road Commission's financial activity; (c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

### Financial Highlights

- The Michigan Transportation Fund Revenue increased by more than \$12,000 over last year.
- Overall revenue increased by approximately \$2.7 million over last year.
- Expenditures increased by more than \$3 million over last year.
- Over \$4.7 million was added to net position this year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's financial statements. The Commission's basic financial statements are comprised of the following three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

To simplify financial reporting and improve readability, the government-wide financial statements and the governmental funds statements have been combined to report the statement of net position and governmental funds balance sheet on a single page and the statement of activities and governmental funds revenues, expenditures, and changes in fund balance on a single page. This report also contains required supplementary information in addition to the basic financial statements themselves.

Note that Tuscola County's government-wide financial statements are not presented herein because the Commission is a component unit of the County. The County presents their financial statements in a separately issued comprehensive annual financial report.

### Reporting the Road Commission as a Whole

The Statement of Net Position and the Statement of Activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net position and the changes in them. The reader 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.

### Reporting the Road Commission's Major Fund

Our analysis of the Road Commission's major fund and fund financial statements begin on page 11 and provide detailed information about the major fund. The Road Commission currently has only one fund, the Road Fund, in which all of the Road Commission's activities are accounted. The Road Fund is a governmental fund type.

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

### The Road Commission as a Whole

The Road Commission's net position increased by 4.7% from \$101,079,801 to \$105,872,963 for the year ended December 31, 2020. The net position and change in net position are summarized below.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, increased by \$460,296. Restricted net position, those restricted mainly for Act 51 purposes, increased by \$548,522.

Net Position as of year ended December 31, 2020 and 2019 follows:

	2020	2019	Variance	%
Current and Other Assets	\$ 11,704,420	\$ 10,433,161	\$ 1,271,259	12%
Capital Assets	111,270,272	107,485,928	3,784,344	4%
Total Assets	122,974,692	117,919,089	5,055,603	4%
Deferred Outflows of Resources	2,884,802	1,095,823	1,788,979	163%
Long-Term Obligation	70,662	58,203	12,459	21%
Net OPEB Liability	13,790,669	14,979,269	(1,188,600)	-8%
Net Pension Liability	1,828,330	2,009,649	(181,319)	-9%
Other Liabilities	831,001	459,584	371,417	81%
Total Liabilities	16,520,662	17,506,705	(986,043)	-6%
Deferred Inflows of Resources	3,465,869	428,406	3,037,463	709%
Net Position				
Net Investment in				
Capital Assets	111,270,272	107,485,928	3,784,344	4%
Restricted	1,771,091	1,222,569	548,522	45%
Unrestricted	(7,168,400)	(7,628,696)	460,296	-6%
Total Net Position	\$ 105,872,963	\$ 101,079,801	\$ 4,793,162	5%

A summary of changes in net position for the years ended December 31, 2020 and 2019 follows:

	Governmental Activities 2020	Governmental Activities 2019	Variance	Variance %
Program Revenue:				
Federal Grants	\$ 1,827,678	\$ 496,713	\$ 1,330,965	268%
State Grants	9,355,700	9,343,013	12,687	0%
Contributions From Local Units	5,246,930	5,787,045	(540,115)	-9%
Investment Earnings	31,056	31,328	(272)	-1%
General Revenue:				
Taxes	1,805,985	1,372,269	433,716	32%
Miscellaneous	1,506,720	398,509	1,108,211	278%
Licenses & Permits	53,955	117,855	(63,900)	-54%
Salvage Sales	4,032	8,717	(4,685)	-54%
Gain on Equipment Disposal	185,069	10,000	175,069	
<b>TOTAL REVENUES</b>	<b>20,017,125</b>	<b>17,565,449</b>	<b>2,451,676</b>	<b>14%</b>
Program Expenses:				
Primary Road Maintenance	1,900,804	2,153,826	(253,022)	-12%
Local Road Maintenance	5,123,363	3,836,182	1,287,181	34%
State Trunkline Expense	1,797,610	1,461,861	335,749	23%
Net Equipment Expense	5,961,756	5,245,265	716,491	14%
Administrative Expense	440,430	1,036,346	(595,916)	-58%
<b>TOTAL EXPENDITURES</b>	<b>15,223,963</b>	<b>13,733,480</b>	<b>1,490,483</b>	<b>11%</b>
<b>Change in Net Position</b>	<b>\$ 4,793,162</b>	<b>\$ 3,831,969</b>	<b>\$ 961,193</b>	<b>25%</b>



### The Road Commission's Fund

The Road Commission's Road Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2020, the fund balance of the Road Fund increased \$1,068,595 as compared to an increase of \$1,412,692 in the fund balance for the year ended December 31, 2019. Total revenues were \$20,185,878, an increase of \$2,746,995 as compared to last year. Total expenses were \$19,117,283, an increase of \$3,091,092 as compared to last year.

### Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was completed.

The final revenue budget for 2020 was greater than the original budget by \$2,537,304. There was a large increase in contribution from private sources during 2020. However, the final revenue budget for the Michigan Transportation Funds (state revenue) was lower by \$200,000. Overall, the actual revenues were more than budgeted by \$87,578.

Road Commission final expenditures budget for 2020 was higher than the original budget by \$1,310,836. The final budget for Primary Road Preservation and Improvements and the Local Road Preservation and Improvements was decreased with an offsetting increase in Local Maintenance expense for repairs throughout the year. Overall the actual expenditures were less than the final budgeted amounts by \$305,817.

	2020 Original Budget	2020 Final Budget
Revenues:		
Michigan Transportation Funds	\$9,500,000	\$9,300,000
State Trunkline Revenue	1,200,000	1,700,000
Federal/State Funds:		
Snow Emergency Funds	-	-
Primary Roads	1,639,996	1,852,300
Local Roads	-	-
Primary Roads Bridges	-	-
Local Roads Bridges	-	-
County Raised Funds:		
Primary Road Millage	1,400,000	1,500,000
Local Road Bridge Millage	700,000	750,000
Township Contributions	3,000,000	2,700,000
Other Contributions	20,000	2,200,000
Other Revenues:		
Miscellaneous	-	-
Special State General Fund Grant	-	-
Permit Fees	50,000	55,000
Interest Earned	30,000	30,000
Gain (Loss) on Disposal of Equipment	11,000	6,000
Equipment Retirements	-	-
Salvage Sales	10,000	5,000
TOTAL REVENUES	17,560,996	\$20,098,300
Expenditures:		
Primary Roads Construction	-	-
Primary Roads Preservation/Improvements	3,919,457	3,988,100
Primary Roads Routine Maintenance	1,820,000	1,800,000
Local Roads Construction	-	-
Local Roads Preservation/Improvements	3,900,000	3,400,000
Local Roads Routine Maintenance	3,150,000	3,500,000
Primary Structures Preservation/Improve.	1,400,807	977,000
Primary Structures Routine Maintenance	-	-
Local Structures Preservation/Improve.	1,595,000	840,000
Local Structures Routine Maintenance	-	-
State Trunkline Expense	1,200,000	1,700,000
Administrative Expense	650,000	650,000
Capital Outlay (net)	477,000	368,000
Interest Expense	-	-
Sundry Billings	-	2,200,000
TOTAL EXPENDITURES	18,112,264	19,423,100
NET CHANGE IN FUND BALANCE	\$ (551,268)	\$ 675,200

### Capital Assets

As of December 31, 2020, the Road Commission had \$173,349,196 invested in capital assets as follows:

	2020	2019	Variance
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 36,966,261	\$ 35,046,638	\$ 1,919,623
Other Capital Assets:			
Depleteable Assets	278,249	282,717	(4,468)
Buildings	2,268,072	2,237,255	30,817
Bridges	47,217,939	45,563,593	1,654,346
Roads	78,061,601	75,932,872	2,128,729
Signals & Guardrails	607,155	603,306	3,849
Road Equipment	7,395,050	6,655,531	739,519
Shop Equipment	222,234	222,234	-
Engineers Equipment	43,313	43,313	-
Other Equipment	289,322	281,292	8,030
Total Other Capital Assets	136,382,935	131,822,113	4,560,822
Total Capital Assets at Historic Cost	173,349,196	166,868,751	6,480,445
Total Accumulated Depreciation	62,078,924	59,382,823	2,696,101
Total Net Capital Assets	\$ 111,270,272	\$ 107,485,928	\$ 3,784,344

Current year net additions/deductions included the following:

Equipment	\$ 747,549
Buildings	30,817
Roads	2,128,729
Bridges	1,654,346
Signs and guardrails	3,849
Depletable assets	(4,468)
Land improvements	<u>1,919,623</u>
	<u>\$6,480,445</u>

### Debt

The Road Commission has no long term debt outstanding as of December 31, 2020.

### Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2021 budget. The Road Commission has budgeted additional road and bridge projects in 2021 with the additional road funding included in the Michigan Transportation Fund with the recent State Legislation.

The Board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Tuscola County's transportation system. Therefore, the Board attempts to spend the public's money wisely and equitably, and in the best interest of the motoring public and the citizens of Tuscola County.

### 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 the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Tuscola County Road Commission administrative offices at (989) 673-2128.

**BASIC FINANCIAL STATEMENTS**

**TUSCOLA COUNTY ROAD COMMISSION**  
A Component Unit of Tuscola County  
**GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET POSITION**  
**DECEMBER 31, 2020**

	Governmental Fund Road Fund	Adjustments (Note 2)	Statement of Net Position
<b><u>ASSETS</u></b>			
Cash & cash equivalents	\$ 5,666,758		\$ 5,666,758
Due from other governments:			
State	1,628,393		1,628,393
Local	1,140,137		1,140,137
Accounts receivable	95,745		95,745
Taxes receivable	2,455,186		2,455,186
Inventory	502,996		502,996
Prepaid expenses	215,205		215,205
Accrued construction costs			-
Capital assets not being depreciated	-	\$ 36,966,261	36,966,261
Capital assets, net accumulated depreciation	-	74,304,011	74,304,011
<b>TOTAL ASSETS</b>	<b>\$ 11,704,420</b>	<b>111,270,272</b>	<b>122,974,692</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Related to pensions	-	593,252	593,252
Related to OPEB	-	2,291,550	2,291,550
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>-</b>	<b>2,884,802</b>	<b>2,884,802</b>
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ 221,900		221,900
Accrued liabilities	16,306		16,306
Advance - State of Michigan	161,721		161,721
Unearned revenue	431,074		431,074
Noncurrent liabilities:			
Due after one year - compensated absences	-	70,662	70,662
Net pension liability	-	1,828,330	1,828,330
Net other post employment benefit liability	-	13,790,669	13,790,669
<b>TOTAL LIABILITIES</b>	<b>831,001</b>	<b>15,689,661</b>	<b>16,520,662</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Unavailable revenue - property taxes	2,455,186	(2,455,186)	-
Unavailable revenue - other	57,440	(57,440)	-
Related to pensions		433,482	433,482
Related to OPEB		3,032,387	3,032,387
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>2,512,626</b>	<b>953,243</b>	<b>3,465,869</b>
<b><u>FUND BALANCES</u></b>			
Nonspendable:			
Inventory	502,996	(502,996)	-
Prepaid items	215,205	(215,205)	-
Restricted for construction	1,771,091	(1,771,091)	-
Unassigned	5,871,501	(5,871,501)	-
<b>TOTAL FUND BALANCES</b>	<b>8,360,793</b>	<b>(8,360,793)</b>	<b>-</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 11,704,420</b>		
<b><u>NET POSITION</u></b>			
Net investment in capital assets		111,270,272	111,270,272
Restricted		1,771,091	1,771,091
Unrestricted		(7,168,400)	(7,168,400)
<b>TOTAL NET POSITION</b>		<b>\$ 105,872,963</b>	<b>\$ 105,872,963</b>

See accompanying notes to financial statements.

**TUSCOLA COUNTY ROAD COMMISSION**  
A Component Unit of Tuscola County  
**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2020**

	<u>Governmental Fund Road Fund</u>	<u>Adjustments (Note 2)</u>	<u>Statement of Activities</u>
<b><u>Revenues</u></b>			
Intergovernmental -			
Federal sources	\$ 1,827,678		\$ 1,827,678
State sources	9,355,700		9,355,700
Local sources	5,074,679	\$ 172,251	5,246,930
Charges for services	1,805,985		1,805,985
Interest and rents	31,056		31,056
Licenses & permits	53,955		53,955
Gain (loss) equipment disposal	185,069		185,069
Other	1,851,756	(341,004)	1,510,752
<b>Total Revenues</b>	<u>20,185,878</u>	<u>(168,753)</u>	<u>20,017,125</u>
<b><u>Expenditures</u></b>			
Primary preservation - structural improvements	5,212,082	(5,212,082)	-
Local preservation - structural improvements	4,093,786	(4,093,786)	-
Primary maintenance	1,900,804		1,900,804
Local maintenance	5,123,363		5,123,363
State maintenance	1,797,610		1,797,610
Administrative expense	549,406	(108,976)	440,430
Equipment expense - net	96,803	5,864,953	5,961,756
Capital outlay - net	343,429	(343,429)	-
<b>Total Expenditures</b>	<u>19,117,283</u>	<u>(3,893,320)</u>	<u>15,223,963</u>
 <b>Changes in Fund Balances/Net Position</b>	 1,068,595	 3,724,567	 4,793,162
<b>Fund Balances/Net Position - Beginning of Year</b>	<u>7,292,198</u>	<u>93,787,603</u>	<u>101,079,801</u>
<b>Fund Balances/Net Position - End of Year</b>	<u><u>\$ 8,360,793</u></u>	<u><u>\$ 97,512,170</u></u>	<u><u>\$ 105,872,963</u></u>

See accompanying notes to financial statements.

**TUSCOLA COUNTY ROAD COMMISSION**  
A Component Unit of Tuscola County, Michigan  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2020**

**NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**DESCRIPTION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS:**

The accounting policies of the Tuscola County Road Commission (Road Commission) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

**REPORTING ENTITY:**

The Tuscola County Road Commission is a discretely presented component unit of the County of Tuscola, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1) and is governed by a five member Board of County Road Commissioners (Road Commission Board) appointed by the County Board of Commissioners.

The Road Commission is a component unit of the County of Tuscola, Michigan, (County) because the County is a direct beneficiary of the services provided and is financially accountable for the Road Commission. These financial statements present the Tuscola County Road Commission, a discretely presented component unit of Tuscola County, and include the Road Commission's General Operating Fund.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Road Commission Board has responsibility for the administration of the Road Commission's General Operating Fund.

**BASIS OF PRESENTATION:**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government. Governmental activities are supported by charges for services and intergovernmental revenues.

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. Internally dedicated resources are reported as general revenues rather than as program revenues.

As permitted by GASB Statement No. 34, the Road Commission uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the statement of net position and governmental fund balance sheet and the statement of activities and governmental fund revenues, expenditures, and changes in fund balance. The major individual governmental fund is reported as a separate column in the aforementioned financial statements.

The government reports the following major governmental fund. The General Fund is the government's primary operating fund. It accounts for all financial resources of the Road Commission.

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING:**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles of generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events at the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues 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.



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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. Revenues are considered to be available when they are 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.

**BUDGETARY INFORMATION:**

**Budgetary Basis of Accounting:**

Budgetary procedures are established pursuant to Act 621, PA 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The Road Commission does not utilize encumbrance accounting.

The Road Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or prior to December 31 of each year, a proposed budget is submitted to the County Board of Road Commissioners for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to January 1 the budget is legally enacted through passage of a resolution.
4. Any revisions of the budget must be approved by the County Board of Road Commissioners.
5. Formal budgetary integration is employed as a management control device during the year for the Operating Fund.
6. The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the County Board of Road Commissioners during the year. Individual amendments were not material in relation to the original appropriations that were amended.
7. P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. Violations, if any, are reported in the required supplementary information.

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**ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE:**

**1. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Commission. All Commission receipts are deposited with the Tuscola County Treasurer's Office, and in order to make disbursements, the Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer.

**2. INVESTMENTS**

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration (NCUA), but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

**3. ACCOUNTS RECEIVABLE**

Accounts receivable are primarily amounts due from other units of government. The Road Commission has not recorded a provision for doubtful accounts receivable since it is the opinion of management that those receivables are collectible in full.

**4. INVENTORIES**

Inventories consist of equipment parts and materials of \$278,312 and road materials of \$224,684. Inventory for the Road Commission utilizes the consumption method and is valued at the lower of cost or market. Inventory items are charged to road construction, maintenance, equipment, repairs and operations as they are used.

**5. 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.

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**6. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges and similar items), are reported in the government-wide statements (statement of net position and statement of changes in net position). Capital assets are defined by Tuscola County Road Commission as assets with an initial cost of \$1,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (road fund balance sheet and statement of road fund revenues, expenditures and changes in fund balance) and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (road fund) column.

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

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

Buildings & Improvements	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

Depletion is computed by allocating the purchase or process costs over the total resource available and charging depletion for the units extracted and used during the year.

**7. ADVANCES FROM THE STATE OF MICHIGAN**

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

**8. UNEARNED REVENUES**

Governmental funds report unearned revenue for amounts received during the year but not yet earned. The Commission reports grant and other contributions as unearned revenue.

**9. DEFINED BENEFIT PENSION PLANS**

**Municipal Employees Retirement System of Michigan**-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.

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**Pension Plan for Employees of Tuscola County Road Commission**-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 Pension Plan for Employees of Tuscola County Road Commission and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by Tuscola County Road Commission. 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.

**10. NET OTHER POSTEMPLOYMENT BENEFITS**

The net other postemployment benefits asset is deemed to be a noncurrent asset and is recognized in the government-wide financial statements.

**11. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Road Commission has one item that qualifies for reporting in this category. It is pension/OPEB related items reported in the government-wide statement of net position. A deferred outflow is recognized for pension/OPEB related items which represent a consumption of future resources. These amounts are expensed in the year in which they apply.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Road Commission has three items that qualify for reporting in this category. The deferred inflows of resources related to unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from two sources: local contributions and property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item is future resources yet to be recognized in relation to the pension/OPEB actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension/OPEB liability and the actual results. The amounts are amortized over a period determined by the actuary.

**12. NET POSITION FLOW ASSUMPTION**

Sometimes the Road Commission will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Road Commission's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**13. FUND BALANCE FLOW ASSUMPTIONS**

Sometimes the Road Commission will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Road Commission's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**14. FUND BALANCE POLICIES**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of the resources for specific purposes. The Road Commission itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Road Commission's highest level of decision-making authority. The board of commissioners is the highest level of decision-making authority for the Road Commission that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Road Commission for specific purposes but do not meet the criteria to be classified as committed. The board of directors may also assign fund balances as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**REVENUES AND EXPENDITURES/EXPENSES:**

**1. PROGRAM REVENUES**

Amounts reported as 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.

**2. PROPERTY TAXES**

The Road Commission portion of the County property tax is levied each December 1, on the taxable value of property located in the County as of the preceding December 31. Assessed values are established annually by the County and are equalized by the State at 50% of approximated current market value.

In the government-wide financial statements, the property taxes receivable is recorded as revenue when the tax is levied in the current year.

For the governmental fund financial statements, it is the Road Commission's policy to recognize revenues from the current tax levy in the subsequent year, as the levy is received. The Road Commission's property tax rates for the 2020 levy were .4807 mills for voted bridges and .9657 mills for voted Primary Roads.

**3. COMPENSATED ABSENCES (SICK & VACATION BENEFITS)**

It is the Road Commission's policy to allow employees to accumulate earned but unused sick and vacation pay benefits. Hourly Union Employees may accumulate up to 160 hours of paid vacation after which credits are discontinued until the paid vacation accumulation is reduced. A Union Employee must work ninety (90) or more hours to accumulate vacation time. Salaried Employees and Working Foremen earn vacation days annually based on years of service with the Road Commission. These employees may carry over from year to year a maximum of ten (10) unused vacation days. For all employee classifications, accumulated and unused vacation credits will be paid out upon separation of employment.

In accordance with the Labor Agreement between the Board of Tuscola County Road Commissioners and the Tuscola County Road Commission Hourly Employees Association, a sickness and accident insurance program funded through a third-party insurance carrier has been established. The program provides a weekly benefit equal to 70% of the employee's regular weekly earnings, with a maximum weekly benefit of \$500 per week, for a maximum period of fifty-two (52) weeks. The Road Commission also provides a short-term (STD) and long-term (LTD) disability plan for Salaried Employees. To be eligible for this plan, the employee must work for the Road Commission for one (1) year. The STD benefit is equal to 70% of the employee's regular wages, with a maximum weekly benefit of \$1,000 per week, from day fifteen (15) through twenty-four (24) weeks. The LTD benefit is equal to 60% of the employee's regular wages, with a maximum monthly benefit of \$3,500 per month, from day one hundred and eighty (180) to age 65.

The Operating Fund recognizes the expenditure when the obligations come due for payment; the statement of net position and statement of activities recognize the expense at the time the hours are earned by the employees.

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**4. EQUIPMENT RENTAL**

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

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

Amounts reported in the government-wide financial statements are different from amount reported in the governmental funds because of the following:

<b><u>Governmental Fund - Fund Balance</u></b>	<b>\$8,360,793</b>
Capital assets used in governmental activities are not financial resources and are not reported in the governmental fund	111,270,272
Unavailable revenues are not reported in the Statement of Net Position	2,512,626
Net pension liability	(1,828,330)
Deferred outflows of resources-related to pensions	593,252
Deferred inflows of resources-related to pensions	(433,482)
Net other post employment benefit liability	(13,790,669)
Deferred outflows of resources-related to OPEB	2,291,550
Deferred inflows of resources-related to OPEB	(3,032,387)
Compensated absences	<u>(70,662)</u>
<b><u>Total Net Position – Governmental Activities</u></b>	<b><u>\$105,872,963</u></b>
 <b><u>Net Change in Fund Balances - Total Governmental Fund</u></b>	 <b><u>\$1,068,595</u></b>
Governmental funds report capital outlay as expenditures; in the statement of activities; these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay incurred in the current year	10,084,234
Depreciation expense	(6,295,595)
Book value of assets disposed	(4,295)
Increases in unavailable property tax revenues are recorded when earned in the statement of activities	172,251
Increases in unavailable revenues-other are recorded when earned in the statement of activities	(341,004)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Pension related items	228,092
OPEB related items	(106,657)
Increases in accumulated employee sick and vacation pay, are recorded when the liability is incurred in the statement of activities	<u>(2,459)</u>
 <b><u>Change in Net Position – Full-accrual Basis</u></b>	 <b><u>\$4,793,162</u></b>

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**NOTE 3 – DEPOSITS AND INVESTMENTS:**

As of December 31, 2020, the carrying amount of deposits and investments is as follows:

Deposits with Financial Institutions	
Checking	\$5,666,758
Investments	
None	\$ -

As of December 31, 2020 the Commission had deposits and investments subject to the following risk:

**Custodial Credit Risk – Deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. As of December 31, 2020 \$280,679 of the Commission's bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized. The Commission's deposits had a carrying amount of \$75 as of December 31, 2020.

Amounts reported on the balance sheet include \$5,666,683 on deposit with the Tuscola County Treasurer. As a result, the insured and uninsured portions related to these amounts cannot be determined.

**Custodial Credit Risk – Investments.** For an investment, this is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of another side party. The Commission will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Commission will do business. As of December 31, 2020, the County Treasurer, on behalf of the Road Commission, had no investments.

**Interest Rate Risk.** In accordance with its investment policy, the Commission will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Commission's cash requirements.

**Credit Risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. As of December 31, 2020, the Commission did not hold any investments that would be subject to rating.

**Concentration of Credit Risk.** The Commission will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Commission's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Foreign Currency Risk.** The Commission is not authorized to invest in investments which have this type of risk.

**Fair value measurement.** The Road Commission is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

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Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the Road Commission own assumptions about the factors market participants would use in pricing and investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Road Commission does not have any investments subject to the fair value measurement.

**NOTE 4 - DUE FROM OTHER GOVERNMENTS:**

Accounts receivable consist of the following:

	<u>December 31, 2020</u>
Motor vehicle highway funds	\$1,628,393
Due on county road agreements	1,140,137
Sundry accounts	<u>95,745</u>
 TOTAL	 <u>\$2,864,275</u>

The receivables consist primarily of charges to other agencies for services and materials provided by the Road Commission.

**NOTE 5 – ACCRUED CONSTRUCTION:**

Prepaid construction represents progress payments made by the Road Commission to the State Highway Department on various road projects not completed at December 31, 2020. These amounts will be either refunded or charged to expense as the projects are completed.

**NOTE 6 - ADVANCES - STATE OF MICHIGAN:**

The balance of this account consists of the following:

	<u>December 31, 2020</u>
Non-interest bearing notes for the purchase of equipment to maintain State trunklines. The loan does not have to be repaid as long as a maintenance contract exists.	 <u>\$161,721</u>



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**NOTE 7 - CHANGES IN CAPITAL ASSETS:**

A summary of changes in the recorded capital assets follows:

	BALANCE JANUARY 1, 2020	ADDITIONS & ADJUSTMENTS	DISPOSALS & ADJUSTMENTS	BALANCE DECEMBER 31, 2020
<b><u>Governmental Activities</u></b>				
Capital assets, not being depreciated:				
Land & right of ways	\$ 294,218	\$ -	\$ -	\$ 294,218
Land improvements	34,752,420	1,919,623	-	36,672,043
Total capital assets, not being depreciated	35,046,638	1,919,623	-	36,966,261
Capital assets, being depreciated:				
Buildings	2,237,255	30,817	-	2,268,072
Bridges	45,563,593	1,654,346	-	47,217,939
Roads	75,932,872	5,728,050	3,599,321	78,061,601
Signals & guardrails	603,306	3,849	-	607,155
Equipment - roads	6,655,531	739,519	-	7,395,050
Equipment - shop	222,234	-	-	222,234
Equipment - heating	113,408	3,850	-	117,258
Equipment - office	143,067	4,180	-	147,247
Equipment - engineer	43,313	-	-	43,313
Depletable assets	282,717	-	4,468	278,249
Weighmaster equipment	24,817	-	-	24,817
	131,822,113	8,164,611	3,603,789	136,382,935
Less - accumulated depreciation:				
Buildings	1,652,582	49,825	-	1,702,407
Bridges	17,356,991	987,865	-	18,344,856
Roads	33,442,895	4,858,758	3,599,321	34,702,332
Signals & guardrails	464,149	21,991	-	486,140
Equipment - roads	6,003,221	354,599	-	6,357,820
Equipment - shop	122,740	13,171	-	135,911
Equipment - heating	104,984	2,867	-	107,851
Equipment - office	130,526	4,402	-	134,928
Equipment - engineers	36,228	985	-	37,213
Depletable assets	47,444	-	173	47,271
Weighmaster equipment	21,063	1,132	-	22,195
	59,382,823	6,295,595	3,599,494	62,078,924
Total Capital assets, being depreciated:	72,439,290	1,869,016	4,295	74,304,011
Governmental activity				
Capital assets, net	\$ 107,485,928	\$ 3,788,639	\$ 4,295	\$ 111,270,272

Total depreciation expense for the year ended December 31, 2020 was \$6,295,595.

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**NOTE 8 – LONG-TERM OBLIGATIONS:**

The long-term liability of the Road Commission are summarized as follows:

	<u>Balance</u> <u>12/31/2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/2020</u>	<u>Due Within</u> <u>One Year</u>
Compensated absences	\$ 58,203	\$ 12,459	\$ -	\$ 70,662	\$ -
Total	<u>\$ 58,203</u>	<u>\$ 12,459</u>	<u>\$ -</u>	<u>\$ 70,662</u>	<u>\$ -</u>

**NOTE 9 - DEFERRED COMPENSATION PLAN:**

The Road Commission offers elected officials a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan 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 Section 457 plan, and the assets may not be diverted to any other use. The Administrators are agents of the employer for 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 32, plan balances and activities are not reflected in the Tuscola County Road Commission's financial statements.

**NOTE 10 - DEPLETION EXPENSES:**

Depletion expense amounted to \$0 for the year ended December 31, 2020. Depletion was computed at a rate of twenty cents per ton of gravel removed from various county gravel pits.

**NOTE 11 - RESTRICTED FUND BALANCE:**

Fund balance is restricted in the amount of \$1,771,091 for the year ended December 31, 2020. This represents the amount of bridge/road levy assets on hand at year-end. These assets must be used for the purpose of improvements to primary county roads and local road bridges.

**NOTE 12 - OPERATING LEASES:**

Commitments under various operating lease agreements for road equipment provide for minimum annual rental payments as follows:

2021	\$398,244
2022	390,054
2023	335,362
2024	537,918
2025	<u>686,222</u>
TOTAL	<u>\$2,347,800</u>

There were no contingent rentals or sublease rentals associated with leases in effect at December 31, 2020.

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**NOTE 13 – EMPLOYEE PENSION PLANS:**

**Municipal Employees Retirement System of Michigan**

**Plan Description.** The Road Commission's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. 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 Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

**Benefits Provided**

	2019 Valuation		
	Salaried Employees Closed Division	Work Foremen Closed Division	New Hires Open Division
Benefit multiplier:	2.00% Multiplier (no max)	1.30% Multiplier (no max)	1.00% Multiplier (no max)
Normal retirement age:	60	60	60
Vesting:	10 years	10 years	6 years
Early retirement (unreduced):	55/20	-	-
Early retirement (reduced)	50/25 55/15	50/25 55/15	-
Final average compensation:	3 years	5 years	3 years
Employee contributions:	5.43%	5.00%	0.00%
Act 88:	Yes (Adopted 1/6/2000)	Yes (Adopted 1/6/2000)	No

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

Inactive employees or beneficiaries currently receiving benefits	28
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>20</u>
	<u>51</u>

**Contributions.** 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 cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the open division, the employer contribution rate was 5.17%. For the closed divisions, the employer was required to contribute approximately \$192,000.

**Net Pension Liability.** The employer's Net Pension Liability was measured as of December 31, 2020, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of December 31, 2019.

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**Actuarial assumptions.** The total pension liability in the December 31, 2019 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 3.0%

Salary Increases: 3.0% in the long-term

Investment rate of return: 7.35%, net of investment expense, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 3.0% long-term wage inflation assumption would be consistent with a 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 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	60.0%	5.19%
Global fixed income	20.0%	0.75%
Private investments	20.0%	1.81%
	<u>100.0%</u>	

**Discount rate.** The discount rate used to measure the total pension liability is 7.6%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. 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.

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**Changes in Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
<b>Balances at 12/31/19</b>	\$ 6,533,447	\$ 5,142,268	\$ 1,391,179
Changes for the year:			
Service cost	75,240		75,240
Interest on total pension liability	481,435		481,435
Difference between expected and actual experience	104,060		104,060
Changes of assumptions	190,391		190,391
Employer contributions		460,796	(460,796)
Employee contributions		28,639	(28,639)
Net investment income		627,198	(627,198)
Benefit payments, including employee refunds	(472,783)	(472,783)	-
Administrative expense		(10,143)	10,143
Other changes	5,557		5,557
<b>Net changes</b>	<b>383,900</b>	<b>633,707</b>	<b>(249,807)</b>
<b>Balances at 12/31/20</b>	<b>\$ 6,917,347</b>	<b>\$ 5,775,975</b>	<b>\$ 1,141,372</b>

**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 7.6%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (6.6%) or 1% higher (8.6%) than the current rate.

	<u>1% Lower (6.6%)</u>	<u>Discount Rate (7.6%)</u>	<u>1% Higher (8.6%)</u>
Net Pension Liability	\$ 1,391,179	\$ 1,141,372	\$ 891,565

**PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES  
RELATED TO PENSIONS**

For the year ended December 31, 2020, the Road Commission recognized pension expense of \$186,810. The Road Commission reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experiences	\$ 69,374	\$ 155,668
Changes of assumptions	126,928	-
(Excess) deficit investment returns	217,893	227,259
	<u>\$ 414,195</u>	<u>\$ 382,927</u>

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

Year ended December 31,	Amount
2021	\$ 61,867
2022	111,862
2023	(95,234)
2024	(47,227)
	<u>\$ 31,268</u>

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**Pension Plan for Employees of Tuscola County Road Commission**

**Plan Description.** The Road Commission administers the Pension Plan for Employees of Tuscola County Road Commission - a single-employer defined benefit pension plan that provides pension for participants as defined by the plan document. Management of the plan is the responsibility of the Road Commission. The Pension Plan issues a publicly available financial report that includes financial statements and required supplementary information and that report may be obtained by writing to the Tuscola County Road Commission, 1733 Mertz Road, Caro, MI 48723.

**Benefits Provided**

For active participants in the plan: \$7.35 multiplied by years of benefit service.

**Employees covered by benefit terms.** At the March 31, 2020 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	7
Active employees	<u>24</u>
	<u>31</u>

**Contributions.** The Pension Plan for Employees of Tuscola County Road Commission was established and is being funded under the authority of Tuscola County Road Commission. The plan's funding policy is that employees will contribute a fixed hourly rate specified in the plan document, and the employer will contribute any remaining required amounts as determined by an annual actuarial valuation. The current rate of employee contribution is \$0.03 for each straight time hour worked during each month. The plan also calls for Tuscola County Road Commission to contribute amounts sufficient to fund the plan in accordance with minimum funding standards of the Internal Revenue Code. There are no long term contracts for contributions to the plan. The plan has no legally required reserves.

**Net Pension Liability.** The net pension liability was valued and measured as of March 31, 2020.

**Actuarial assumptions.** The total pension liability was determined by an actuarial valuation as of March 31, 2020 and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	0.00%
Investment rate of return	3.75%

The mortality tables used were the IRS 2017 1.430(h) sex-distinct Mortality Tables for annuitants and non-annuitants.

The long-term expected rate of return on retirement plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the retirement plan's target asset allocation as of March 31, 2020 (see the discussion of the retirement plan's investment policy) are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income general investment contract	100.0%	3.75%

The long-term expected rate of return is 3.75%.

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**Discount rate.** The discount rate used to measure the total pension liability was 2.98%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the most recent recommended contribution expressed as a percentage of covered payroll. Based on those assumptions, the retirement plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Last year's discount rate was 2.87%.

**Changes in Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 3/31/19	\$ 697,374	\$ 78,904	\$ 618,470
Changes for the year:			
Service cost	16,838		16,838
Interest on total pension liability	20,494		20,494
Experience (gains)/losses	(7,293)		(7,293)
Change in actuarial assumptions	47,209		47,209
Employer contributions	-	5,306	(5,306)
Employee contributions	-	1,592	(1,592)
Net investment income	-	2,662	(2,662)
Benefit payments, including employee refunds	(271)	(271)	-
Administrative expense		(800)	800
Other changes	-	-	-
Net changes	76,977	8,489	68,488
Balances at 3/31/20	\$ 774,351	\$ 87,393	\$ 686,958

**Sensitivity of the Net Pension Liability to changes in the discount rate.** The following presents the net pension liability (NPL) of the Road Commission, calculated using the discount rate of 2.98%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% point higher (3.98%) or lower (1.98%) than the current rate:

	<u>1% Lower (1.98%)</u>	<u>Discount Rate (2.98%)</u>	<u>1% Higher (3.98%)</u>
Net Pension Liability	\$ 817,918	\$686,958	\$ 580,596

**PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS**

For the year ended March 31, 2020 the Road Commission recognized pension expense of \$50,710. The Road Commission reported deferred outflows and inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to valuation date	\$ 4,046	
Experience (gains)/losses		\$ 50,555
Changes of assumptions	174,822	
Investment earnings (gains)/losses	189	
	<u>\$ 179,057</u>	<u>\$ 50,555</u>

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Other amounts reported as deferred outflows and inflows or resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,	Amount
2021	17,166
2022	17,199
2023	17,184
2024	17,121
2025	19,297
Thereafter	36,489
	\$ 124,456

At December 31, 2020, the above described pension amounts were reported in the Road Commission's governmental activities as follows:

	Net pension liability	Deferred outflows of resources-related to pensions	Deferred inflows of resources-related to pensions
MERS	\$ 1,141,372	\$ 414,195	\$ 382,927
Mass Mutual	686,958	179,057	50,555
Total	\$ 1,828,330	\$ 593,252	\$ 433,482

**NOTE 14 – OTHER POST EMPLOYMENT BENEFITS:**

**Plan Description:** In addition to the pension benefits described in Note 13, the Road Commission provides certain post-employment health care benefits (OPEB) to all employees who retire from the Road Commission with 85 points (years of service plus employee age). Those employees who were hired prior to September 16, 2003 and have accumulated the 85 points receive the health insurance for life. Those hired after September 16, 2003 with the same 85 points will receive health insurance for only 3 years after retirement. The Road Commission administers the OPEB plan through a single-employer defined benefit healthcare plan. Plan benefit provisions were established and may be amended under the authority of Board of County Road Commissioners. The Road Commission makes contributions to the extent possible but has no obligation to make contributions in advance of when the premiums are due for payment (i.e., may be financed on a "pay-as-you-go" basis). The Road Commission has no legally required reserves that must be maintained. The Road Commission reserves the right to modify or terminate other post-employment benefits. The commission does not issue separate stand-alone financial statements for the plan.

**Plan Membership:** Membership in the plan at December 31, 2020 is as follows:

Retirees and beneficiaries	36
Active plan members	30
Total membership	66

**Benefits Provided:** The Road Commission provides certain retiree health care benefits as other post-employment benefits (OPEB) to all applicable employees, in accordance with union agreements and/or personal policies.



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**Contributions:** The Tuscola County Road Commission Employee OPEB Plan was established and is being funded under the authority of the Board of County Road Commissioners and under agreements with the unions representing various classes of employees. The plan's funding policy is that the employer will fund the plan on a pay-as-you-go basis. That is, benefit payments will be made from general operating funds. There are no long term contracts for contributions to the plan. The plan has no legally required reserves. For the year ended December 31, 2020, the Road Commission expended \$416,247 for actual current premiums.

The County Road Commission's OPEB liability was measured as of December 31, 2020.

**Actuarial Assumptions:** The total OPEB liability was determined by an actuarial valuation as of December 31, 2020 using the following actuarial assumptions:

Inflation: implicit in expected payroll increases

Salary increases: 2.00%

Investment rate of return: N/A; plan is not pre-funded

20-year AA Municipal bond rate: 1.93%

Mortality: Public General 2010 Employee and Healthy Retiree with projection scale MP-2018

As this plan is not pre-funded, no long-term expected rate of return on Plan investments was determined.

**Discount Rate:** The discount rate used to measure the total OPEB liability was 1.93%. Because the Plan does not have a dedicated OPEB trust, there are no assets projected to be sufficient to make projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the "depletion date"), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. The discount rate is used to determine the total OPEB liability. December 31, 2020 is the first year of compliance with GASB 75, so there is no required discount rate change to disclose. For purposes of reconciliation from prior valuation assumptions, the beginning of year liability reflects a discount rate of 3.26% as well.

**Change in Net OPEB Liability:** The change in the net OPEB liability for the year ended December 31, 2020, is as follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a - b)
<b>Balance at December 31, 2019</b>	\$ 14,979,269	\$ -	\$ 14,979,269
Changes during the year:			
Service cost	133,109		133,109
Interest	485,878		485,878
Experience (Gains)/Losses	(3,974,772)		(3,974,772)
Change in plan terms	184,020		184,020
Change in actuarial assumptions	2,399,412		2,399,412
Contributions to OPEB trust	-		-
Contributions/benefit paid from general operating funds		416,247	(416,247)
Net investment income	-	-	-
Benefit payments	(416,247)	(416,247)	-
Administrative expense	-	-	-
Other Changes	-	-	-
<b>Total Changes</b>	<b>(1,188,600)</b>	<b>-</b>	<b>(1,188,600)</b>
<b>Balance at December 31, 2020</b>	<b>\$ 13,790,669</b>	<b>\$ -</b>	<b>\$ 13,790,669</b>

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**Sensitivity to the Total OPEB Liability to Changes in the Discount Rate:** The following presents the total OPEB liability of the Road Commission, calculated using the discount rate of 1.93%, as well as what the Road Commission's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (0.93%) or 1% higher (2.93%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Net OPEB Liability	\$ 16,524,707	\$ 13,790,669	\$ 12,273,386

**Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates:** The following presents the total OPEB liability of the Road Commission, calculated using the healthcare cost trend rate, as well as what the Road Commission's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower or 1% higher than the current rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	\$ 12,148,054	\$ 13,790,669	\$ 16,677,703

**OPEB expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:** For the year ended December 31, 2020, the Road Commission recognized OPEB expense of \$522,904. At December 31, 2020, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Experience (Gains)/Losses	\$ 29,772	\$ 3,032,387
Changes in assumptions	2,261,778	-
Total	<u>\$ 2,291,550</u>	<u>\$ 3,032,387</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31,	OPEB Expense
2021	\$ (280,103)
2022	(280,103)
2023	(280,103)
2024	99,472
2025	-
Thereafter	-
	<u>\$ (740,837)</u>

**NOTE 15 – RISK MANAGEMENT:**

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The Road Commission has joined together with other Road Commissions to form the Michigan County Road Commission Self-Insurance Pool, a public entity risk pool currently operating as a common risk management and insurance program for liability insurance. The government pays an annual premium to the pool for its general insurance coverage. The agreement for formation of the Michigan County Road Commission Self-Insurance Pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for large claims.

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The government continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Michigan County Road Commission Self-Insurance Pool publishes its own financial report annually, which can be obtained from Michigan County Road Commission Self-Insurance Pool, P. O. Box 14203, Lansing, MI 48901.

**NOTE 16 – SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:**

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

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

**NOTE 17 – SINGLE AUDIT:**

Governmental and certain other entities, which expend \$750,000 or more of direct federal dollars, are subject to single audit in accordance with the Uniform Guidance. The Commission expended \$1,827,678 of federal/state dollars, which were administered by the Michigan Department of Transportation (MDOT). The monies will be included in the State of Michigan's single audit. Because direct federal dollars were less than \$750,000, a single audit was not required and all disclosures regarding a single audit have been omitted from this report.

**NOTE 18 – TAX ABATEMENTS:**

For the year ended December 31, 2020 the Road Commission is required to disclose significant tax abatements as required by GASB 77 (Tax abatements).

The Road Commission receives reduced property tax revenues as a result of Industrial Facilities Tax exceptions granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities. The property taxes abated for all funds by municipality under these programs are as follows:

<u>Municipality</u>	<u>Taxes Abated</u>
Akron Township	\$ 428
Denmark Township	414
Elkland Township	2,869
Elmwood Township	446
Fremont Township	36
Indianfields Township	204
Millington Township	151
City of Caro	61
Total	<u>\$ 4,609</u>

There are no significant abatements made by the Road Commission.

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**NOTE 19 – UPCOMING ACCOUNTING PRONOUNCEMENT:**

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the Commission's 2022 year end. The objective of this Statement is to increase 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 provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Governmental Accounting Standards Board (GASB) Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2021 fiscal year.

In May 2020, the GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87 *Leases*, as amended. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted for the Road Commission's 2024-year end.

**NOTE 20 – UNCERTAINTIES:**

The extent of the impact of COVID-19 on the Commission's operations and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on services, employees, and vendors. All of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the financial condition and results of operations is uncertain.

**REQUIRED SUPPLEMENTARY INFORMATION**

**TUSCOLA COUNTY ROAD COMMISSION**  
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**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**YEAR ENDED DECEMBER 31, 2020**

	ROAD FUND			VARIANCE WITH FINAL BUDGET
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
<b><u>REVENUES</u></b>				
State funds:				
State trunkline revenue	\$ 1,200,000	\$ 1,700,000	\$ 1,805,985	\$ 105,985
Motor vehicle highway funds	9,500,000	9,300,000	9,355,700	55,700
Federal funds:				
Primary	1,639,996	1,852,300	1,827,678	(24,622)
County raised funds:				
Township contributions	3,000,000	2,700,000	2,779,754	79,754
Property taxes	2,100,000	2,250,000	2,294,925	44,925
Interest earned	30,000	30,000	31,056	1,056
Salvage sales	10,000	5,000	4,032	(968)
Licenses & permits	50,000	55,000	53,955	(1,045)
Contributions from private sources	20,000	2,200,000	1,834,439	(365,561)
Miscellaneous	-	-	13,285	13,285
Gain (loss) on asset disposal	11,000	6,000	185,069	179,069
<b>TOTAL REVENUES</b>	<b>17,560,996</b>	<b>20,098,300</b>	<b>20,185,878</b>	<b>87,578</b>
<b><u>EXPENDITURES:</u></b>				
Primary preservation - structural improvements	5,320,264	4,965,100	5,212,082	(246,982)
Local preservation - structural improvements	5,495,000	4,240,000	4,093,786	146,214
Primary maintenance	1,820,000	1,800,000	1,900,804	(100,804)
Local maintenance	3,150,000	5,700,000	5,123,363	576,637
State maintenance	1,200,000	1,700,000	1,797,610	(97,610)
Administrative expense	650,000	650,000	549,406	100,594
Equipment expense - net	-	-	96,803	(96,803)
Capital outlay	877,000	768,000	770,410	(2,410)
Less:				
Depreciation & depletion	(400,000)	(400,000)	(426,981)	26,981
<b>TOTAL EXPENDITURES</b>	<b>18,112,264</b>	<b>19,423,100</b>	<b>19,117,283</b>	<b>305,817</b>
<b>CHANGE IN FUND BALANCE</b>	<b>\$ (551,268)</b>	<b>\$ 675,200</b>	<b>1,068,595</b>	<b>\$ 393,395</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>			<b>7,292,198</b>	
<b>FUND BALANCE - END OF YEAR</b>			<b>\$ 8,360,793</b>	

TUSCOLA COUNTY ROAD COMMISSION  
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REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN  
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED  
AS OF 12/31 OF EACH FISCAL YEAR)

	2020	2019	2018	2017	2016	2015
TOTAL PENSION LIABILITY:						
Service cost	\$ 75,240	\$ 84,942	\$ 89,013	\$ 91,294	\$ 80,723	\$ 97,076
Interest	481,435	498,907	490,439	478,491	447,215	448,822
Changes of benefit terms						
Difference between expected and actual experience	104,060	(34,936)	(22,411)	10,090	(4,434)	-
Change of assumptions	190,391		-	-	267,140	-
Benefit payments (including refunds of employee contributions)	(472,783)	(468,102)	(422,663)	(399,611)	(412,389)	(377,193)
Other changes	5,557	23,764	(2,813)	(18,242)	1,012	6,982
NET CHANGE IN TOTAL PENSION LIABILITY	383,900	104,575	131,565	162,022	379,267	175,687
TOTAL PENSION LIABILITY - BEGINNING OF YEAR	6,533,447	6,428,872	6,297,307	6,135,285	5,756,018	5,580,331
TOTAL PENSION LIABILITY - END OF YEAR (a)	<u>\$ 6,917,347</u>	<u>\$ 6,533,447</u>	<u>\$ 6,428,872</u>	<u>\$ 6,297,307</u>	<u>\$ 6,135,285</u>	<u>\$ 5,756,018</u>
PLAN FIDUCIARY NET POSITION:						
Contributions - employer	\$ 460,796	\$ 492,382	\$ 498,190	\$ 492,617	\$ 471,508	\$ 143,621
Contributions - employee	28,639	28,736	37,800	65,407	49,032	44,739
Net investment income	627,198	601,514	(175,062)	510,386	380,374	(53,796)
Benefit payments (including refunds of employee contributions)	(472,783)	(468,102)	(422,663)	(399,611)	(412,389)	(377,193)
Administrative expenses	(10,143)	(10,347)	(8,750)	(8,082)	(7,516)	(7,889)
Other						
NET CHANGE IN FIDUCIARY NET POSITION	633,707	644,183	(70,485)	660,717	481,009	(250,518)
PLAN FIDUCIARY NET POSITION - BEGINNING OF YEAR	5,142,268	4,498,085	4,568,570	3,907,853	3,426,844	3,677,362
PLAN FIDUCIARY NET POSITION - END OF YEAR (b)	<u>\$ 5,775,975</u>	<u>\$ 5,142,268</u>	<u>\$ 4,498,085</u>	<u>\$ 4,568,570</u>	<u>\$ 3,907,853</u>	<u>\$ 3,426,844</u>
NET PENSION LIABILITY - ENDING (a)-(b)	<u>\$ 1,141,372</u>	<u>\$ 1,391,179</u>	<u>\$ 1,930,787</u>	<u>\$ 1,728,737</u>	<u>\$ 2,227,432</u>	<u>\$ 2,329,174</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	83.50%	78.71%	69.97%	72.55%	63.69%	59.53%
COVERED EMPLOYEE PAYROLL	\$ 1,134,883	\$ 1,003,623	\$ 1,046,859	\$ 1,065,069	\$ 1,051,454	\$ 891,693
NET PENSION LIABILITY AS PERCENTAGE OF PAYROLL	100.57%	138.62%	184.44%	162.31%	211.84%	261.21%

**Notes to Schedule**

*Benefit changes* - there were no changes of benefits terms.

*Changes of assumptions* - there were no changes of assumptions.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Road Commission presents information for those years for which information is available.

TUSCOLA COUNTY ROAD COMMISSION  
A Component Unit of Tuscola County  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN  
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED  
AS OF 12/31 OF EACH FISCAL YEAR)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined total contribution	\$ 220,632	\$ 213,348	\$ 198,190	\$ 192,617	\$ 171,508	\$ 140,812
Employer contribution	<u>460,796</u>	<u>492,382</u>	<u>498,190</u>	<u>492,617</u>	<u>471,508</u>	<u>143,621</u>
Contribution deficiency (excess)	<u>\$ (240,164)</u>	<u>\$ (279,034)</u>	<u>\$ (300,000)</u>	<u>\$ (300,000)</u>	<u>\$ (300,000)</u>	<u>\$ (2,809)</u>
Covered employee payroll	\$ 1,134,883	\$ 1,003,623	\$ 1,046,859	\$ 1,065,069	\$ 1,051,454	\$ 891,693
Employer contribution as a percentage of covered payroll	40.60%	49.06%	47.59%	46.25%	44.84%	16.11%

**Notes to Schedule**

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	19 years
Asset valuation method	5 year smoothed
Inflation	2.5%
Salary Increases	3.00%
Investment rate of return	7.35%
Retirement age	Varies depending on plan adoption
Mortality	50% Female/50% Male RP-2014 Group Annuity Mortality Table

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Road Commission presents information for those years for which information is available.



**TUSCOLA COUNTY ROAD COMMISSION**  
A Component Unit of Tuscola County  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**PENSION PLAN FOR EMPLOYEES OF TUSCOLA COUNTY ROAD COMMISSION**  
**LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED**  
**AS OF 3/31 OF EACH FISCAL YEAR)**

	2020	2019	2018	2017	2016	2015
<b>TOTAL PENSION LIABILITY:</b>						
Service cost	\$ 16,838	\$ 17,823	\$ 13,615	\$ 15,005	\$ 16,630	\$ 17,727
Interest	20,494	22,428	28,680	28,826	29,766	30,767
Difference between expected and actual experience	(7,293)	(23,115)	(13,187)	(16,078)	(6,357)	(13,482)
Change of assumptions	47,209	30,126	157,333	1,134	1,143	1,165
Benefit payments (including refunds of employee contributions)	(271)	(79,164)	(34,279)	(26,589)	(90,080)	(20,182)
Other changes						
<b>NET CHANGE IN TOTAL PENSION LIABILITY</b>	<b>76,977</b>	<b>(31,902)</b>	<b>152,162</b>	<b>2,298</b>	<b>(48,898)</b>	<b>15,995</b>
<b>TOTAL PENSION LIABILITY - BEGINNING OF YEAR</b>	<b>697,374</b>	<b>729,276</b>	<b>577,114</b>	<b>574,816</b>	<b>623,714</b>	<b>607,719</b>
<b>TOTAL PENSION LIABILITY - END OF YEAR (a)</b>	<b>\$ 774,351</b>	<b>\$ 697,374</b>	<b>\$ 729,276</b>	<b>\$ 577,114</b>	<b>\$ 574,816</b>	<b>\$ 623,714</b>
<b>PLAN FIDUCIARY NET POSITION:</b>						
Contributions - employer	\$ 5,306	\$ 6,180	\$ 6,973	\$ 7,990	\$ 89,250	\$ 25,086
Contributions - employee	1,592	1,854	2,092	2,397	2,458	2,775
Net investment income	2,662	4,900	7,505	8,388	7,853	7,521
Benefit payments (including refunds of employee contributions)	(271)	(79,164)	(34,279)	(26,589)	(90,080)	(20,182)
Administrative expenses	(800)	(800)	(800)	(800)	(82)	(721)
Other		-	-	-	-	-
<b>NET CHANGE IN FIDUCIARY NET POSITION</b>	<b>8,489</b>	<b>(67,030)</b>	<b>(18,509)</b>	<b>(8,614)</b>	<b>9,399</b>	<b>14,479</b>
<b>PLAN FIDUCIARY NET POSITION - BEGINNING OF YEAR</b>	<b>78,904</b>	<b>145,934</b>	<b>164,443</b>	<b>173,057</b>	<b>163,658</b>	<b>149,179</b>
<b>PLAN FIDUCIARY NET POSITION - END OF YEAR (b)</b>	<b>\$ 87,393</b>	<b>\$ 78,904</b>	<b>\$ 145,934</b>	<b>\$ 164,443</b>	<b>\$ 173,057</b>	<b>\$ 163,658</b>
<b>NET PENSION LIABILITY - ENDING (a)-(b)</b>	<b>\$ 686,958</b>	<b>\$ 618,470</b>	<b>\$ 583,342</b>	<b>\$ 412,671</b>	<b>\$ 401,759</b>	<b>\$ 460,056</b>
<b>PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY</b>	<b>11.29%</b>	<b>11.31%</b>	<b>20.01%</b>	<b>28.49%</b>	<b>30.11%</b>	<b>26.24%</b>
<b>COVERED EMPLOYEE PAYROLL</b>	<b>\$ 1,268,646</b>	<b>\$ 1,364,786</b>	<b>\$ 1,472,831</b>	<b>\$ 1,619,958</b>	<b>\$ 1,685,581</b>	<b>\$ 1,900,055</b>
<b>NET PENSION LIABILITY AS PERCENTAGE OF PAYROLL</b>	<b>54.15%</b>	<b>45.32%</b>	<b>39.61%</b>	<b>25.47%</b>	<b>23.84%</b>	<b>24.21%</b>

**Notes to Schedule**

*Benefit changes* - there were no changes of benefits terms.

*Changes of assumptions* - the changes of assumptions for the year were:

- Mortality table updated
- Interest rate changed from 4.5% reflecting actual rates of return

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Road Commission presents information for those years for which information is available.

TUSCOLA COUNTY ROAD COMMISSION  
A Component Unit of Tuscola County  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
PENSION PLAN FOR EMPLOYEES OF TUSCOLA COUNTY ROAD COMMISSION  
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED  
AS OF 12/31 OF EACH FISCAL YEAR)

	2020	2019	2018	2017	2016	2015
Actuarially determined total contribution	\$ 55,185	\$ 48,593	\$ 43,635	\$ 44,031	\$ 38,417	\$ 44,539
Employer contribution	5,306	5,774	6,485	7,197	8,169	89,547
Contribution deficiency (excess)	<u>\$ 49,879</u>	<u>\$ 42,819</u>	<u>\$ 37,150</u>	<u>\$ 36,834</u>	<u>\$ 30,248</u>	<u>\$ (45,008)</u>
Covered employee payroll	\$ 1,268,646	\$ 1,364,786	\$ 1,472,831	\$ 1,559,771	\$ 1,638,925	\$ 1,762,985
Employer contribution as a percentage of covered payroll	0.42%	0.42%	0.44%	0.46%	0.50%	5.08%

**Notes to Schedule**

Actuarial cost method	Entry Age Normal (level dollar)
Asset valuation method	Market value of assets
Retirement age	Earlier of age 63 with 10 years of service or age 70
Interest rates:	3.75% per annum, compounded annually
Mortality Table	Pub-2010 Public Retirement Plans Mortality Tables for General Employees; annuitant and non-annuitant, sex-distinct with modified MP-2019 improvement factors
Termination rates	Crocker-Sarason-Straight T-1
Disability rates	1998 Social Security Disabled Worker Incidence Rates

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Road Commission presents information for those years for which information is available.

**TUSCOLA COUNTY ROAD COMMISSION**  
A Component Unit of Tuscola County  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS**  
**LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED**  
**AS OF 12/31 OF EACH FISCAL YEAR)**

	<u>2020</u>	<u>2019</u>
TOTAL OPEB LIABILITY:		
Service cost	\$ 133,109	\$ 123,584
Interest	485,878	509,590
Changes of benefit terms	184,020	
Difference between expected and actual experience	(3,974,772)	44,846
Change of assumptions	2,399,412	689,528
Benefit payments (including refunds of employee contributions)	<u>(416,247)</u>	<u>(528,858)</u>
NET CHANGE IN TOTAL OPEB LIABILITY	(1,188,600)	838,690
TOTAL OPEB LIABILITY - BEGINNING OF YEAR	<u>14,979,269</u>	<u>14,140,579</u>
TOTAL OPEB LIABILITY - END OF YEAR (a)	<u><u>\$ 13,790,669</u></u>	<u><u>\$ 14,979,269</u></u>
PLAN FIDUCIARY NET POSITION:		
Contributions - employer	\$ 416,247	\$ 528,858
Benefit payments (including refunds of employee contributions)	<u>(416,247)</u>	<u>(528,858)</u>
NET CHANGE IN FIDUCIARY NET POSITION	-	-
PLAN FIDUCIARY NET POSITION - BEGINNING OF YEAR	<u>-</u>	<u>-</u>
PLAN FIDUCIARY NET POSITION - END OF YEAR (b)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
NET OPEB LIABILITY - ENDING (a)-(b)	<u><u>\$ 13,790,669</u></u>	<u><u>\$ 14,979,269</u></u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL OPEB LIABILITY	0.00%	0.00%
COVERED EMPLOYEE PAYROLL	\$ 1,832,256	\$ 1,983,519
NET OPEB LIABILITY AS PERCENTAGE OF PAYROLL	752.66%	755.19%

**Notes to Schedule**

*Benefit changes* - the changes in benefit terms for the year were:

-Pre-65 medical, Opt out and life insurance benefits clarified

*Changes of assumptions* - the changes of assumptions for the year were:

-Mortality improvement scale updated from MP-2019 to MP-2020

-Medical trend rates updated and dental trend changed from 4.0% to 3.0%

-Salary scale changed from 3.5% to 2.0%

-Discount rate changed from 3.26% to 1.93%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Road Commission presents information for those years for which information is available.

**TUSCOLA COUNTY ROAD COMMISSION**  
A Component Unit of Tuscola County  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB**  
**LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED**  
**AS OF 12/31 OF EACH FISCAL YEAR)**

	<u>2020</u>	<u>2019</u>
Actuarially determined total contribution	\$ 1,665,748	\$ 1,512,722
Employer contribution	<u>(416,247)</u>	<u>(528,858)</u>
Contribution deficiency (excess)	<u>\$ 1,249,501</u>	<u>\$ 983,864</u>
Covered employee payroll	\$ 1,832,256	\$ 1,983,519
Employer contribution as a percentage of covered payroll	90.91%	76.26%

**Notes to Schedule**

Actuarial cost method	Entry Age Normal (level percentage of compensation)
Amortization method	Level dollar, closed
Remaining amortization period	11 years
Asset valuation method	Not applicable - Plan is not prefunded
Discount rate	1.93%
Salary scale	2.0%
Return on plan assets	Not applicable - Plan is not prefunded
Mortality rate	Public General 2010 Employee and Healthy Retiree, Headcount weighted, MP-2020
Utilization	100% of eligible employees will elect coverage at retirement; actual coverage used for non-active

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Road Commission presents information for those years for which information is available.

OTHER SUPPLEMENTARY INFORMATION

**TUSCOLA COUNTY ROAD COMMISSION**  
A Component Unit of Tuscola County  
GENERAL OPERATING FUND  
STATEMENT OF CHANGES IN FUND BALANCE  
YEAR ENDED DECEMBER 31, 2020

TOTAL REVENUES	\$ 20,185,878
TOTAL EXPENDITURES	<u>19,117,283</u>
NET CHANGE IN FUND BALANCE	<u>1,068,595</u>
Fund Balance, beginning of year	<u>7,292,198</u>
Fund balance, end of year	<u><u>\$ 8,360,793</u></u>

**TUSCOLA COUNTY ROAD COMMISSION**  
A Component Unit of Tuscola County  
**GENERAL OPERATING FUND**  
**ANALYSIS OF CHANGES IN FUND BALANCE**  
**YEAR ENDED DECEMBER 31, 2020**

	PRIMARY ROADS FUND	LOCAL ROADS FUND	COUNTY ROAD COMMISSION	TOTAL
TOTAL REVENUES	\$ 8,678,332	\$ 7,791,699	\$ 3,715,847	\$ 20,185,878
TOTAL EXPENDITURES	7,740,479	8,056,953	3,319,851	19,117,283
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	937,853	(265,254)	395,996	1,068,595
OTHER FINANCING SOURCES (USES)				
Optional transfers in				-
Optional transfers out	(300,000)	300,000		-
TOTAL OTHER FINANCING SOURCES (USES)	(300,000)	300,000	-	-
NET CHANGE IN FUND BALANCE	637,853	34,746	395,996	1,068,595
Fund Balance, beginning of year	4,296,784	2,280,752	714,662	7,292,198
Fund balance, end of year	\$ 4,934,637	\$ 2,315,498	\$ 1,110,658	\$ 8,360,793

**TUSCOLA COUNTY ROAD COMMISSION**  
A Component Unit of Tuscola County  
**GENERAL OPERATING FUND**  
**ANALYSIS OF REVENUES**  
**YEAR ENDED DECEMBER 31, 2020**

	PRIMARY ROADS FUND	LOCAL ROADS FUND	COUNTY ROAD COMMISSION	TOTAL
REVENUES				
Taxes	\$ 1,526,880	\$ 768,045		\$ 2,294,925
Licenses and Permits	-	-	\$ 53,955	53,955
Intergovernmental:				
Federal Sources				
Surface tran. Program (STP)	1,247,990	-	-	1,247,990
Bridge	579,688	-	-	579,688
Total Federal Sources	1,827,678	-	-	1,827,678
State Sources				
Michigan Transportation Fund				
Engineering	5,475	4,525	-	10,000
Urban road	21,603	21,508	-	43,111
Allocation	5,093,597	4,208,992	-	9,302,589
Total State Sources	5,120,675	4,235,025	-	9,355,700
Local Sources				
Township contributions	-	2,778,921	-	2,778,921
Village contributions	-	-	-	-
County appropriation	-	-	-	-
Total Local Sources	-	2,778,921	-	2,778,921
Total Intergovernmental	6,948,353	7,013,946	-	13,962,299
Charges for Services				
State trunkline maintenance	-	-	1,261,375	1,261,375
State trunkline non-maintenance	-	-	544,610	544,610
Salvage sales	-	-	4,032	4,032
Other	-	-	1,652	1,652
Total Charges for Services	-	-	1,811,669	1,811,669
Interest earned	18,030	9,708	3,318	31,056
Other:				
Proceeds from sale of assets	185,069	-	-	185,069
Miscellaneous	-	-	1,846,905	1,846,905
Total Other	185,069	-	1,846,905	2,031,974
TOTAL REVENUES	\$ 8,678,332	\$ 7,791,699	\$ 3,715,847	\$ 20,185,878



TUSCOLA COUNTY ROAD COMMISSION  
A Component Unit of Tuscola County  
GENERAL OPERATING FUND  
ANALYSIS OF EXPENDITURES  
YEAR ENDED DECEMBER 31, 2020

	PRIMARY ROADS FUND	LOCAL ROADS FUND	COUNTY ROAD COMMISSION	TOTAL
EXPENDITURES				
Preservation improvements	\$ 4,301,816	\$ 3,349,706	\$ -	\$ 7,651,522
Structural improvements	910,266	744,080	-	1,654,346
Routine and preventative maintenance	1,900,804	3,616,512	-	5,517,316
State trunkline maintenance	-	-	1,253,000	1,253,000
State trunkline non-maintenance	-	-	544,610	544,610
Administrative expense - net	263,632	285,774	-	549,406
Equipment expense- net	20,532	60,881	15,390	96,803
Capital outlay - net	343,429			343,429
Sundry billings	-	-	1,506,851	1,506,851
TOTAL EXPENDITURES	<u>\$ 7,740,479</u>	<u>\$ 8,056,953</u>	<u>\$ 3,319,851</u>	<u>\$ 19,117,283</u>



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

Thomas B. Doran, CPA  
Valerie J. Hartel, CPA  
Jamie L. Peasley, CPA  
Angela M. Burnette, CPA

David A. Ondrajka, CPA  
Chelsie M. Peruski, CPA  
Kendra K. Bednarski, CPA  
Bryan M. McShane, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners  
Tuscola County Road Commission  
Caro, Michigan 48723

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 Tuscola County Road Commission, component unit of Tuscola County, State of Michigan, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Tuscola County Road Commission's basic financial statements, and have issued our report thereon dated July 27, 2021.

Internal Control Over Financial Reporting

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

715 East Frank Street • Caro, MI 48723  
989-673-3137 fax: 989-673-3375  
1-800-234-8829

2956 Main Street • Marlette, MI 48453  
989-635-7545 fax: 989-635-7547

6476 Main Street, Suite 1 • Cass City, MI 48726  
989-872-3730 fax: 989-872-3978

www.atbdcpa.com

email us at [cpa@atbdcpa.com](mailto:cpa@atbdcpa.com)

## Compliance and Other Matters

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

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

Anderson, Tuckey, Bernhardt, & Doran, P.C.  
Certified Public Accountants  
Caro, Michigan

July 27, 2021