

Hillsdale County
Road Commission
(a Component Unit of
Hillsdale County,
Michigan)



Year Ended
December 31, 2023

Financial
Statements

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HILLSDALE COUNTY ROAD COMMISSION

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INDEPENDENT AUDITORS' REPORT

June 26, 2024

Honorable Members of the Hillsdale Count,
Board of Road Commissioners
Hillsdale, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and the major fund of the **Hillsdale County Road Commission** (the "Road Commission"), a component unit of Hillsdale County, Michigan, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Road Commission, as of December 31, 2023, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Independent Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Road Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.



In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Road Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Road Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The operating fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 operating fund schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2024, on our consideration of the 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Road Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Road Commission's internal control over financial reporting and compliance.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

HILLSDALE COUNTY ROAD COMMISSION

Management's Discussion and Analysis

As management of the Hillsdale County Road Commission (the "Road Commission"), we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2023.

Financial Highlights

Net position may, over time, enable governmental agencies to determine their overall fiscal position. The Road Commission's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$36,481,152 at the end of the 2023 fiscal year. Net position, however, must be understood to include all assets of the governmental entity, and may include significant capital improvements that are not exchangeable. For the Road Commission, all public infrastructure in the right-of-way is included in this category, and includes pavements, gravel, bridges, pipes, guardrails and signs.

The ending fund balance of the general fund was \$5,880,785 at December 31, 2023. It is important to note that the fund balance includes inventories of equipment material and parts and road materials that are not available to use as cash.

Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. Supplementary information is also provided for additional informational purposes.

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

Government-wide statements. The *statement of net position* presents information on all of the Road Commission's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as an indicator of the Road Commission's overall fiscal position.

The *statement of activities* presents information showing how the Road Commission's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The governmental activities, which are principally supported by state shared revenues (operating grants), of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within Hillsdale County.

HILLSDALE COUNTY ROAD COMMISSION

Management's Discussion and Analysis

The government-wide financial statements include only the Road Commission itself (*known as the primary government*). The Road Commission has no legally separate component units for which it is financially accountable.

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

Governmental funds. *Governmental funds* (general fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Road Commission's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the general fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purpose as defined by generally accepted accounting principles (GAAP).

The Road Commission adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided herein to demonstrate compliance with those budgets.

The Road Commission does not maintain proprietary funds or fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements are considered to be part of the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis and schedules of the Road Commission's pension plan.

HILLSDALE COUNTY ROAD COMMISSION

Management's Discussion and Analysis

	Statement of Net Position	
	2023	2022
Assets		
Current and other assets	\$ 6,494,789	\$ 6,443,072
Capital assets, net	34,610,300	32,138,939
Total assets	<u>41,105,089</u>	<u>38,582,011</u>
Deferred outflows of resources	<u>927,987</u>	<u>1,705,895</u>
Liabilities		
Long-term liabilities	4,847,906	5,453,657
Other liabilities	614,004	448,978
Total liabilities	<u>5,461,910</u>	<u>5,902,635</u>
Deferred inflows of resources	<u>90,014</u>	<u>14,430</u>
Net position		
Investment in capital assets	34,610,300	32,138,939
Restricted	5,093,428	4,842,947
Unrestricted (deficit)	(3,222,576)	(2,611,045)
Total net position	<u>\$ 36,481,152</u>	<u>\$ 34,370,841</u>
	Changes in Net Position	
	2023	2022
Revenues		
Program revenues:		
Charges for services	\$ 922,560	\$ 1,410,523
Operating grants and contributions	12,546,338	10,846,842
General revenues:		
Gain on sale of capital assets	133,335	68,552
Interest and rentals	122,654	27,473
Other	68,197	201,222
Total revenues	<u>13,793,084</u>	<u>12,554,612</u>
Expenses		
Public works	<u>11,682,773</u>	<u>10,987,447</u>
Change in net position	<u>2,110,311</u>	<u>1,567,165</u>
Net position, beginning of year	<u>34,370,841</u>	<u>32,803,676</u>
Net position, end of year	<u>\$ 36,481,152</u>	<u>\$ 34,370,841</u>

HILLSDALE COUNTY ROAD COMMISSION

Management's Discussion and Analysis

Governmental activities. The Road Commission's net position increased by \$2,110,311 during fiscal year 2023 (full accrual basis of accounting which includes capital assets and long-term debt) primarily due to an increase in road funding from the State, more sales of capital assets as compared to the prior year, and a significant increase in interest earnings.

Fund Level Financial Statements

Total fund balance at December 31, 2023 is \$5,880,785 which is comprised of three components. One component is an unassigned fund balance deficit that amounted to \$672,502 at year end. Another component, nonspendable, is segregated to indicate that it is not available for new spending because it has already been committed to inventory purchases, which is included as a fund asset. The nonspendable portion of fund balance was \$1,459,859 as of December 31, 2023. The third component of fund balance is restricted for primary road expenditures, and totals \$5,093,428 as of December 31, 2023. Overall, there was a decrease in total fund balance of \$113,309 in 2023 (modified accrual basis of accounting which excludes capital assets and long-term debt).

General Fund Budgetary Highlights

Budget amendments were made due to changes in expectations as actual results were realized during the year. The Road Commission anticipated both starting and completing a large project in the current year, but due to delays, the project was not completed. This is explained by the decrease in revenue from the original to final, amended budget. Furthermore, the Road Commission expected to receive a large safety grant and likewise budgeted expenditures for that project. This grant was not received, so such project expenditures were not required in the final budget. Primary road preservation and routine and preventative maintenance were the largest budget items to decrease from original to amended budget, by approximately \$5.3 million, as many projects were started during the year, but not seen through to completion. A mild winter also caused the routine and preventative maintenance line to decrease. The total actual revenue was more than the final budget by \$420,922, and the total expenditures were over budget by \$246,086.

Revenues included \$1,587,464 of township contributions for the year. This was a decrease from last year, but it continues to be a major resource for local road funding. This does not include township funds paid directly to contractor for gravel road resurfacing. The Road Commission would like to recognize Somerset Township for being their highest contributor in 2023. All the townships made contributions last year to help the Road Commission maintain and improve the local road system.

Most of the expenditures usually occur in road and bridge structural improvements and maintenance, and those costs combined were \$11.4 million in 2023. The Road Commission's preventative maintenance program of paver patching had a cost of \$596,134. Gravel road maintenance costs were over \$2,022,025. Snow removal costs on county roads in 2023 were \$666,595.

Local road expenditures continue to be a big concern as 48% of expenditures were for local roads, and 40% of MTF revenues were earmarked for local roads. Overall, expenditures for local roads exceeded revenues by \$1,685,652 requiring a transfer from primary road fund to balance the deficit. The Road Commission's primary roads suffer from a lack of asphalt resurfacing due to this continual transfer.

HILLSDALE COUNTY ROAD COMMISSION

Management's Discussion and Analysis

Capital Assets and Debt Administration

Capital Assets

Capital assets in total, net of accumulated depreciation, increased from \$32,138,939 to \$34,610,300 due to the purchases of assets and infrastructure additions exceeding depreciation expense. The majority of expenditures were on infrastructure activities. More detailed information of capital assets can be found in the notes to the financial statements.

Long-term Debt

Total long-term debt included compensated absences in the amount of \$336,805 at December 31, 2023. More detailed information on long-term debt can be found in the notes to the financial statements.

Outlook for the Future

The future for our county road system continues to be challenging as revenues continue to be below what is needed and increasing costs make it extremely difficult to make improvements to the system. However, with additional road funding in place we will continue to work towards making improvements. We strive to do our best to provide a reasonably safe and convenient system of county roads and bridges with responsive and dependable customer service with the funds available. Also, there were cost increases for construction supplies required for our forces to perform additional work which has been considered in the 2024 fiscal year budget.

Requests for Information

This financial report is designed to provide a general overview of the Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk, Hillsdale County Road Commission, 1919 Hudson Road, Hillsdale, MI 49242.

BASIC FINANCIAL STATEMENTS

HILLSDALE COUNTY ROAD COMMISSION

Statement of Net Position and General Fund Balance Sheet

December 31, 2023

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 2,876,962	\$ -	\$ 2,876,962
Accounts receivable:			
Motor vehicle highway funds	1,630,727	-	1,630,727
State trunkline maintenance	41,175	-	41,175
Due from County	399,841	-	399,841
Other	86,225	-	86,225
Inventories:			
Road materials	1,102,877	-	1,102,877
Equipment material and parts	356,982	-	356,982
Capital assets not being depreciated	-	6,915,605	6,915,605
Capital assets being depreciated, net	-	27,694,695	27,694,695
Total assets	\$ 6,494,789	34,610,300	41,105,089
Deferred outflows of resources			
Deferred pension amounts		927,987	927,987
Liabilities			
Accounts payable	\$ 295,583	-	295,583
Accrued liabilities	108,218	-	108,218
Advances from other governments	199,650	-	199,650
Deposits payable	10,553	-	10,553
Long-term liabilities:			
Due within one year	-	16,840	16,840
Due after one year	-	319,965	319,965
Net pension liability (due in more than one year)	-	4,511,101	4,511,101
Total liabilities	614,004	4,847,906	5,461,910
Deferred inflows of resources			
Deferred pension amounts		90,014	90,014
Fund balances			
Nonspendable	1,459,859	(1,459,859)	-
Restricted for primary roads	5,093,428	(5,093,428)	-
Unassigned (deficit)	(672,502)	672,502	-
Total fund balances	5,880,785	(5,880,785)	-
Total liabilities and fund balances	\$ 6,494,789		
Net position			
Investment in capital assets		34,610,300	34,610,300
Restricted for primary roads		5,093,428	5,093,428
Unrestricted (deficit)		(3,222,576)	(3,222,576)
Total net position		\$ 36,481,152	\$ 36,481,152

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

HILLSDALE COUNTY ROAD COMMISSION

Reconciliation

Fund Balance of the General Fund
to Net Position of Governmental Activities
December 31, 2023

Fund balance - general fund	\$ 5,880,785
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in <i>governmental activities</i> are not financial resources and therefore are not reported in the funds.	34,610,300
Certain liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds. Compensated absences payable	(336,805)
Certain pension-related amounts, such as the net pension liability and deferred amounts, are not due and payable in the current period or do not represent current financial resources, and therefore are not reported in the funds. Net pension liability Deferred outflows of resources related to the net pension liability Deferred inflows of resources related to the net pension liability	(4,511,101) 927,987 <u>(90,014)</u>
Net position of governmental activities	<u><u>\$ 36,481,152</u></u>

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

HILLSDALE COUNTY ROAD COMMISSION

Statement of Activities and General Fund Revenues,

Expenditures and Changes in Fund Balance

For the Year Ended December 31, 2023

	General Fund	Adjustments	Statement of Activities
Expenditures/expenses			
Current -			
Public works	\$ 13,907,271	\$ (2,224,498)	\$ 11,682,773
Program revenues			
Charges for services	922,560	-	922,560
Operating grants and contributions	12,546,338	-	12,546,338
Total program revenues	13,468,898	-	13,468,898
Net program (expenditures/expenses) revenues	(438,373)	2,224,498	1,786,125
General revenues			
Proceeds from sale of capital assets	134,213	(134,213)	-
Gain on sale of capital assets	-	133,335	133,335
Interest and rentals	122,654	-	122,654
Other	68,197	-	68,197
Total general revenues	325,064	(878)	324,186
Change in fund balance/net position	(113,309)	2,223,620	2,110,311
Fund balance/net position, beginning of year	5,994,094	28,376,747	34,370,841
Fund balance/net position, end of year	\$ 5,880,785	\$ 30,600,367	\$ 36,481,152

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

HILLSDALE COUNTY ROAD COMMISSION

Reconciliation

Net Change in Fund Balance of the General
Fund to Change in Net Position
of Governmental Activities
For the Year Ended December 31, 2023

Change in fund balance - general fund \$ (113,309)

Amounts reported for *governmental activities* in the statement of activities
are different because:

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

Capital assets purchased/constructed	5,317,000
Depreciation expense	(2,844,761)
Proceeds from sale of capital assets	(134,213)
Gain on sale of capital assets	133,335

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 funds.

Change in compensated absences	26,992
Change in net pension liability and related deferred amounts	<u>(274,733)</u>

Change in net position of governmental activities \$ 2,110,311

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

HILLSDALE COUNTY ROAD COMMISSION

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended December 31, 2023

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenues				
Permits	\$ 45,000	\$ 40,700	\$ 44,823	\$ 4,123
Intergovernmental:				
Federal sources	2,300,000	1,175,800	1,268,199	92,399
State sources	11,178,600	9,628,982	9,690,675	61,693
Local sources	720,000	1,246,000	1,587,464	341,464
Other sources:				
Charges for services	951,000	993,145	877,737	(115,408)
Interest	5,000	96,000	117,054	21,054
Rentals	3,600	5,200	5,600	400
Other	20,000	53,000	68,197	15,197
Total revenues	15,223,200	13,238,827	13,659,749	420,922
Expenditures				
Primary road:				
Preservation - roads structural improvements	3,000,000	2,481,085	2,457,100	(23,985)
Preservation - bridges structural improvements	3,200,000	390,142	924,500	534,358
Routine and preventative maintenance	3,700,000	1,700,442	1,814,238	113,796
Local road:				
Preservation - roads structural improvements	328,986	133,424	338,292	204,868
Preservation - bridges structural improvements	100,000	-	-	-
Routine and preventative maintenance	5,270,000	5,926,692	5,817,796	(108,896)
Trunkline maintenance	950,000	986,500	868,720	(117,780)
Administrative expense (net)	800,000	843,900	916,934	73,034
Equipment expense (net)	-	(134,000)	77,667	211,667
Capital outlay (net):				
Capital outlay	1,000,000	1,200,000	1,597,108	397,108
Less: Depreciation and depletion	-	-	(1,023,668)	(1,023,668)
Other	35,000	133,000	118,584	(14,416)
Total expenditures	18,383,986	13,661,185	13,907,271	246,086
Revenues over (under) expenditures	(3,160,786)	(422,358)	(247,522)	174,836
Other financing sources				
Proceeds from sale of capital assets	10,000	134,213	134,213	-
Net change in fund balance	(3,150,786)	(288,145)	(113,309)	174,836
Fund balance, beginning of year	5,994,094	5,994,094	5,994,094	-
Fund balance, end of year	\$ 2,843,308	\$ 5,705,949	\$ 5,880,785	\$ 174,836

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

NOTES TO FINANCIAL STATEMENTS

HILLSDALE COUNTY ROAD COMMISSION

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Hillsdale County Road Commission (the "Road Commission") conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). Following is a summary of the significant policies:

Reporting Entity

The Hillsdale County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of Hillsdale, 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 elected by the County electorate.

The Road Commission's 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 Board of County Road Commissioners has responsibility for the administration of the Road Commission's general operating fund.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the 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 GAAP, 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 Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance. The general fund, the sole major governmental fund, is reported as a separate column in the aforementioned financial statements.

HILLSDALE COUNTY ROAD COMMISSION

Notes to Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements (statement of net position and the statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period, or within one year for reimbursement-based grants. 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 not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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.

Budgetary Data

The governmental fund is under formal budgetary control. The budget shown in the financial statements was adopted on a basis consistent with GAAP, which is the modified accrual basis used to reflect actual results, and consists only of those amounts contained in the formal budget as originally adopted by the Board of County Road Commissioners. The budget for the general fund is adopted on a departmental activity basis in summary form and in accordance with the Uniform Budgeting and Accounting Act as prescribed by the State of Michigan.

The Road Commission adopts a budget for the general operating fund by means of an appropriations act. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

HILLSDALE COUNTY ROAD COMMISSION

Notes to Financial Statements

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Equity

Cash and Cash Equivalents

Amounts reported as cash and cash equivalents consist of cash on hand and demand deposit accounts.

Receivables

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectible balances at year-end are considered by management to be immaterial.

Inventory

Inventory consists of various operating parts, supplies, and road material, and the cost is recognized using the consumption method (inventories recorded as expenditures when they are used). Inventories are stated at average cost determined on a first in, first out method, except for road materials, which are determined on the average cost method, and are not in excess of fair value.

Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, equipment (road, shop, office, engineers, and yard storage), depletable assets, and infrastructure are reported in the government-wide statements (statement of net position and statement of activities). Capital assets are defined by the Road Commission as assets with an initial cost of \$1,200 or more and an estimated 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 acquisition cost 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 (statement of general fund revenues, expenditures and changes in fund balance) and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general 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 operating fund balance of the general operating fund.

HILLSDALE COUNTY ROAD COMMISSION

Notes to Financial Statements

Depreciation is recorded over the estimated useful lives (ranging from four to 50 years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

	Years
Buildings and improvements	40
Equipment	4-8
Infrastructure	8-50

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net assets that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Road Commission reports deferred outflows of resources related to its pension plan.

Compensated Absences

Under existing general Road Commission rules and regulations and its labor agreement, all regular full-time employees are eligible for paid leave in varying amounts based on number of years of service completed by each employee as of the preceding calendar year.

Personal leave is accumulated, for employees with one year or more of service, at the rate of one day for each month of service, not to exceed a total accumulation of 60 days. Accumulated personal leave is payable at 100% to employees upon death or retirement and 50% for employees who quit or are discharged.

Deferred Inflows of Resources

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 assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time. The Road Commission reports deferred inflows of resources related to its pension plan.

HILLSDALE COUNTY ROAD COMMISSION

Notes to Financial Statements

Fund Balance Components

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. As applicable, *committed fund balance* is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the Board of County Road Commissioners. The Road Commission reports *assigned fund balance* for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund. The Road Commission has no committed or assigned fund balances.

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

Pension

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

Deferred Compensation Plan

The Road Commission offers its employees a deferred compensation plan created in accordance with IRS Section 457. The plan, available to all Road Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liabilities are not included in the Road Commission's financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

HILLSDALE COUNTY ROAD COMMISSION

Notes to Financial Statements

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS AND DEFICIT FUND BALANCE

During the year ended December 31, 2023, the Road Commission incurred expenditures in the general fund which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Actual Expenditures	Budget Variance
Primary road:			
Preservation - bridges structural improvements	\$ 390,142	\$ 924,500	\$ 534,358
Routine and preventative maintenance	1,700,442	1,814,238	113,796
Local road:			
Preservation - roads structural improvements	133,424	338,292	204,868
Administrative expense (net)	843,900	916,934	73,034
Equipment expense (net)	(134,000)	77,667	211,667
Capital outlay	1,200,000	1,597,108	397,108

A deficit of \$672,502 existed in the general fund unassigned fund balance at December 31, 2023. MCL 141.921 requires the Road Commission to file a deficit elimination plan within 90 days after the fiscal year end. A deficit elimination plan will be filed with the Michigan Department of Treasury showing how the deficit will be eliminated.

3. CASH DEPOSITS AND INVESTMENTS

At December 31, 2023, the Road Commission's cash and cash equivalents were comprised of the following:

Petty cash	\$ 100
Held by Hillsdale County -	
Cash and cash equivalents	<u>2,876,862</u>
Total	<u><u>\$ 2,876,962</u></u>

Statutes authorize the Road Commission to invest funds in the following:

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

HILLSDALE COUNTY ROAD COMMISSION

Notes to Financial Statements

- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the Road Commission to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997

Investment and Deposit Risk

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. The Road Commission's deposits are held and managed in the name of the County Treasurer. Because of the complexities of FDIC regulations, it is not possible to readily determine the amount of insurance that would be allocated to the Road Commission's deposits.

HILLSDALE COUNTY ROAD COMMISSION

Notes to Financial Statements

4. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Beginning Balance	Additions	Disposals	Transfers and Adjustments	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 64,634	\$ -	\$ -	\$ -	\$ 64,634
Land improvements - infrastructure	6,580,739	270,232	-	-	6,850,971
	<u>6,645,373</u>	<u>270,232</u>	<u>-</u>	<u>-</u>	<u>6,915,605</u>
Capital assets, being depreciated:					
Buildings and improvements	2,344,940	64,130	-	-	2,409,070
Equipment:					
Road	10,531,139	1,509,237	645,345	233	11,395,264
Shop	149,178	22,696	2,174	-	169,700
Office	110,763	1,045	295	-	111,513
Engineers	46,315	-	-	-	46,315
Yard and storage	1,419,077	-	-	-	1,419,077
Depletable assets	54,700	-	-	-	54,700
Infrastructure	69,053,755	3,449,660	-	-	72,503,415
	<u>83,709,867</u>	<u>5,046,768</u>	<u>647,814</u>	<u>233</u>	<u>88,109,054</u>
Accumulated depreciation and depletion:					
Buildings and improvements	1,568,395	73,902	-	-	1,642,297
Equipment:					
Road	8,377,164	893,810	644,467	233	8,626,740
Shop	124,771	7,396	2,174	-	129,993
Office	94,683	4,354	295	-	98,742
Engineers	41,627	1,805	-	-	43,432
Yard and storage	482,110	42,388	-	-	524,498
Depletable assets	52,257	13	-	-	52,270
Infrastructure	47,475,294	1,821,093	-	-	49,296,387
	<u>58,216,301</u>	<u>2,844,761</u>	<u>646,936</u>	<u>233</u>	<u>60,414,359</u>
Total capital assets being depreciated, net	<u>25,493,566</u>	<u>2,202,007</u>	<u>878</u>	<u>-</u>	<u>27,694,695</u>
Total capital assets, net	<u>\$ 32,138,939</u>	<u>\$ 2,472,239</u>	<u>\$ 878</u>	<u>\$ -</u>	<u>\$ 34,610,300</u>

HILLSDALE COUNTY ROAD COMMISSION

Notes to Financial Statements

5. LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2023, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Compensated absences	\$ 363,797	\$ 57,209	\$ 84,201	\$ 336,805	\$ 16,840

6. ADVANCES FROM OTHER GOVERNMENTS

During the year, advances from the State Department of Transportation for the State Trunkline Maintenance contract increased by \$8,377. Total advances from the State Department of Transportation are \$199,650 as of December 31, 2023 and are included in advances from other governments under the liability section.

7. DEFINED BENEFIT PENSION PLAN

General Information About the Plan

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.

Benefits Provided. Pension benefits are calculated as final average compensation (based on a 5 year period) and multiplier of 2%. Participants are considered to be fully vested in the plan after 6 years. Normal retirement age is 60 with early retirement at age 55 with 25 years of service.

Employees Covered by Benefit Terms. At the December 31, 2022 valuation date, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	47
Inactive employees entitled to but not yet receiving benefits	5
Active employees	<u>42</u>
Total membership	<u><u>94</u></u>

HILLSDALE COUNTY ROAD COMMISSION

Notes to Financial Statements

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. In addition, the employer may establish contribution rates to be paid by its covered employees.

Employer and employee contribution amounts or rates, by division/bargaining unit, were as follows for the year ended December 31, 2023:

Division/Bargaining Unit	Employer Contribution	Employee Contribution	Status
01 - General	\$17,120/month	5.30%	Open
10 - NonUnion	\$19,170/month	9.90%	Open

Net Pension Liability. The Road Commission's net pension liability was measured as of December 31, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2022.

Actuarial Assumptions. The total pension liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.00% in the long-term
Investment rate of return	7.00%, net of investment and administrative expense including inflation

The base mortality tables used are constructed as described below and are based on amount weighted sex distinct rates:

- Pre-retirement mortality based on 100% of Pub-2010 Juvenile Mortality Tables for ages 0-17, 100% of PubG-2010 Employee Mortality Tables for Ages 18-80, and 100% of PubG-2010 Healthy Retiree Tables for ages 81-120
- Non-disabled retired plan members and beneficiaries mortality based on 106% of Pub-2010 Juvenile Mortality Tables for ages 0-17, 106% of PubG-2010 Employee Mortality Tables for Ages 18-49, and 106% of PubG-2010 Healthy Retiree Tables for ages 50-120
- Disabled retired plan members mortality based on 100% of Pub-2010 Juvenile Mortality Tables for ages 0-17, and 100% of PubNS-2010 Disabled Retiree Tables for ages 18-120

The actuarial assumptions used in the December 31, 2022 valuation were based on the results of the most recent actuarial experience study of 2014-2018.

HILLSDALE COUNTY ROAD COMMISSION

Notes to Financial Statements

Long-term Expected Rate of Return. 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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	60.00%	4.50%	2.70%
Global fixed income	20.00%	2.00%	0.40%
Private investments	20.00%	7.00%	1.40%
	<u>100.00%</u>		
Inflation			2.50%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u><u>7.25%</u></u>

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2023 was 7.25%. 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.

HILLSDALE COUNTY ROAD COMMISSION

Notes to Financial Statements

Changes in Net Pension Liability

The components of the change in the net pension liability are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2022	\$ 14,617,192	\$ 9,527,332	\$ 5,089,860
Changes for the year:			
Service cost	250,250	-	250,250
Interest	1,033,734	-	1,033,734
Differences between expected and actual experience	(110,399)	-	(110,399)
Employer contributions	-	570,546	(570,546)
Employee contributions	-	168,330	(168,330)
Net investment income	-	1,051,449	(1,051,449)
Benefit payments, including refunds of employee contributions	(967,831)	(967,831)	-
Administrative expense	-	(22,325)	22,325
Other changes	15,656	-	15,656
Net changes	<u>221,410</u>	<u>800,169</u>	<u>(578,759)</u>
Balances at December 31, 2023	<u>\$ 14,838,602</u>	<u>\$ 10,327,501</u>	<u>\$ 4,511,101</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the Road Commission, calculated using the discount rate of 7.25%, as well as what the Road Commission's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 6,058,540	\$ 4,511,101	\$ 3,195,711

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

HILLSDALE COUNTY ROAD COMMISSION

Notes to Financial Statements

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

For the year ended December 31, 2023, the Road Commission recognized pension expense of \$845,279. The Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ 96,692	\$ 90,014	\$ 6,678
Changes in assumptions	329,994	-	329,994
Net difference between projected and actual earnings on pension plan investments	501,301	-	501,301
Total	<u>\$ 927,987</u>	<u>\$ 90,014</u>	<u>\$ 837,973</u>

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

Year Ended December 31,	Amount
2024	\$ 311,377
2025	324,089
2026	276,472
2027	<u>(73,965)</u>
Total	<u>\$ 837,973</u>

Payable to the Pension Plan. At December 31, 2023, the Road Commission had no amounts payable for contributions to the pension plan.

8. RISK MANAGEMENT

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool, (the "Pool") established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (inter local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

HILLSDALE COUNTY ROAD COMMISSION

Notes to Financial Statements

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Road Commission pays an annual premium to the Pool for general liability, excess liability, errors and omissions, auto liability, auto comprehensive, auto collision, equipment and building and contents.

The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission continues to carry commercial insurance for all other risks of loss, including life, health, and workers' compensation insurances. Settled claims have not exceeded insurance coverage for the last three years.

9. CONTINGENCIES

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



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REQUIRED SUPPLEMENTARY INFORMATION

HILLSDALE COUNTY ROAD COMMISSION

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan
Schedule of Changes in Net Pension Liability and Related Ratios

	Year Ended December 31,			
	2023	2022	2021	2020
Total pension liability				
Service cost	\$ 250,250	\$ 264,414	\$ 241,956	\$ 235,222
Interest	1,033,734	961,115	957,379	886,134
Differences between expected and actual experience	(110,399)	193,386	(28,860)	225,515
Changes in assumptions	-	490,718	338,544	353,065
Benefit payments, including refunds of employee contributions	(967,831)	(871,624)	(776,284)	(760,924)
Other changes	15,656	18,814	(36,698)	2,814
Net change in total pension liability	<u>221,410</u>	<u>1,056,823</u>	<u>696,037</u>	<u>941,826</u>
Total pension liability, beginning of year	<u>14,617,192</u>	<u>13,560,369</u>	<u>12,864,332</u>	<u>11,922,506</u>
Total pension liability, end of year	<u>14,838,602</u>	<u>14,617,192</u>	<u>13,560,369</u>	<u>12,864,332</u>
Plan fiduciary net position				
Employer contributions	570,546	615,527	667,038	553,588
Employee contributions	168,330	167,503	166,029	149,209
Net investment income (loss)	1,051,449	(1,114,695)	1,331,310	1,083,874
Benefit payments, including refunds of employee contributions	(967,831)	(871,624)	(776,284)	(760,924)
Administrative expense	(22,325)	(20,035)	(15,270)	(16,915)
Net change in plan fiduciary net position	<u>800,169</u>	<u>(1,223,324)</u>	<u>1,372,823</u>	<u>1,008,832</u>
Plan fiduciary net position, beginning of year	<u>9,527,332</u>	<u>10,750,656</u>	<u>9,377,833</u>	<u>8,369,001</u>
Plan fiduciary net position, end of year	<u>10,327,501</u>	<u>9,527,332</u>	<u>10,750,656</u>	<u>9,377,833</u>
Net pension liability	<u>\$ 4,511,101</u>	<u>\$ 5,089,860</u>	<u>\$ 2,809,713</u>	<u>\$ 3,486,499</u>
Plan fiduciary net position as a percentage of total pension liability	69.6%	65.2%	79.3%	72.9%
Covered payroll	\$ 2,190,687	\$ 2,421,152	\$ 2,274,120	\$ 2,210,911
Net pension liability as a percentage of covered payroll	205.9%	210.2%	123.6%	157.7%

See notes to required supplementary information.

Year Ended December 31,				
2019	2018	2017	2016	2015
\$ 196,023	\$ 210,415	\$ 193,239	\$ 202,067	\$ 182,549
932,241	903,437	889,219	845,680	814,232
(373,332)	(6,750)	(191,001)	(151,234)	-
-	-	-	589,654	-
(723,376)	(707,944)	(673,428)	(640,620)	(509,798)
(25,741)	(24,191)	(31,641)	39,847	(50,140)
5,815	374,967	186,388	885,394	436,843
11,916,691	11,541,724	11,355,336	10,469,942	10,033,099
11,922,506	11,916,691	11,541,724	11,355,336	10,469,942
564,666	983,226	424,259	283,128	267,997
148,903	139,234	128,001	130,587	131,664
1,004,051	(306,824)	862,009	688,834	(94,692)
(723,376)	(707,944)	(673,428)	(640,620)	(509,798)
(17,259)	(14,478)	(13,639)	(13,599)	(13,838)
976,985	93,214	727,202	448,330	(218,667)
7,392,016	7,298,802	6,571,600	6,123,270	6,341,937
8,369,001	7,392,016	7,298,802	6,571,600	6,123,270
\$ 3,553,505	\$ 4,524,675	\$ 4,242,922	\$ 4,783,736	\$ 4,346,672
70.2%	62.0%	63.2%	57.9%	58.5%
\$ 1,861,412	\$ 2,008,719	\$ 1,844,203	\$ 2,002,880	\$ 1,870,475
190.9%	225.3%	230.1%	238.8%	232.4%

HILLSDALE COUNTY ROAD COMMISSION

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan
 Schedule of Contributions

Fiscal Year Ended December 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2015	\$ 267,997	\$ 267,997	\$ -	\$ 1,870,475	14.3%
2016	283,128	283,128	-	2,002,880	14.1%
2017	424,259	424,259	-	1,844,203	23.0%
2018	983,226	983,226	-	2,008,719	48.9%
2019	564,666	564,666	-	1,861,412	30.3%
2020	553,588	553,588	-	2,210,911	25.0%
2021	667,038	667,038	-	2,274,120	29.3%
2022	615,527	615,527	-	2,421,152	25.4%
2023	570,546	570,546	-	2,190,687	26.0%

See notes to required supplementary information.

HILLSDALE COUNTY ROAD COMMISSION

Notes to Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plans

Mortality

- Pre-retirement mortality based on 100% of Pub-2010 Juvenile Mortality Tables for ages 0-17, 100% of PubG-2010 Employee Mortality Tables for Ages 18-80, and 100% of PubG-2010 Healthy Retiree Tables for ages 81-120
- Non-disabled retired plan members and beneficiaries mortality based on 106% of Pub-2010 Juvenile Mortality Tables for ages 0-17, 106% of PubG-2010 Employee Mortality Tables for Ages 18-49, and 106% of PubG-2010 Healthy Retiree Tables for ages 50-120
- Disabled retired plan members mortality based on 100% of Pub-2010 Juvenile Mortality Tables for ages 0-17, and 100% of PubNS-2010 Disabled Retiree Tables for ages 18-120

OPERATING FUND SCHEDULES

HILLSDALE COUNTY ROAD COMMISSION

Detail Schedule of Revenues

General Operating Fund

For the Year Ended December 31, 2023

	Primary Roads	Local Roads	County Roads	Totals
Revenues				
Permits	\$ -	\$ -	\$ 44,823	\$ 44,823
Intergovernmental:				
Federal sources				
Surface transportation	275,394	-	-	275,394
Rural primary	992,805	-	-	992,805
Total federal sources	1,268,199	-	-	1,268,199
State sources				
Michigan transportation fund - Allocation	5,217,446	3,486,430	-	8,703,876
Economic development fund	153,399	-	-	153,399
Other	833,400	-	-	833,400
Total state sources	6,204,245	3,486,430	-	9,690,675
Local sources - Cities and townships	-	1,534,404	53,060	1,587,464
Other sources:				
Charges for services	-	-	877,737	877,737
Interest	94,574	-	22,480	117,054
Rentals	-	-	5,600	5,600
Other	-	-	68,197	68,197
Total other sources	94,574	-	974,014	1,068,588
Other financing sources				
Proceeds from sale of capital assets	-	-	134,213	134,213
Total revenues and other financing sources	\$ 7,567,018	\$ 5,020,834	\$ 1,206,110	\$ 13,793,962

HILLSDALE COUNTY ROAD COMMISSION

Detail Schedule of Expenditures

General Operating Fund

For the Year Ended December 31, 2023

	Primary Roads	Local Roads	County Roads	Totals
Expenditures				
Primary road:				
Preservation - roads structural improvements	\$ 2,457,100	\$ -	\$ -	\$ 2,457,100
Preservation - bridges structural improvements	924,500	-	-	924,500
Routine and preventative maintenance	1,814,238	-	-	1,814,238
Local road:				
Preservation - roads structural improvements	-	338,292	-	338,292
Routine and preventative maintenance	-	5,817,796	-	5,817,796
Trunkline maintenance	-	-	868,720	868,720
Administrative expense (net)	419,686	497,248	-	916,934
Equipment expense (net)	15,361	53,150	9,156	77,667
Capital outlay (net):				
Capital outlay	-	-	1,597,108	1,597,108
Less: Depreciation and depletion	-	-	(1,023,668)	(1,023,668)
Other	-	-	118,584	118,584
Total expenditures	\$ 5,630,885	\$ 6,706,486	\$ 1,569,900	\$ 13,907,271

HILLSDALE COUNTY ROAD COMMISSION

Schedule of Changes in Fund Balances

General Operating Fund

For the Year Ended December 31, 2023

	Primary Roads	Local Roads	County Roads	Totals
Total revenues	\$ 7,567,018	\$ 5,020,834	\$ 1,071,897	\$ 13,659,749
Total expenditures	<u>5,630,885</u>	<u>6,706,486</u>	<u>1,569,900</u>	<u>13,907,271</u>
Revenues over (under) expenditures	1,936,133	(1,685,652)	(498,003)	(247,522)
Other financing sources (uses)				
Proceeds from sale of capital assets	-	-	134,213	134,213
Operational transfers	<u>(1,685,652)</u>	<u>1,685,652</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,685,652)</u>	<u>1,685,652</u>	<u>134,213</u>	<u>134,213</u>
Net change in fund balances	250,481	-	(363,790)	(113,309)
Fund balances, beginning of year	<u>4,842,947</u>	<u>-</u>	<u>1,151,147</u>	<u>5,994,094</u>
Fund balances, end of year	<u><u>\$ 5,093,428</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 787,357</u></u>	<u><u>\$ 5,880,785</u></u>

**INDEPENDENT AUDITORS' 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***

June 26, 2024

Honorable Members of the Hillsdale County
Board of Road Commissioners
Hillsdale, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the **Hillsdale County Road Commission** (the "Road Commission"), a component unit of Hillsdale County, Michigan, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements, and have issued our report thereon dated June 26, 2024.

Report on Internal Control Over Financial Reporting

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



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements. 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 Road Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive, flowing style.