

Lenawee County
Drain Commission



Year Ended
December 31,
2019

Financial
Statements

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LENAWEE COUNTY DRAIN COMMISSION

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	5
Basic Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Balance Sheet - Governmental Funds	16
Reconciliation of Fund Balances of Governmental Funds to Net Position of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	20
Reconciliation of Net Changes in Fund Balances of Governmental Funds to Change in Net Position of Governmental Activities	23
Statement of Net Position - Proprietary Funds	24
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	26
Statement of Cash Flows - Proprietary Funds	28
Notes to Financial Statements	31
Combining Fund Financial Statements:	
Combining Balance Sheet - Nonmajor Governmental Funds	44
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	45
Combining Statement of Net Position - Nonmajor Enterprise Funds	46
Combining Statement of Revenues, Expenses and Changes in Fund Net Position - Nonmajor Enterprise Funds	50
Combining Statement of Cash Flows - Nonmajor Enterprise Funds	54
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 <i>Government Auditing Standards</i>	57



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Independent Auditors' Report

June 30, 2020

Drain Commission of
Lenawee County, Michigan
Adrian, Michigan**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the *Lenawee County Drain Commission* (the "Commission"), a component unit of Lenawee County, Michigan, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the 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.

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, business-type activities, each major fund, and the aggregate remaining fund information of the Lenawee County Drain Commission as of December 31, 2019, and the respective changes in its financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The combining fund financial statements 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 was derived from and relates 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 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 June 30, 2020 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

LENAWEE COUNTY DRAIN COMMISSION

Management's Discussion and Analysis

The Office of the Drain Commissioner presents this management's discussion and analysis of its financial performance as an overview of financial activities for the fiscal year ended December 31, 2019. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements.

Financial Highlights

· Total net position	\$11,380,576
· Change in total net position	204,737
· Fund balances (deficits), governmental funds	538,183
· Change in fund balances (deficits), governmental funds	(384,819)
· Long-term debt outstanding	6,268,532
· Change in long-term debt	(1,210,969)

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Office of the Drain Commissioner's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Commission's finances, similar to a private-sector business.

The statement of net position presents information on all of the Commission's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., uncollected special assessments and outstanding notes payable).

Both of the government-wide financial statements distinguish functions of the Commission that are principally supported by special assessments (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Commission can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental 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.

LENAWEE COUNTY DRAIN COMMISSION

Management's Discussion and Analysis

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

The Commission maintains six individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the Drain Capital Projects, Drain Revolving, and Drain Maintenance Revolving fund, as each is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements as identified in the table of contents.

Proprietary funds. The Commission maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Commission uses enterprise funds to account for its financing of system improvements and certain operations and maintenance costs for municipalities within the County. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Commission's various functions. The Commission uses an internal service fund to account for its equipment for all funds of the Commission. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Central Lenawee Sewer, Rollin-Woodstock Sewer, Riga Township Water, and Wampplers Lake Sewer funds, each of which is considered to be a major fund of the Commission. Data from the other proprietary funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements elsewhere in this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Financial Analysis

The net position of the Office of the Drain Commissioner is summarized for the purpose of determining the overall fiscal position. As shown below, the Drain Commissioner's assets exceeded liabilities by \$11,380,576 at the end of the fiscal year. The net investment in capital assets provides 44% of net position. These assets (reported net of related debt) are used to provide services to citizens and are not available for future spending. It should also be noted that the resources needed to repay debt must be provided from other sources. This is because the capital assets themselves cannot be used to liquidate these liabilities.

LENAWEE COUNTY DRAIN COMMISSION

Management's Discussion and Analysis

A comparative analysis of the data is presented below:

	Governmental activities		Business-type activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 6,084,935	\$ 6,780,363	\$ 3,702,371	\$ 4,350,478	\$ 9,787,306	\$11,130,841
Capital assets, net	9,122,241	8,670,873	-	-	9,122,241	8,670,873
Total assets	15,207,176	15,451,236	3,702,371	4,350,478	18,909,547	19,801,714
Long-term debt	4,070,322	4,485,131	2,198,210	2,994,370	6,268,532	7,479,501
Other liabilities	956,141	870,769	304,298	275,605	1,260,439	1,146,374
Total liabilities	5,026,463	5,355,900	2,502,508	3,269,975	7,528,971	8,625,875
Net position:						
Net investment in capital assets	5,051,919	4,185,742	-	-	5,051,919	4,185,742
Restricted	-	-	1,199,863	1,080,503	1,199,863	1,080,503
Unrestricted	5,128,794	5,909,594	-	-	5,128,794	5,909,594
Total net position	\$10,180,713	\$10,095,336	\$ 1,199,863	\$ 1,080,503	\$11,380,576	\$11,175,839

When comparing this fiscal year to the previous year, net position has increased by \$204,737 as a result of the special assessment revenue exceeding the current year project and debt service expenses.

	Governmental activities		Business-type activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues						
Program revenues:						
Charges for services	\$ 52,056	\$ -	\$ 3,086,087	\$ 3,267,386	\$ 3,138,143	\$ 3,267,386
Capital grants and contributions	1,433,761	3,588,024	-	-	1,433,761	3,588,024
General revenues:						
Unrestricted investment earnings	11,840	10,902	8,665	5,263	20,505	16,165
Gain on sale of capital assets	-	29,988	-	-	-	29,988
Total revenues	1,497,657	3,628,914	3,094,752	3,272,649	4,592,409	6,901,563
Expenses						
Public works	1,412,280	1,220,379	-	-	1,412,280	1,220,379
Municipal water and sewer projects	-	-	2,975,392	3,095,561	2,975,392	3,095,561
Total expenses	1,412,280	1,220,379	2,975,392	3,095,561	4,387,672	4,315,940
Change in net position	85,377	2,408,535	119,360	177,088	204,737	2,585,623
Net position, beginning of year	10,095,336	7,686,801	1,080,503	903,415	11,175,839	8,590,216
Net position, end of year	\$10,180,713	\$10,095,336	\$ 1,199,863	\$ 1,080,503	\$11,380,576	\$11,175,839

LENAWEE COUNTY DRAIN COMMISSION

Management's Discussion and Analysis

Capital Assets

The Office of the Drain Commissioner had \$9,122,241 in capital assets at the end of the fiscal year. Major outlays for infrastructure capital assets and improvements are capitalized as projects are constructed. Infrastructure costs continue to be the largest asset class.

	Capital Assets (Net of accumulated depreciation)	
	2019	2018
Governmental activities		
Construction in progress	\$ 696,740	\$ 1,894,538
Infrastructure	7,770,005	6,284,667
Equipment	655,496	491,668
Total governmental activities	\$ 9,122,241	\$ 8,670,873

Additional information on the Office of the Drain Commissioner’s capital assets can be found in the notes to the financial statements.

Long-term Debt

At the end of the current fiscal year, the Office of the Drain Commissioner had total bonded debt, notes and installment obligations outstanding of \$6,268,532. This entire amount comprises debt backed by the full faith and credit of Lenawee County and/or the respective drainage districts, and/or the respective Townships within the business-type activities.

	2019	2018
Governmental activities		
Bonds payable	\$ 2,280,540	\$ 2,597,630
Drain notes payable	1,437,643	1,633,617
Notes payable	20,023	39,300
Lease purchase agreements	332,116	214,584
Total governmental activities	4,070,322	4,485,131
Business-type activities		
Bonds payable	2,173,561	2,963,561
Bond premium	24,649	30,809
Total business-type activities	2,198,210	2,994,370
Total outstanding debt	\$ 6,268,532	\$ 7,479,501

Additional information on the Office of the Drain Commissioner’s long-term debt can be found in the notes to the financial statements.

LENAWEE COUNTY DRAIN COMMISSION

Management's Discussion and Analysis

Economic Factors and Next Year's Budget

It should be noted that this financial management discussion relates to the financial status of county drainage districts and county lake level districts. The Drain Commissioner's operating budget is provided through the County general fund, and is discussed in the Lenawee County financial statements.

Drain maintenance expenditures are governed by the Michigan Drain Code, which limits expenditures to \$5,000 per mile of drain per year for the majority of county drains. Maintenance was requested on 252 different projects. Maintenance is done both proactively, and in response to service requests. It is therefore not possible to make more than a generalized prediction of what total expenditures will be. It is estimated that 2020 maintenance and debt retirement will remain relatively the same.

Drain construction projects are undertaken in response to petitions from local governments or property owners. In 2019, one construction project was financed for a total of \$122,167. In 2020, it is expected that three to five projects will be financed and proceed to construction. Because final engineering and cost estimates are not complete for these projects, no estimate of anticipated financing can be put forward at this time.

Contacting the Office of the Drain Commissioner

This financial report is designed to provide a general overview of the Lenawee County Drain finances and to show accountability for the money it receives and expends. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Lenawee County Office of the Drain Commissioner, 320 Springbrook Ave., Suite 102, Adrian, MI 49221.

BASIC FINANCIAL STATEMENTS

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LENAWEE COUNTY DRAIN COMMISSION

Statement of Net Position

December 31, 2019

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	\$ 1,662,930	\$ 1,753,457	\$ 3,416,387
Receivables	4,390,962	1,948,914	6,339,876
Inventory	31,043	-	31,043
Capital assets not being depreciated	696,740	-	696,740
Capital assets being depreciated, net	8,425,501	-	8,425,501
Total assets	15,207,176	3,702,371	18,909,547
Liabilities			
Accounts payable and accrued expenses	206,141	202,648	408,789
Advance from primary government	750,000	101,650	851,650
Long-term debt:			
Due within one year	1,123,885	716,160	1,840,045
Due in more than one year	2,946,437	1,482,050	4,428,487
Total liabilities	5,026,463	2,502,508	7,528,971
Net position			
Net investment in capital assets	5,051,919	-	5,051,919
Restricted for other municipalities	-	1,199,863	1,199,863
Unrestricted	5,128,794	-	5,128,794
Total net position	\$ 10,180,713	\$ 1,199,863	\$ 11,380,576

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

LENAWEE COUNTY DRAIN COMMISSION

Statement of Activities

For the Year Ended December 31, 2019

Functions / Programs	Expenses	Program Revenues		Net Revenue
		Charges for Services	Capital Grants and Contributions	
Governmental activities -				
Public works	\$ 1,412,280	\$ 52,056	\$ 1,433,761	\$ 73,537
Business-type activities -				
Municipal water and sewer projects	<u>2,975,392</u>	<u>3,086,087</u>	<u>-</u>	<u>110,695</u>
Total drain commission	<u>\$ 4,387,672</u>	<u>\$ 3,138,143</u>	<u>\$ 1,433,761</u>	<u>\$ 184,232</u>

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LENAWEE COUNTY DRAIN COMMISSION

Statement of Activities

For the Year Ended December 31, 2019

	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net revenue	\$ 73,537	\$ 110,695	\$ 184,232
General revenues -			
Unrestricted investment earnings	11,840	8,665	20,505
Change in net position	85,377	119,360	204,737
Net position, beginning of year	10,095,336	1,080,503	11,175,839
Net position, end of year	<u>\$ 10,180,713</u>	<u>\$ 1,199,863</u>	<u>\$ 11,380,576</u>

concluded.

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

LENAWEE COUNTY DRAIN COMMISSION

Balance Sheet

Governmental Funds
December 31, 2019

	801 Drain Capital Projects	802 Drain Revolving	804 Drain Maintenance Revolving
Assets			
Cash and investments	\$ 1,298,290	\$ 33,446	\$ 28,612
Due from other funds	-	678,276	866,995
Special assessments receivable	4,274,359	-	-
Inventory	-	31,043	-
Total assets	\$ 5,572,649	\$ 742,765	\$ 895,607
Liabilities			
Accounts payable	\$ 99,860	\$ 120	\$ -
Due to other funds	1,516,434	-	-
Advance from primary government	-	750,000	-
Short-term notes payable	93,000	-	-
Total liabilities	1,709,294	750,120	-
Deferred inflows of resources			
Unavailable revenue - special assessments	4,274,359	-	-
Fund balances			
Nonspendable	-	31,043	-
Assigned	-	-	895,607
Unassigned (deficit)	(411,004)	(38,398)	-
Total fund balances	(411,004)	(7,355)	895,607
Total liabilities, deferred inflows of resources and fund balances	\$ 5,572,649	\$ 742,765	\$ 895,607

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



Nonmajor Governmental Funds	Total Governmental Funds
\$ 89,772	\$ 1,450,120
-	1,545,271
115,239	4,389,598
-	31,043
<u>\$ 205,011</u>	<u>\$ 7,416,032</u>
\$ -	\$ 99,980
28,837	1,545,271
-	750,000
-	93,000
<u>28,837</u>	<u>2,488,251</u>
<u>115,239</u>	<u>4,389,598</u>
-	31,043
60,935	956,542
-	(449,402)
<u>60,935</u>	<u>538,183</u>
<u>\$ 205,011</u>	<u>\$ 7,416,032</u>

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LENAWEE COUNTY DRAIN COMMISSION

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
December 31, 2019

Fund balance - total governmental funds	\$ 538,183
Amounts reported for <i>governmental activities</i> in the statement of net position differ because:	
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds. Capital assets, net of accumulated depreciation	8,466,745
Other long-term assets are not available to pay current year expenditures and, therefore, are not recorded in the funds. Deferred inflows on long-term special assessments receivable	4,389,598
An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. Net position of governmental activities accounted for in the internal service fund	504,370
Certain liabilities, such as bonds and notes payable, are not due and payable in the current period, and therefore, are not reported in the funds. Bonds payable Drain notes payable	(2,280,540) <u>(1,437,643)</u>
Net position of governmental activities	<u>\$ 10,180,713</u>

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

LENAWEE COUNTY DRAIN COMMISSION

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2019

	801 Drain Capital Projects	802 Drain Revolving	804 Drain Maintenance Revolving
Revenues			
Special assessments	\$ 1,595,210	\$ -	\$ -
Investment earnings	9,574	-	1,796
Other revenue	-	-	52,056
Total revenues	1,604,784	-	53,852
Expenditures			
Current -			
Public works	1,161,137	7,355	384,215
Debt service:			
Principal	599,518	-	53,046
Interest and fiscal charges	103,560	-	30,522
Total expenditures	1,864,215	7,355	467,783
Revenues over (under) expenditures	(259,431)	(7,355)	(413,931)
Other financing sources (uses)			
Issuance of long-term debt	271,500	-	-
Transfers in	-	-	477,591
Transfers out	(456,440)	-	-
Total other financing sources (uses)	(184,940)	-	477,591
Net changes in fund balances	(444,371)	(7,355)	63,660
Fund balances, beginning of year	33,367	-	831,947
Fund balances (deficit), end of year	\$ (411,004)	\$ (7,355)	\$ 895,607

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



Nonmajor Governmental Funds	Total Governmental Funds
\$ 209,018	\$ 1,804,228
470	11,840
-	52,056
<hr/>	<hr/>
209,488	1,868,124
<hr/>	<hr/>
45,378	1,598,085
132,000	784,564
7,712	141,794
<hr/>	<hr/>
185,090	2,524,443
<hr/>	<hr/>
24,398	(656,319)
<hr/>	<hr/>
-	271,500
60,948	538,539
(82,099)	(538,539)
<hr/>	<hr/>
(21,151)	271,500
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3,247	(384,819)
57,688	923,002
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\$ 60,935	\$ 538,183
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LENAWEE COUNTY DRAIN COMMISSION

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended December 31, 2019

Net change in fund balances - total governmental funds	\$ (384,819)
Amounts reported for <i>governmental activities</i> in the statement of activities differ 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	483,537
Depreciation expense	(195,997)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term debt in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net position.	
Principal payments on bonds and notes payable	784,564
Issuance of long-term debt	(271,500)
An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.	
Net operating income from governmental activities in internal service fund	57,974
Interest expense from governmental internal service fund	(17,915)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.	
Change in deferred long-term receivables	<u>(370,467)</u>
Change in net position of governmental activities	<u><u>\$ 85,377</u></u>

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

LENAWEE COUNTY DRAIN COMMISSION

Statement of Net Position

Proprietary Funds

December 31, 2019

	Business-type Activities - Enterprise Funds		
	Central Lenawee Sewer	Rollin- Woodstock Sewer	Riga Township Water
Assets			
Current assets:			
Cash and investments	\$ 215,285	\$ 545,956	\$ 78,031
Accounts receivable	-	-	-
Current portion of lease receivable	366,160	325,000	-
Total current assets	<u>581,445</u>	<u>870,956</u>	<u>78,031</u>
Noncurrent assets:			
Leases receivable, net of current portion	1,141,237	116,517	-
Capital assets, net of accumulated depreciation	-	-	-
Total noncurrent assets	<u>1,141,237</u>	<u>116,517</u>	<u>-</u>
Total assets	<u>1,722,682</u>	<u>987,473</u>	<u>78,031</u>
Liabilities			
Current liabilities:			
Accounts payable	2,655	14,297	845
Due to other governments	-	-	8,642
Current portion of bonds payable	366,160	325,000	25,000
Current portion of notes payable	-	-	-
Current portion of lease purchase agreement	-	-	-
Total current liabilities	<u>368,815</u>	<u>339,297</u>	<u>34,487</u>
Noncurrent liabilities:			
Advance from primary government	-	101,650	-
Bonds payable, net of current portion	1,152,050	330,000	-
Lease purchase agreement, net of current portion	-	-	-
Total noncurrent liabilities	<u>1,152,050</u>	<u>431,650</u>	<u>-</u>
Total liabilities	<u>1,520,865</u>	<u>770,947</u>	<u>34,487</u>
Net position			
Net investment in capital assets	-	-	-
Restricted for other municipalities	201,817	216,526	43,544
Unrestricted	-	-	-
Total net position	<u>\$ 201,817</u>	<u>\$ 216,526</u>	<u>\$ 43,544</u>

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



Business-type Activities - Enterprise Funds			Governmental Activities
Wampler's Lake Sewer	Nonmajor Enterprise Funds	Total	Drain Equipment Revolving
\$ 427,215	\$ 486,970	\$ 1,753,457	\$ 212,810
-	-	-	1,364
-	-	691,160	-
<u>427,215</u>	<u>486,970</u>	<u>2,444,617</u>	<u>214,174</u>
-	-	1,257,754	-
-	-	-	655,496
-	-	<u>1,257,754</u>	<u>655,496</u>
<u>427,215</u>	<u>486,970</u>	<u>3,702,371</u>	<u>869,670</u>
6,320	12,841	36,958	13,161
1,038	156,010	165,690	-
-	-	716,160	-
-	-	-	20,023
-	-	-	86,733
<u>7,358</u>	<u>168,851</u>	<u>918,808</u>	<u>119,917</u>
-	-	101,650	-
-	-	1,482,050	-
-	-	-	245,383
-	-	<u>1,583,700</u>	<u>245,383</u>
<u>7,358</u>	<u>168,851</u>	<u>2,502,508</u>	<u>365,300</u>
-	-	-	303,357
419,857	318,119	1,199,863	-
-	-	-	201,013
<u>\$ 419,857</u>	<u>\$ 318,119</u>	<u>\$ 1,199,863</u>	<u>\$ 504,370</u>

LENAWEE COUNTY DRAIN COMMISSION

Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Funds For the Year Ended December 31, 2019

	Business-type Activities - Enterprise Funds		
	Central Lenawee Sewer	Rollin- Woodstock Sewer	Riga Township Water
Operating revenues			
Intergovernmental revenue	\$ 448,278	\$ 22,635	\$ -
Charges for services	-	-	-
Other revenue	-	721,962	787,218
Total operating revenues	448,278	744,597	787,218
Operating expenses			
Other expense	382,631	724,027	778,487
Depreciation expense	-	-	-
Total operating expenses	382,631	724,027	778,487
Operating income	65,647	20,570	8,731
Nonoperating revenues (expenses)			
Investment earnings	1,286	2,930	772
Interest expense	(39,642)	(24,250)	(2,550)
Total nonoperating revenues (expenses)	(38,356)	(21,320)	(1,778)
Change in net position	27,291	(750)	6,953
Net position, beginning of year	174,526	217,276	36,591
Net position, end of year	\$ 201,817	\$ 216,526	\$ 43,544

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

Business-type Activities - Enterprise Funds			Governmental Activities
Wampler's Lake Sewer	Nonmajor Enterprise Funds	Total	Drain Equipment Revolving
\$ 456,670	\$ 621,947	\$ 1,549,530	\$ -
-	27,377	27,377	325,286
-	-	1,509,180	-
<u>456,670</u>	<u>649,324</u>	<u>3,086,087</u>	<u>325,286</u>
416,171	607,634	2,908,950	138,288
-	-	-	129,024
<u>416,171</u>	<u>607,634</u>	<u>2,908,950</u>	<u>267,312</u>
<u>40,499</u>	<u>41,690</u>	<u>177,137</u>	<u>57,974</u>
2,372	1,305	8,665	-
-	-	(66,442)	(17,915)
<u>2,372</u>	<u>1,305</u>	<u>(57,777)</u>	<u>(17,915)</u>
42,871	42,995	119,360	40,059
<u>376,986</u>	<u>275,124</u>	<u>1,080,503</u>	<u>464,311</u>
<u>\$ 419,857</u>	<u>\$ 318,119</u>	<u>\$ 1,199,863</u>	<u>\$ 504,370</u>

LENAWEE COUNTY DRAIN COMMISSION

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2019

	Business-type Activities - Enterprise Funds		
	Central Lenawee Sewer	Rollin- Woodstock Sewer	Riga Township Water
Cash flows from operating activities			
Cash received from municipalities	\$ 448,278	\$ 22,635	\$ -
Other operating receipts	-	721,962	787,218
Cash paid to employees and suppliers	(379,976)	(709,730)	(769,000)
Receipts for interfund services provided	-	-	-
Net cash provided by operating activities	<u>68,302</u>	<u>34,867</u>	<u>18,218</u>
Cash flows from capital and related financing activities			
Principal payments	(355,000)	(315,000)	(120,000)
Interest payments	(45,802)	(24,250)	(2,550)
Issuance of lease purchase agreements	-	-	-
Amounts collected on leases receivable	361,149	413,153	96,604
Purchase of capital assets	-	-	-
Net cash provided by (used in) capital and related financing activities	<u>(39,653)</u>	<u>73,903</u>	<u>(25,946)</u>
Cash flows provided by investing activities			
Interest earnings on investments	<u>1,286</u>	<u>2,930</u>	<u>772</u>
Net change in cash and investments	29,935	111,700	(6,956)
Cash and investments, beginning of year	<u>185,350</u>	<u>434,256</u>	<u>84,987</u>
Cash and investments, end of year	<u>\$ 215,285</u>	<u>\$ 545,956</u>	<u>\$ 78,031</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 65,647	\$ 20,570	\$ 8,731
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	-	-	-
Change in:			
Accounts receivable	-	-	-
Accounts payable	2,655	14,297	845
Due to other governments	-	-	8,642
Net cash provided by operating activities	<u>\$ 68,302</u>	<u>\$ 34,867</u>	<u>\$ 18,218</u>

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

Business-type Activities - Enterprise Funds			Governmental Activities
Wampler's Lake Sewer	Nonmajor Enterprise Funds	Total	Drain Equipment Revolving
\$ 456,670	\$ 621,947	\$ 1,549,530	\$ -
-	29,662	1,538,842	-
(409,851)	(613,985)	(2,882,542)	(118,745)
-	-	-	325,286
<u>46,819</u>	<u>37,624</u>	<u>205,830</u>	<u>206,541</u>
-	-	(790,000)	(95,422)
-	-	(72,602)	(17,915)
-	-	-	193,677
-	-	870,906	-
-	-	-	(292,852)
<u>-</u>	<u>-</u>	<u>8,304</u>	<u>(212,512)</u>
<u>2,372</u>	<u>1,305</u>	<u>8,665</u>	<u>-</u>
49,191	38,929	222,799	(5,971)
<u>378,024</u>	<u>448,041</u>	<u>1,530,658</u>	<u>218,781</u>
<u>\$ 427,215</u>	<u>\$ 486,970</u>	<u>\$ 1,753,457</u>	<u>\$ 212,810</u>
\$ 40,499	\$ 41,690	\$ 177,137	\$ 57,974
-	-	-	129,024
-	-	-	12,082
6,320	12,841	36,958	7,461
-	(16,907)	(8,265)	-
<u>\$ 46,819</u>	<u>\$ 37,624</u>	<u>\$ 205,830</u>	<u>\$ 206,541</u>

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NOTES TO FINANCIAL STATEMENTS

LENAWEE COUNTY DRAIN COMMISSION

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

These financial statements represent the financial position and the changes in financial position of the funds of the Lenawee County Drain Commission (the “Drain Commission”). These funds are considered to be a discretely presented component unit of Lenawee County, Michigan (the “County” or “primary government”) and are an integral part of that reporting entity. The Drain Commissioner is an elected position with statutory authority to perform duties related to the construction and maintenance of drainage, water and sewer systems within the County. The County has the ability to significantly influence its operations. The County also approves the budget of the Lenawee County Drain Commission.

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 nonfiduciary activities of the component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial information is reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. 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.

Governmental fund financial information is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Drain Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

LENAWEE COUNTY DRAIN COMMISSION

Notes to Financial Statements

Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. Only special assessments receivable due within the current fiscal period are considered to be susceptible to accrual as revenue for the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Drain Commission reports the following major governmental funds:

The *801 drain capital projects fund* accounts for the use of resources in constructing and maintaining the drain system. The primary funding source for this fund is special assessments.

The *802 drain revolving capital projects fund* accounts for advances and interfund loans made between drainage districts.

The *804 drain maintenance revolving capital projects fund* accounts for the use of resources in maintaining the drain system.

The Drain Commission reports the following major proprietary funds:

The *Central Lenawee sewer fund* accounts for the financing of system improvements and certain operations and maintenance costs related to Central Lenawee sewer.

The *Rollin-Woodstock sewer fund* accounts for the financing of system improvements and certain operations and maintenance costs related to Rollin-Woodstock sewer.

The *Riga Township water fund* accounts for the financing of system improvements and certain operations and maintenance costs related to Riga Township water system.

The *Wampler's Lake sewer fund* accounts for the financing of system improvements and certain operations and maintenance costs related to Wampler's Lake sewer.

Additionally, the Drain Commission reports the following fund types:

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

The *capital projects funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The *internal service fund* accounts for operations that provide services to other funds of the Drain Commission, on a cost-reimbursement basis.

The *enterprise funds* account for the financing of system improvements and certain operations and maintenance costs for municipalities within the County.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

LENAWEE COUNTY DRAIN COMMISSION

Notes to Financial Statements

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided and 2) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service fund are charges to cities and townships for operations, equipment rentals, and finance charges. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Assets, Liabilities, Deferred inflows of Resources, and Equity

Deposits and Investments

The Drain Commission's 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. All deposits and investments are in the name of the County Treasurer.

Investments are stated at fair value.

State statutes authorize the County to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as "internal balances."

Special assessments receivable, which are based on total estimated construction and maintenance costs of each drain project, reflect amounts due from benefiting parties including local units of government and property owners. No allowance for uncollectibles is recorded because the special assessments represent a lien on the respective properties.

Inventory

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

LENAWEE COUNTY DRAIN COMMISSION

Notes to Financial Statements

Capital Assets

Capital assets, which include mobile equipment and infrastructure assets, are reported in the governmental activities column of the Statement of Net Position. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of 2 years. Major outlays for equipment and infrastructure capital assets and improvements are capitalized as projects are constructed. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets, if any, are recorded at estimated acquisition cost at the date of donation.

Infrastructure is depreciated using the straight-line method over 50 years and equipment is being depreciated over 5 or 10 years.

Long-term Obligations

In the government-wide and proprietary fund financial statements, long-term debt is reported as a liability in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and/or governmental funds balance sheet will sometime 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 government has one type of item that qualifies for reporting in this category. The item arises only under the modified accrual basis of accounting. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund Equity

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. 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 statutory Drain Board. A formal resolution of the statutory Drain Board is required to establish, modify or rescind a fund balance commitment. Assigned fund balance is reported 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 used for a general fund or for deficit fund balances.

LENAWEE COUNTY DRAIN COMMISSION

Notes to Financial Statements

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

Fund Deficit

The 801 Drain Capital Projects fund has an unassigned fund balance deficit of \$411,004 and the 802 Drain Revolving fund has an unassigned fund balance deficit of \$38,398 as of December 31, 2019. The Drain Commission plans to eliminate this deficit through special assessment levies.

2. DEPOSITS AND INVESTMENTS

At year end, the carrying amount of deposits and investments of the Drain Commission were as follows:

Deposits held in the name of the County Treasurer	\$ 2,891,667
Investments	<u>524,720</u>
Total	<u>\$ 3,416,387</u>

The Drain Commission chooses to disclose its investments by specifically identifying each. At year end, the Drain Commission had the following investments through the County Treasurer.

	Carrying Amount (Fair Value)	Credit Rating
Investments		
Comerica Governmental Cash Investment Pool	\$ 424,124	not rated
Michigan CLASS Government Investment Pool	<u>100,596</u>	S&P AAA
	<u>\$ 524,720</u>	

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The County’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. None of the Drain Commission’s investments have stated maturity dates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The County’s investment policy does not have specific limits in excess of state law on investment credit risk. The Drain Commission’s investments were subject to credit risk rating as noted above.

Custodial Credit Risk - Deposits. The Drain Commission maintains \$2,891,667 in checking, savings and CD accounts at banks which are under custody of the County Treasurer. It is not practical to determine the insured portion of these balances since they are included in the pooled and other cash accounts of the County.

LENAWEE COUNTY DRAIN COMMISSION

Notes to Financial Statements

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Drain Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the County does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The Drain Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

Fair Value. The Drain Commission categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. These levels are determined by the Drain Commission's investment manager, and are determined at the fund level based on a review of the investment's class, structure, and what kind of securities are held in the funds. The investment manager will request the information from the fund manager, if necessary.

The Drain Commission's recurring fair value measurements as of December 31, 2019 were related to its investments in the Comerica Governmental Cash Investment Pool. These investments are valued using significant other observable inputs of the underlying securities and bonds (Level 2 inputs).

Investments in Entities that Calculate Net Asset Value per Share. The Drain Commission holds shares in Michigan CLASS whereby the fair value of the investment is measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient.

At year end, the net asset value of the Drain Commission's investment in Michigan CLASS was \$100,596. The investment pool had no unfunded commitments, specific redemption frequency or redemption notice period required. The Michigan CLASS investment pool invests in U.S. treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper (rated 'A-1' or better) collateralized bank deposits, repurchase agreements (collateralized at 102% by Treasuries and agencies), and approved money-market funds. The program seeks to provide safety, liquidity, convenience, and competitive rates of return, and is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statutes and are available for investment by Michigan counties, cities, townships, school districts, authorities and other public agencies.

3. RECEIVABLES

Receivables in the governmental activities consist almost entirely of special assessments. At year end, the Drain Commission reported special assessments receivable of \$4,389,598, of which \$2,902,657 is not expected to be collected in one year.

Receivables in the business-type activities consist entirely of leases receivable. The terms of these capital leases, which relate to water and sewer systems constructed by the Drain Commission on behalf of the local units, match the debt maturity requirements of the related bonds less any cash remaining in the funds to repay the debt. At year end, the Drain Commission reported leases receivable in business-type activities of \$1,948,914, of which \$1,257,754 is not expected to be collected within one year.

LENAWEE COUNTY DRAIN COMMISSION

Notes to Financial Statements

Governmental funds report deferred inflows in connection with special assessments receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At year end, governmental funds reported deferred (“unavailable”) inflows of resources of \$4,389,598.

4. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses in the governmental activities consists of \$113,141 due to vendors for progress on various drain projects not billed until after year end and \$93,000 for short-term notes payable that are due May 15, 2020.

Accounts payable and accrued expenses in the business-type activities consists of \$165,690 due to municipalities for the construction and maintenance of water and sewer systems and \$36,958 due to vendors for progress on various drain projects not billed until after year end.

5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2019, was as follows:

	Receivable	Payable
Due to/from other funds		
Drain capital projects	\$ -	\$ 1,516,434
Drain revolving	678,276	-
Drain maintenance revolving	866,995	-
Nonmajor governmental fund - Lake Level	-	28,837
	<u>-</u>	<u>28,837</u>
Total	<u>\$ 1,545,271</u>	<u>\$ 1,545,271</u>

The Drain Commission has interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers for 2019 are as follows:

	Transfers In	Transfers Out
Drain capital projects	\$ -	\$ 456,440
Drain maintenance revolving	477,591	-
Nonmajor governmental funds	60,948	82,099
	<u>60,948</u>	<u>82,099</u>
	<u>\$ 538,539</u>	<u>\$ 538,539</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them and (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service funds as debt service payments become due.

LENAWEE COUNTY DRAIN COMMISSION

Notes to Financial Statements

6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
Governmental activities					
Capital assets, not being depreciated -					
Construction in progress	\$ 1,894,538	\$ 483,537	\$ -	\$ (1,681,335)	\$ 696,740
Capital assets, being depreciated:					
Infrastructure	8,551,260	-	-	1,681,335	10,232,595
Equipment	1,532,945	292,852	-	-	1,825,797
Total capital assets, being depreciated	10,084,205	292,852	-	1,681,335	12,058,392
Less accumulated depreciation for:					
Infrastructure	(2,266,593)	(195,997)	-	-	(2,462,590)
Equipment	(1,041,277)	(129,024)	-	-	(1,170,301)
Total accumulated depreciation	(3,307,870)	(325,021)	-	-	(3,632,891)
Total capital assets, being depreciated, net	6,776,335	(32,169)	-	1,681,335	8,425,501
Governmental activities capital assets, net	\$ 8,670,873	\$ 451,368	\$ -	\$ -	\$ 9,122,241

At December 31, 2019, the Drain Commission had outstanding commitments through construction contracts of approximately \$416,000 in relation to the construction and improvement of various drain infrastructure.

LENAWEE COUNTY DRAIN COMMISSION

Notes to Financial Statements

7. LONG-TERM DEBT

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

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable	\$ 2,597,630	\$ -	\$ (317,090)	\$ 2,280,540	\$ 292,090
Direct borrowings:					
Drain notes payable	1,633,617	271,500	(467,474)	1,437,643	725,039
Notes payable	39,300	-	(19,277)	20,023	20,023
Installment purchase agreements	214,584	193,677	(76,145)	332,116	86,733
Total governmental activities	4,485,131	465,177	(879,986)	4,070,322	1,123,885
Business-type activities					
Bonds payable	2,963,561	-	(790,000)	2,173,561	710,000
Bond premium	30,809	-	(6,160)	24,649	6,160
Total business-type activities	2,994,370	-	(796,160)	2,198,210	716,160
Total Drain Commission	\$ 7,479,501	\$ 465,177	\$ (1,676,146)	\$ 6,268,532	\$ 1,840,045

Governmental activities

General obligation bonds currently outstanding are as follows:

District	Original Issue	Annual Installments	Through Period	Interest Rate	Amount
Cambridge Lake	\$ 160,000	\$ 16,000	2020	5.00%	\$ 16,000
Red Mill Pond	250,000	25,000	2024	2.59%	125,000
Marvin Drain	420,900	42,090	2025	2.86%	252,540
Keller & Riga Outlet	480,000	65,000-70,000	2024	1.10 - 2.05%	350,000
Titus Tile Drain	582,000	57,000-60,000	2028	2.80 - 4.50%	525,000
Waltermire Tile Drain	467,000	40,000-50,000	2028	1.45 - 4.45%	427,000
Burton and White Tile Drain	626,000	41,000-42,000	2033	3.97%	585,000
Total					\$ 2,280,540

Drain notes payable consists of twenty-five drain notes payable in total annual installments of \$2,200 to \$60,000 at interest rates of 0.70% to 7.75%, with final payment due in 2025.

Notes payable consists of one note payable for a vehicle purchase due in annual installments of \$20,023 at an interest rate of 4.50%, with final payment due in 2020.

LENAWEE COUNTY DRAIN COMMISSION

Notes to Financial Statements

Installment purchase agreements consists of five lease agreements for vehicle/equipment purchases due in annual installments of \$5,280 to \$34,345 at an interest rate of 3.08% to 5.223%, with final payment due in 2023.

Business-type activities

General obligation bonds currently outstanding are as follows:

District	Original Issue	Annual Installments	Through Period	Interest Rate	Amount
Central Lenawee Sewer - DWRP	\$ 1,875,000	\$90,000-95,000	2023	2.50%	\$ 368,561
Rollin-Woodstock- Plant Improvement	5,080,000	315,000-330,000	2021	2.50%	655,000
Central Lenawee Sewer Refunding	3,065,000	265,000-290,000	2023	2.0 - 3.0%	1,125,000
Riga System Improvement	840,000	25,000-120,000	2020	2.0 - 3.0%	<u>25,000</u>
Total					<u><u>\$ 2,173,561</u></u>

Annual debt service requirements to maturity for bonds payable are as follows:

Year Ended December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2020	\$ 292,090	\$ 110,911	\$ 710,000	\$ 55,212
2021	282,090	94,712	700,000	38,726
2022	282,090	76,741	375,000	19,826
2023	283,090	58,025	388,561	11,164
2024	286,090	42,979	-	-
2025-2029	687,090	95,515	-	-
2030-2033	168,000	13,339	-	-
	<u>\$ 2,280,540</u>	<u>\$ 492,222</u>	<u>\$ 2,173,561</u>	<u>\$ 124,928</u>

LENAWEE COUNTY DRAIN COMMISSION

Notes to Financial Statements

Annual debt service requirements to maturity for direct borrowings are as follows:

Year Ended December 31	Governmental Activities	
	Principal	Interest
2020	\$ 831,795	\$ 38,893
2021	373,947	30,663
2022	292,537	20,275
2023	183,462	9,514
2024	89,640	2,728
2025	18,401	550
	<u>\$ 1,789,782</u>	<u>\$ 102,623</u>

8. SHORT-TERM DEBT

During the year, the Drain Commission financed certain projects through the issuance of notes payable. The notes were issued for terms of less than one year, and accordingly are recorded as a liability of the drain capital projects fund. The Drain Commission borrowed \$93,000 on November 7, 2019 with an interest rate of 1.85%. The notes are due on May 15, 2020. Changes in short-term notes payable for the year ended December 31, 2019 were as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Notes payable	\$ -	\$ 93,000	\$ -	\$ 93,000

9. SUBSEQUENT EVENT

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The extent of the ultimate impact of the pandemic on the government's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on employees, vendors, and taxpayers, all of which cannot be reasonably predicted at this time. In addition, it may place additional demands on the government for providing emergency services to its citizens. While management reasonably expects the COVID-19 outbreak to negatively impact the government's financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.



COMBINING FUND FINANCIAL STATEMENTS

LENAWEE COUNTY DRAIN COMMISSION

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2019

	Capital Projects		Debt Service	Totals
	823 Chapter 20	841 Lake Level	870 Chapter 20	
Assets				
Cash and investments	\$ 45,042	\$ 44,730	\$ -	\$ 89,772
Special assessments receivable	-	115,239	-	115,239
Total assets	<u>\$ 45,042</u>	<u>\$ 159,969</u>	<u>\$ -</u>	<u>\$ 205,011</u>
Liabilities				
Due to other funds	\$ -	\$ 28,837	\$ -	\$ 28,837
Deferred inflows of resources				
Unavailable revenue - special assessments	-	115,239	-	115,239
Fund balances				
Assigned	<u>45,042</u>	<u>15,893</u>	<u>-</u>	<u>60,935</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 45,042</u>	<u>\$ 159,969</u>	<u>\$ -</u>	<u>\$ 205,011</u>

LENAWEE COUNTY DRAIN COMMISSION

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds For the Year Ended December 31, 2019

	Capital Projects		Debt Service	Totals
	823 Chapter 20	841 Lake Level	870 Chapter 20	
Revenues				
Special assessments	\$ 54,693	\$ 154,325	\$ -	\$ 209,018
Investment earnings	410	60	-	470
Total revenues	55,103	154,385	-	209,488
Expenditures				
Current -				
Public works	-	45,378	-	45,378
Debt service:				
Principal	-	72,000	60,000	132,000
Interest and fiscal charges	-	6,764	948	7,712
Total expenditures	-	124,142	60,948	185,090
Revenues over (under) expenditures	55,103	30,243	(60,948)	24,398
Other financing sources (uses)				
Transfers in	-	-	60,948	60,948
Transfers out	(60,948)	(21,151)	-	(82,099)
Total other financing sources (uses)	(60,948)	(21,151)	60,948	(21,151)
Net changes in fund balances	(5,845)	9,092	-	3,247
Fund balances, beginning of year	50,887	6,801	-	57,688
Fund balances, end of year	\$ 45,042	\$ 15,893	\$ -	\$ 60,935

LENAWEE COUNTY DRAIN COMMISSION

Combining Statement of Net Position

Nonmajor Enterprise Funds

December 31, 2019

	Township of Madison Water	South Shore	Posey Lake
Assets			
Current assets -			
Cash and investments	\$ -	\$ 24,944	\$ 6,398
Liabilities			
Current liabilities:			
Accounts payable	-	763	460
Due to other governments	-	5,718	-
Total liabilities	-	6,481	460
Net position			
Restricted for other municipalities	\$ -	\$ 18,463	\$ 5,938



Lake Arrowhead Estates Water	Township of Adrian	Mannor Farms	Clayton Sewer	Cambridge/Franklin Sewer
<u>\$ 9,157</u>	<u>\$ 69,182</u>	<u>\$ 3,089</u>	<u>\$ 5,977</u>	<u>\$ 100,596</u>
982	6,905	341	38	-
<u>-</u>	<u>16,160</u>	<u>-</u>	<u>-</u>	<u>100,596</u>
<u>982</u>	<u>23,065</u>	<u>341</u>	<u>38</u>	<u>100,596</u>
<u><u>\$ 8,175</u></u>	<u><u>\$ 46,117</u></u>	<u><u>\$ 2,748</u></u>	<u><u>\$ 5,939</u></u>	<u><u>\$ -</u></u>

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LENAWEE COUNTY DRAIN COMMISSION

Combining Statement of Net Position

Nonmajor Enterprise Funds

December 31, 2019

	Fairfield Sewer	Loch Erin Sewer	Total
Assets			
Current assets -			
Cash and investments	\$ 2,866	\$ 264,761	\$ 486,970
Liabilities			
Current liabilities:			
Accounts payable	2,550	802	12,841
Due to other governments	-	33,536	156,010
Total liabilities	<u>2,550</u>	<u>34,338</u>	<u>168,851</u>
Net position			
Restricted for other municipalities	<u>\$ 316</u>	<u>\$ 230,423</u>	<u>\$ 318,119</u>

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LENAWEE COUNTY DRAIN COMMISSIO

Combining Statement of Revenues, Expenses and Changes in Fund Net Position

Nonmajor Enterprise Funds

For the Year Ended December 31, 2019

	Township of Madison Water	South Shore	Posey Lake
Operating revenues			
Intergovernmental revenue	\$ -	\$ 50,456	\$ 72,512
Charges for services	-	-	-
Total operating revenues	-	50,456	72,512
Operating expenses			
Other expense	-	63,117	66,917
Operating income (loss)	-	(12,661)	5,595
Nonoperating revenues			
Investment earnings	-	211	28
Change in net position	-	(12,450)	5,623
Net position, beginning of year	-	30,913	315
Net position, end of year	\$ -	\$ 18,463	\$ 5,938



Lake Arrowhead Estates Water	Township of Adrian	Mannor Farms	Clayton Sewer	Cambridge/Franklin Sewer
\$ 30,143	\$ 180,472	\$ -	\$ 39,161	\$ -
-	-	27,377	-	-
30,143	180,472	27,377	39,161	-
26,471	197,521	26,114	35,050	-
3,672	(17,049)	1,263	4,111	-
40	440	10	39	-
3,712	(16,609)	1,273	4,150	-
4,463	62,726	1,475	1,789	-
<u>\$ 8,175</u>	<u>\$ 46,117</u>	<u>\$ 2,748</u>	<u>\$ 5,939</u>	<u>\$ -</u>

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LENAWEE COUNTY DRAIN COMMISSION

Combining Statement of Revenues, Expenses and Changes in Fund Net Position

Nonmajor Enterprise Funds

For the Year Ended December 31, 2019

	Fairfield Sewer	Loch Erin Sewer	Total
Operating revenues			
Intergovernmental revenue	\$ 43,337	\$ 205,866	\$ 621,947
Charges for services	-	-	27,377
Total operating revenues	43,337	205,866	649,324
Operating expenses			
Other expense	43,501	148,943	607,634
Operating income (loss)	(164)	56,923	41,690
Nonoperating revenues			
Investment earnings	10	527	1,305
Change in net position	(154)	57,450	42,995
Net position, beginning of year	470	172,973	275,124
Net position, end of year	\$ 316	\$ 230,423	\$ 318,119

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LENAWEE COUNTY DRAIN COMMISSION

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

For the Year Ended December 31, 2019

	Township of Madison Water	South Shore	Posey Lake
Cash flows from operating activities			
Cash received from municipalities	\$ -	\$ 50,456	\$ 72,512
Other operating receipts	-	-	-
Cash paid to employees and suppliers	(848)	(62,321)	(66,457)
Net cash provided by (used in) operating activities	(848)	(11,865)	6,055
Cash flows from investing activities			
Interest earnings on investments	-	211	28
Net change in cash and investments	(848)	(11,654)	6,083
Cash and investments, beginning of year	848	36,598	315
Cash and investments, end of year	\$ -	\$ 24,944	\$ 6,398
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ -	\$ (12,661)	\$ 5,595
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Change in:			
Accounts payable	-	763	460
Due to other governments	(848)	33	-
Net cash provided by (used in) operating activities	\$ (848)	\$ (11,865)	\$ 6,055



Lake Arrowhead Estates Water	Township of Adrian	Mannor Farms	Clayton Sewer	Cambridge/Franklin Sewer
\$ 30,143	\$ 180,472	\$ -	\$ 39,161	\$ -
-	-	27,377	-	2,285
(25,489)	(190,522)	(25,773)	(35,012)	-
4,654	(10,050)	1,604	4,149	2,285
40	440	10	39	-
4,694	(9,610)	1,614	4,188	2,285
4,463	78,792	1,475	1,789	98,311
<u>\$ 9,157</u>	<u>\$ 69,182</u>	<u>\$ 3,089</u>	<u>\$ 5,977</u>	<u>\$ 100,596</u>
\$ 3,672	\$ (17,049)	\$ 1,263	\$ 4,111	\$ -
982	6,905	341	38	-
-	94	-	-	2,285
<u>\$ 4,654</u>	<u>\$ (10,050)</u>	<u>\$ 1,604</u>	<u>\$ 4,149</u>	<u>\$ 2,285</u>

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LENAWEE COUNTY DRAIN COMMISSION

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

For the Year Ended December 31, 2019

	Fairfield Sewer	Loch Erin Sewer	Total
Cash flows from operating activities			
Cash received from municipalities	\$ 43,337	\$ 205,866	\$ 621,947
Other operating receipts	-	-	29,662
Cash paid to employees and suppliers	(40,951)	(166,612)	(613,985)
Net cash provided by (used in) operating activities	2,386	39,254	37,624
Cash flows from investing activities			
Interest earnings on investments	10	527	1,305
Net change in cash and investments	2,396	39,781	38,929
Cash and investments, beginning of year	470	224,980	448,041
Cash and investments, end of year	\$ 2,866	\$ 264,761	\$ 486,970
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ (164)	\$ 56,923	\$ 41,690
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Change in:			
Accounts payable	2,550	802	12,841
Due to other governments	-	(18,471)	(16,907)
Net cash provided by (used in) operating activities	\$ 2,386	\$ 39,254	\$ 37,624

concluded.

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 30, 2020

Drain Commission of
Lenawee County, Michigan
Adrian, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the *Lenawee County Drain Commission* (the "Commission"), a component unit of *Lenawee County, Michigan*, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated June 30, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

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

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

Compliance and Other Matters

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

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