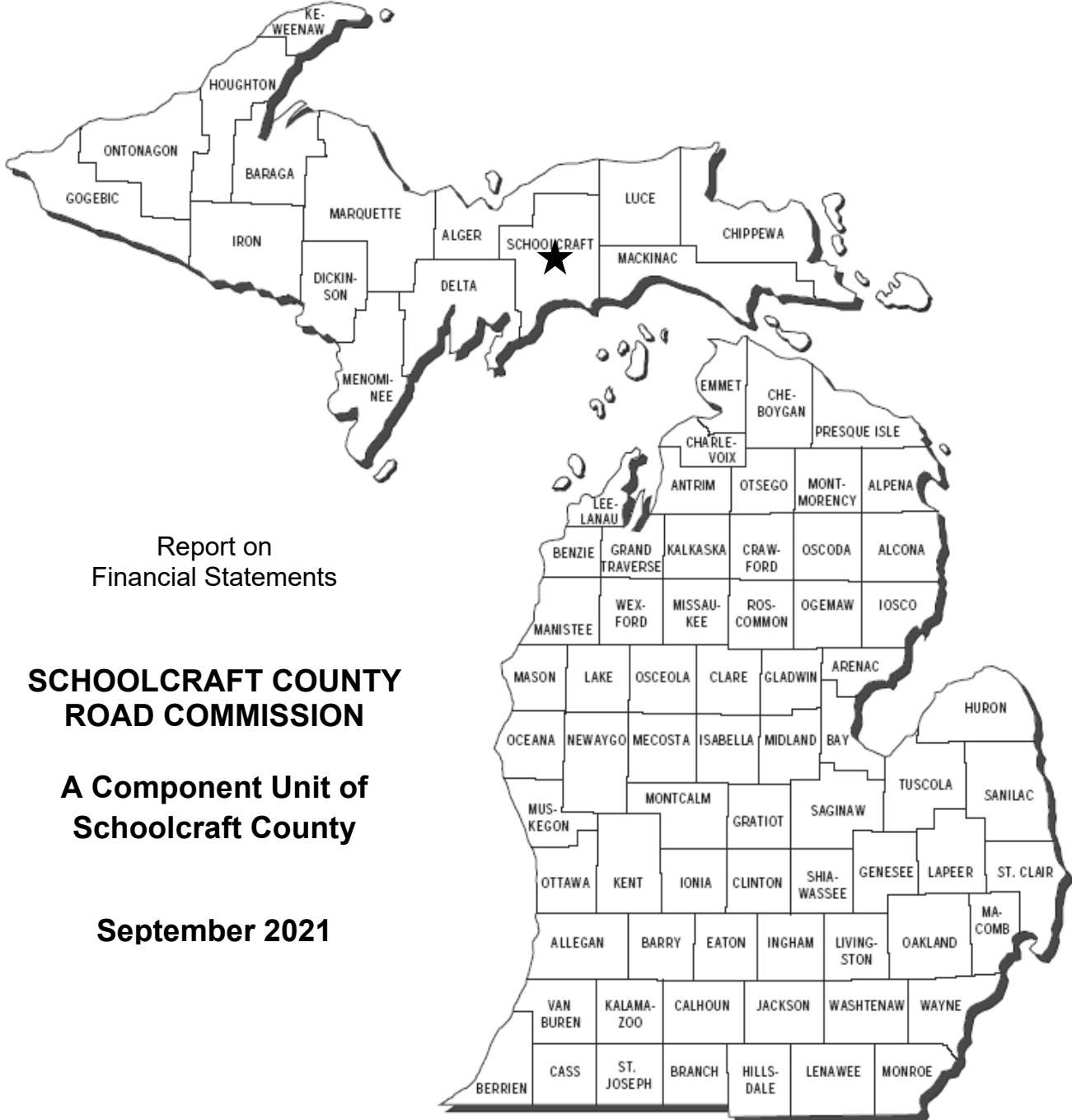


# STATE OF MICHIGAN

Gretchen Whitmer, Governor

## DEPARTMENT OF TREASURY

Rachael Eubanks, State Treasurer



Report on  
Financial Statements

### SCHOOLCRAFT COUNTY ROAD COMMISSION

A Component Unit of  
Schoolcraft County

September 2021

SCHOOLCRAFT COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

March 10, 2022

Thomas J. Klarich  
Chairperson

Keith Rochefort  
Vice Chairperson

Robin LaCroix  
Member

Randy Lund  
Member

Dale DuFour  
Member

Jean Vanderville  
Manager

Tanya Hoar  
Finance Director

COUNTY POPULATION--2020  
8,047

STATE EQUALIZED VALUATION--2021  
\$467,620,760



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

GRETCHEN WHITMER  
GOVERNOR

RACHAEL EUBANKS  
STATE TREASURER

March 10, 2022

Board of County Road Commissioners  
Schoolcraft County Road Commission  
332 N East Road  
Manistique, Michigan 49854

Independent Auditor's Report

Dear Commissioners:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and aggregate remaining fund information of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, Michigan, as of and for the fiscal year ended September 30, 2021, and related notes to the financial statements, which collectively comprise the Schoolcraft County Road Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

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

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

#### Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, major fund and aggregate remaining fund information of the Schoolcraft County Road Commission, as of September 30, 2021, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

#### Other Matters

##### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 10, the budgetary comparison information, schedule of changes in the net pension liability, the schedule of pension contributions, the schedule of changes in the net OPEB liability and the schedule of OPEB contributions, in Exhibits I and N, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the 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 the sufficient evidence to express an opinion or provide any assurance.

*Supplementary and Other Information*

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

The accompanying supplementary and related information presented in Exhibits O through Q are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary and related information presented in Exhibits O through Q are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2022, on our consideration of Schoolcraft County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Schoolcraft County Road Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Schoolcraft County Road Commission's internal control over financial reporting and compliance.

Sincerely,



Cary Jay Vaughn, CPA, CGFM

Audit Manager

Community Engagement and Finance Division

SCHOOLCRAFT COUNTY ROAD COMMISSION

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SCHOOLCRAFT COUNTY ROAD COMMISSION

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## SCHOOLCRAFT COUNTY ROAD COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2021

#### Using this Annual Report

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

#### Overview of the Financial Statements

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local, and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

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

#### Reporting the Road Commission as a Whole

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

The two statements mentioned above report the Road Commission's net position and changes in them. The reader can think of the Road Commission's net position (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net position are one indicator of whether its financial health is improving or deteriorating.



## SCHOOLCRAFT COUNTY ROAD COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2021

#### Reporting the Road Commission's Major Fund

The fund financial statements begin with Exhibit C and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operating Fund, in which all of the Road Commission's activities are accounted. The General Operating Fund is a governmental fund type.

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

#### The Road Commission as a Whole

The Road Commission's net position increased 12.24% or \$1,134,219 from \$9,264,880 to \$10,399,099 for the fiscal year ending September 30, 2021. The net position and change in net position are summarized below.

Unrestricted net position, those restricted mainly for Act 51 purposes, increased \$1,321,964 or 33.12%. The net investment in capital assets decreased 1.42% or \$187,745 from the prior fiscal year. This was primarily due to the capital asset additions of \$1,322,066 being less than the depreciation of \$1,665,492 and no new debt being issued during fiscal year 2021.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2021

Net position as of the fiscal year ended September 30, 2021, compared to the prior fiscal year end are as follows:

	Governmental Activities 9/30/20	Governmental Activities 9/30/21	Variance Increase (Decrease)	Percentage
<b>Assets</b>				
Current and Other Assets	\$ 5,569,805	\$ 6,206,207	\$ 636,402	11.43%
Net Capital Assets	<u>14,322,211</u>	<u>13,978,785</u>	<u>(343,426)</u>	<u>-2.40%</u>
<b>Total Assets</b>	<u>19,892,016</u>	<u>20,184,992</u>	<u>292,976</u>	<u>1.47%</u>
<b>Deferred Outflows of Resources</b>				
Deferred Outflows--Pension	1,317,939	1,540,552	222,613	16.89%
Deferred Outflows--OPEB	<u>147,647</u>	<u>47,328</u>	<u>(100,319)</u>	<u>-67.95%</u>
<b>Total Deferred Outflows of Resources</b>	1,465,586	1,587,880	122,294	8.34%
<b>Liabilities</b>				
Current Liabilities	300,971	213,060	(87,911)	-29.21%
Long-Term Liabilities	<u>11,500,671</u>	<u>10,496,014</u>	<u>(1,004,657)</u>	<u>-8.74%</u>
<b>Total Liabilities</b>	<u>11,801,642</u>	<u>10,709,074</u>	<u>(1,092,568)</u>	<u>-9.26%</u>
<b>Deferred Inflows of Resources</b>				
Deferred Inflows--Pensions	178,790	346,833	168,043	93.99%
Deferred Inflows -- OPEB	<u>112,290</u>	<u>317,866</u>	<u>205,576</u>	<u>183.08%</u>
<b>Total Deferred Inflows of Resources</b>	291,080	664,699	373,619	128.36%
<b>Net Position</b>				
Net Investment in Capital Assets	13,255,968	13,068,223	(187,745)	-1.42%
Unrestricted	<u>(3,991,088)</u>	<u>(2,669,124)</u>	<u>1,321,964</u>	<u>33.12%</u>
<b>Total Net Position</b>	<u>\$ 9,264,880</u>	<u>\$ 10,399,099</u>	<u>\$ 1,134,219</u>	<u>12.24%</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended September 30, 2021

Changes in Net Position

A summary of changes in net position for the fiscal year ended September 30, 2021, compared to the prior year follows:

	Governmental Activities 2020	Governmental Activities 2021	Increase (Decrease)	Percentage
Program Revenue				
Licenses and Permits	\$ 5,475	\$ 5,875	\$ 400	7.31%
Federal Grants	228,991	533,788	304,797	133.10%
State Grants	3,136,049	3,556,717	420,668	13.41%
Charges for Services	2,245,180	2,239,158	(6,022)	-0.27%
Contributions	37,227	129,472	92,245	247.79%
Interest & Royalties Earnings	73,046	26,028	(47,018)	-64.37%
General Revenue				
Gain on Equipment Disposal	172	250	78	45.35%
<b>Total Revenue</b>	<b>5,726,140</b>	<b>6,491,288</b>	<b>765,148</b>	<b>13.36%</b>
Expenses				
Primary Road Maintenance	1,349,291	1,494,104	144,813	10.73%
Local Road Maintenance	949,054	882,893	(66,161)	-6.97%
State Trunkline Maintenance	2,217,283	2,118,743	(98,540)	-4.44%
Net Equipment Expense	(256,214)	(3,230)	252,984	-98.74%
Net Administrative Expense	417,929	455,912	37,983	9.09%
Non-Road Project	9,973	585	(9,388)	-94.13%
Infrastructure Depreciation	1,244,357	1,193,542	(50,815)	-4.08%
Compensated Absences	4,136	6,914	2,778	67.17%
Other Post-Employment Benefits	(173,889)	(518,267)	(344,378)	198.04%
Pension Expense	(92,663)	(309,014)	(216,351)	233.48%
Interest Expense	38,276	34,887	(3,389)	-8.85%
<b>Total Expenses</b>	<b>5,707,533</b>	<b>5,357,069</b>	<b>(350,464)</b>	<b>-6.14%</b>
<b>Change in Net Position</b>	<b>18,607</b>	<b>1,134,219</b>	<b>1,115,612</b>	<b>5995.66%</b>
<b>Ending Net Position</b>	<b>\$ 9,264,880</b>	<b>\$10,399,099</b>	<b>\$ 1,134,219</b>	<b>12.24%</b>

## SCHOOLCRAFT COUNTY ROAD COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2021

The total revenue increased by \$765,148 or 13.36% from \$5,726,140 in fiscal year 2020 to \$6,491,288 in fiscal year 2021. The most significant variances were increases in Federal and State grants and contributions in 2021.

The total expenditures decreased by \$350,464 or 6.14% from \$5,707,533 in fiscal year 2020 to \$5,357,069 in fiscal year 2021. The most significant variances in expenses during fiscal year 2021 were increases in primary road maintenance and Net Equipment expense, which were offset by decreases related to State Trunkline Maintenance, Other Post-Employment Benefits and Pension expense.

We feel that Road Commission revenue and expenditures will always vary from year to year depending on many factors, such as level of State/Federal funding for capitalization projects, level of local contributions for both maintenance and preservation, weather conditions that may require more or less maintenance, and State trunkline maintenance and non-maintenance expenses and revenue which vary from year to year.

#### The Road Commission's Fund

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

For the fiscal year ending September 30, 2021, the fund balance of the General Operations Fund increased by \$501,597 as compared to an increase of \$196,082 in the fund balance for the year ending September 30, 2020. Total revenues and other financing sources were \$6,491,288, an increase of \$696,148 compared with the prior fiscal year which amounted to \$5,795,140 at the end of September 30, 2020. The increase is primarily from an increase in federal and state grants and contributions.

Total expenditures amounted to \$5,989,691, an increase of \$390,633 compared to the prior fiscal year which amounted to \$5,599,058 as of September 30, 2020. This change in expenditures was primarily due to an increase in Primary and Local Road Preservation / Structural Improvements and Net Equipment expense, offset by a decrease in capital outlay.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended September 30, 2021

	<u>2020</u>	<u>2021</u>	<u>Variance</u>	<u>Percent</u>
Revenues				
Licenses and Permits	\$ 5,475	\$ 5,875	\$ 400	7.31%
Federal Grants	228,991	533,788	304,797	133.10%
State Grants	3,136,049	3,556,717	420,668	13.41%
Contributions	34,987	90,890	55,903	159.78%
Charges for Services	2,245,180	2,239,158	(6,022)	(0.27%)
Interest and Royalties	73,046	26,028	(47,018)	(64.37%)
Other Revenue	<u>2,240</u>	<u>38,582</u>	<u>36,342</u>	<u>1622.41%</u>
Total Revenues	<u>5,725,968</u>	<u>6,491,038</u>	<u>765,070</u>	<u>13.36%</u>
Expenditures				
Public Works	5,038,903	5,938,608	899,705	17.86%
Capital Outlay	298,603	(139,485)	(438,088)	(146.71%)
Debt Service	<u>261,552</u>	<u>190,568</u>	<u>(70,984)</u>	<u>(27.14%)</u>
Total Expenditures	<u>5,599,058</u>	<u>5,989,691</u>	<u>390,633</u>	<u>6.98%</u>
Excess of Revenues Over (Under) Expenditures	126,910	501,347	390,633	6.98%
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	172	250	78	45.35%
Proceeds from Installment Purchase	<u>69,000</u>	<u>-</u>	<u>(69,000)</u>	<u>(100.00%)</u>
Total Other Financing Sources (Uses)	<u>69,172</u>	<u>250</u>	<u>(68,922)</u>	<u>(99.64%)</u>
Net Change in Fund Balance	196,082	501,597	305,515	155.81%
Fund Balance--Beginning	<u>3,681,478</u>	<u>3,877,560</u>	<u>196,082</u>	<u>5.33%</u>
Fund Balance--Ending	<u>\$3,877,560</u>	<u>\$4,379,157</u>	<u>\$501,597</u>	<u>12.94%</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended September 30, 2021

Budgetary Highlights

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

The final revenue budget for fiscal year ending September 30, 2021, was lower than the original budget by \$169,415. This was due, in part, to decreases in federal grants and less state Maintenance funding.

The actual revenue recognized during the current fiscal year was more than the final amended budget by \$31,069.

The final amended expenditure budget for the current fiscal year was \$549,299 less than the original budget, primarily due to less Primary and local road preservation / structural improvements than originally anticipated, less net equipment expenses, and lower state trunkline maintenance expenses, offset by more state trunkline non-maintenance. The actual expenditures recognized during the current fiscal year were \$35,121 lower than the final amended budget.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended September 30, 2021

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2021, the Road Commission had \$ 13,978,785 invested in capital assets as follows:

	<u>9/30/2020</u>	<u>9/30/2021</u>	<u>Percentage Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 357,407	\$ 357,407	0.00%
Construction in Progress	-	28,350	100.00%
Infrastructure--Land and Improvements	<u>1,537,473</u>	<u>1,537,473</u>	<u>0.00%</u>
Subtotal	<u>1,894,880</u>	<u>1,923,230</u>	<u>1.50%</u>
Capital Assets being Depreciated			
Land Improvements	50,519	50,519	0.00%
Buildings	3,596,033	3,596,033	0.00%
Road Equipment	6,465,337	6,761,120	4.57%
Shop Equipment	241,614	249,114	3.10%
Yard Equipment	16,603	16,603	0.00%
Office Equipment	52,285	52,285	0.00%
Engineer's Equipment	33,563	33,563	0.00%
Depletable Assets	234,913	234,913	0.00%
Infrastructure--Bridges	4,132,879	4,090,673	(1.02%)
Infrastructure--Roads	<u>13,173,835</u>	<u>14,096,159</u>	<u>7.00%</u>
Subtotal	<u>27,997,581</u>	<u>29,180,982</u>	<u>4.23%</u>
Total Capital Assets	<u>29,892,461</u>	<u>31,104,212</u>	<u>4.05%</u>
Total Accumulated Depreciation	<u>(15,570,250)</u>	<u>(17,125,427)</u>	<u>9.99%</u>
Total Net Capital Assets	<u><u>\$ 14,322,211</u></u>	<u><u>\$ 13,978,785</u></u>	<u><u>(2.40%)</u></u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended September 30, 2021

The Road Commission reported infrastructure current year asset additions in the amount of \$989,601. Infrastructure assets are financed through Federal, State, and local contributions.

Current year's major additions included the following:

Infrastructure	\$ 989,601.00
Construction in Progress	\$ 28,350.00
Equipment	<u>304,115.00</u>
Total Additions	<u>\$ 1,322,066.00</u>

More detailed information about the Road Commission's capital assets is presented in Note D to the financial statements.

Debt

The Road Commission currently has debt in the amount of \$910,562 for the fiscal year ending September 30, 2021. Bonds on the building amount to \$870,000, which will be paid off over a remaining period of six (6) years. The Road Commission also owes on one installment purchase contract for equipment totaling \$40,562 that will be paid off over a remaining period of two (2) years. Vested employee benefits long-term debt amounts to \$110,380. More detailed information about the Road Commission's long-term debt is presented in Note E to the financial statements.

The outstanding debt excluding vested employee benefits long-term debt of the Road Commission as of September 30, 2021 was as follows:

	<u>Balances</u> 09/30/20	<u>Balances</u> 09/30/21
2012 MTF Refunding Bonds	\$ 995,000	\$ 870,000
2017 Installment Purchase - Equipment	7,894	-
2020 Installment Purchase - Equipment	<u>63,349</u>	<u>40,562</u>
Total	<u>\$ 1,066,243</u>	<u>\$ 910,562</u>



## SCHOOLCRAFT COUNTY ROAD COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2021

#### Next Year's Budget

The Board considered many factors when setting the fiscal year 2022 budget. The most significant change from the previous year budget was the increase in Federal STP and State D funding based on projected road and bridge projects; the increase in MDOT funding and expense for a new salt shed; and the increase in MTF funds for 2022. Amounts available for appropriation in the 2022 budget for projected revenues are \$8,584,187 and projected expenditures are \$8,398,414.

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

#### Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens, and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Schoolcraft County Road Commission administrative offices at Tannery Location, Manistique, Michigan 49854, (906) 341-5634.

SCHOOLCRAFT COUNTY ROAD COMMISSION  
STATEMENT OF NET POSITION  
September 30, 2021

EXHIBIT A

ASSETS

Cash	\$ 4,709,355
Accounts Receivable	
State Trunkline Maintenance	64,311
Michigan Transportation Fund	298,488
Due from State--Other	173,928
Due on County Road Agreements	51,254
Sundry Accounts	2,612
Inventories	
Road Materials	576,399
Equipment Parts and Materials	223,384
Prepaid Expenses	106,476
Capital Assets--Depreciating	12,055,555
Capital Assets--Non-Depreciating	1,923,230
Total Assets	<u>20,184,992</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows--Pension Assumptions	448,749
Deferred Outflows--Pension Experience	77,545
Deferred Outflows--Employer Pension Contributions	1,014,258
Deferred Outflows--OPEB Assumptions	47,328
Total Deferred Outflows of Resources	<u>1,587,880</u>

LIABILITIES

Current Liabilities	
Accounts Payable	114,513
Due to State	8,369
Accrued Liabilities	73,974
Driveway Plowing Deposits	16,204
Non-Current Liabilities	
Advance from State	423,767
Unearned Revenues--Forest Road Funds	1,190,223
Bonds Payable--Due Within One Year	130,000
Bonds Payable--Due in More than One Year	740,000
Installment Purchase Agreements Payable--Due Within One Year	23,071
Installment Purchase Agreements--Due in More than One Year	17,491
Vested Employee Benefits Payable Due Within One Year	101,000
Vested Employee Benefits Payable--Due in More than One Year	9,380
Net OPEB Liability	(32,176)
Net Pension Liability	7,893,258
Total Liabilities	<u>10,709,074</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows--Pension Investments	257,438
Deferred Inflows--Pension Experience	89,395
Deferred Inflows--OPEB Investments	101,897
Deferred Inflows--OPEB Experience	130,447
Deferred Inflows--OPEB Assumptions	85,522
Total Deferred Inflows of Resources	<u>664,699</u>

NET POSITION

Net Investment in Capital Assets	13,068,223
Unrestricted	(2,669,124)
Total Net Position	<u>\$ 10,399,099</u>

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

SCHOOLCRAFT COUNTY ROAD COMMISSION  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended September 30, 2021

EXHIBIT B

Program Expenses	
Primary Road Routine and Preventive Maintenance	\$ 1,494,104
Local Road Routine and Preventive Maintenance	882,893
State Trunkline Maintenance	2,118,743
Net Equipment Expense	(3,230)
Net Administrative Expense	455,912
Infrastructure Depreciation	1,193,542
Other Non-Road Maintenance	585
Compensated Absences	6,914
Pension Expense	(309,014)
Other Post Employment Benefits	(518,267)
Interest Expense	34,887
	<hr/>
Total Program Expenses	5,357,069
	<hr/>
Program Revenue	
Charges for Services	
License and Permits	5,875
Charges for Services	2,239,158
Operating Grants and Contributions	
Michigan Transportation Funds	3,394,526
Investment Earnings & Royalties	26,028
Capital Grants and Contributions	
Federal Grants	533,788
State Grants	162,191
Contributions	129,472
	<hr/>
Total Program Revenue	6,491,038
	<hr/>
Net Program Revenue	1,133,969
	<hr/>
General Revenue	
Gain on Equipment Disposal	250
	<hr/>
Total General Revenue	250
	<hr/>
Change in Net Position	1,134,219
	<hr/>
Net Position	
Beginning of Year	9,264,880
	<hr/>
End of Year	\$ 10,399,099
	<hr/> <hr/>

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

SCHOOLCRAFT COUNTY ROAD COMMISSION  
 BALANCE SHEET--GOVERNMENTAL FUND  
 September 30, 2021

EXHIBIT C

<u>ASSETS</u>	<u>General Operating Fund</u>
Cash	\$ 4,709,355
Accounts Receivable	
State Trunkline Maintenance	64,311
Michigan Transportation Fund	298,488
Due from State--Other	173,928
Due on County Road Agreements	51,254
Sundry Accounts	2,612
Inventories	
Road Materials	576,399
Equipment Parts and Materials	223,384
Prepaid Expenses	<u>106,476</u>
Total Assets	<u>\$ 6,206,207</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</u>	
Liabilities	
Accounts Payable	\$ 114,513
Due to State	8,369
Accrued Interest Payable	5,224
Other Accrued Liabilities	68,750
Advances	
Driveway Plowing	16,204
State of Michigan	423,767
Unearned Revenues--Forest Road Funds	<u>1,190,223</u>
Total Liabilities	<u>1,827,050</u>
Fund Balance	
Fund Balance	
Nonspendable:	
Inventory	799,783
Prepaid Expenses	106,476
Restricted for Road Operations	<u>3,472,898</u>
Total Fund Balance	<u>4,379,157</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 6,206,207</u>

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

SCHOOLCRAFT COUNTY ROAD COMMISSION  
RECONCILIATION OF THE GOVERNMENTAL FUND  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
September 30, 2021

EXHIBIT D

Total Governmental Fund Balance \$ 4,379,157

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

Capital assets used in governmental activities are not financial resources and,  
therefore, are not reported in the fund. 13,978,785

Long-term liabilities are not due and payable in the current period  
and are not reported in the fund. (1,020,942)

Net pension liability is not due and payable in the current period and is  
not reported in the funds. (7,893,258)

Certain pension contributions and changes in pension plan net position are  
reported as deferred outflows of resources in the statement of net position, but  
are reported as expenses in the governmental funds. 1,193,719

The liability for other post employment benefits is not due and payable in the  
current period and is not reported in the funds. 32,176

Certain changes in OPEB plan net position are reported as deferred outflows and  
deferred inflows of resources in the statement of net position, but are reported  
as expenses in the governmental funds. (270,538)

Net Position of Governmental Activities \$ 10,399,099

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

SCHOOLCRAFT COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
For the Fiscal Year Ended September 30, 2021

EXHIBIT E

	General Operating Fund
Revenues	
Licenses and Permits	\$ 5,875
Federal Grants	533,788
State Grants	3,556,717
Contributions from Local Units	90,890
Charges for Services	2,239,158
Interest and Royalties	26,028
Other Revenue	38,582
	<hr/>
Total Revenues	6,491,038
	<hr/>
Expenditures	
Public Works	5,938,608
Capital Outlay	(139,485)
Debt Service	190,568
	<hr/>
Total Expenditures	5,989,691
	<hr/>
Excess of Revenues Over (Under) Expenditures	501,347
	<hr/>
Other Financing Sources (Uses)	
Proceeds from Sale of Capital Assets	250
	<hr/>
Total Other Financing Sources (Uses)	250
	<hr/>
Net Change in Fund Balance	501,597
	<hr/>
Fund Balance--October 1, 2020	3,877,560
	<hr/>
Fund Balance--September 30, 2021	\$ 4,379,157
	<hr/> <hr/>

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

SCHOOLCRAFT COUNTY ROAD COMMISSION  
 RECONCILIATION OF THE GOVERNMENTAL  
 FUND STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE TO THE  
 STATEMENT OF ACTIVITIES  
 For the Fiscal Year Ended September 30, 2021

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ 501,597

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 as depreciation expense. This is the amount  
 by which capital outlays exceeded depreciation in the current period. (343,426)  
 Equipment retirement is recorded as an expenditure credit in governmental  
 funds, but not recorded as an expense in the Statement of Activities.

Lease proceeds provide current financial resources to governmental funds,  
 but entering into lease agreements increases long-term liabilities in the 155,681  
 Statement of Net Position. Repayment of notes/leases payable is an  
 expenditure in governmental funds, but reduces the long-term liabilities in the  
 Statement of Net Position.

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 governmental funds (increase in compensated absences, OPEB). (6,914)

Certain changes in the pension liability reported in the Statement of Activities does not  
 require the use of resources, and therefore, is not reported in the fund statements until it  
 comes due for payment. 309,014

Certain changes in the OPEB liability reported in the Statement of Activities does not  
 require the use of resources, and therefore, is not reported in the fund statements until it  
 comes due for payment. 518,267

Change in Net Position of Governmental Activities \$ 1,134,219

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

SCHOOLCRAFT COUNTY ROAD COMMISSION  
STATEMENT OF PLAN NET POSITION--  
FIDUCIARY FUND  
September 30, 2021

EXHIBIT G

OPEB  
Trust

ASSETS

Investments at Fair Value--Money Markets

\$ 1,101,660

Total Assets

1,101,660

LIABILITIES

Total Liabilities

-

NET POSITION

Restricted for Other Postemployment Benefits

\$ 1,101,660

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



SCHOOLCRAFT COUNTY ROAD COMMISSION  
STATEMENT OF CHANGES IN PLAN NET POSITION--  
FIDUCIARY FUND  
For the Fiscal Year Ended September 30, 2021

EXHIBIT H

	<u>OPEB Trust</u>
<u>ADDITIONS</u>	
Contributions	
Employer Contributions	<u>\$ 120,000</u>
Total Contributions	<u>120,000</u>
Investment Earnings	
Interest and Dividends	<u>174,590</u>
Total Investment Earnings	<u>174,590</u>
Net Investment Earnings	<u>174,590</u>
Total Additions	<u>294,590</u>
<u>DEDUCTIONS</u>	
Administrative Expenses	<u>5,096</u>
Total Deductions	<u>5,096</u>
Changes in Net Position	289,494
Net Position Restricted for Other Postemployment Benefits	
Beginning of Year	<u>812,166</u>
End of Year	<u><u>\$ 1,101,660</u></u>

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

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2021

### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### Reporting Entity

The Road Commission, which is established pursuant to the County Road Law, Michigan Compiled Laws (MCL) 224.1, is governed by an elected 5-member Board of County Road Commissioners (Board). The Road Commission may not issue debt or levy a tax without the approval of the County Board of Commissioners. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors. The taxes would be included as part of the county's total tax levy as well as reported in the County Road Fund.

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

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

#### Basis of Presentation--Government-Wide Financial Statements

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

The Statement of Net Position presents the Road Commission's assets and liabilities with the difference being reported as either net investment in capital assets or restricted net position

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 revenue.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

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

Basis of Presentation--Fund Financial Statements

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

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

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

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

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures, generally, are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

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

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

Cash, Cash Equivalents and Investments

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

Inventories

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

Prepaid Expenses

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

Capital Assets

Capital assets, include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the General Operating Fund in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$3,000 and an estimated useful life in excess of two years and all equipment with a C-rate. Such assets are recorded at cost or an estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation

Depreciation is computed on the sum-of-the-years-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

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

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

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

Long-Term Obligations

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. In this category, deferred outflows of resources are related to the defined benefit pension and OPEB plans. The deferred outflows of resources related to pensions and OPEB are from the following sources: difference between expected and actual experience, changes in assumptions, net difference between projected and actual earnings on pension plan investments, and employer contributions to the plan subsequent to the measurement date.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that is applicable to a future reporting period. In this category deferred inflows of resources are related to unavailable revenues for Forest Road funds and differences between projected and actual earnings on pension and OPEB plan investments. Unavailable revenue represents amounts that do not meet the available criteria, such as grants received before the expenditure is incurred.

Pensions

For the purpose of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to / deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated Absences (Vacation and Sick Leave)

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year; and a two (2) year maximum accumulation is allowed.

Each regular employee shall earn sick leave with pay at the rate of one (1) day per month upon

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2021

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

completion of one (1) year steady employment. Sick leave may be accumulated to a maximum of 105 days. The Road Commission's sick leave benefits policy provides for payment of 100% of the accumulated benefits, to a maximum of 105 days, when an employee takes regular retirement or a disability retirement.

#### Use of Estimates

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

#### Fund Balance Classifications

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

- Nonspendable – includes fund balance amounts that cannot be spent either because (a) it is not in spendable form; or (b) because it is legally or contractually required to be maintained intact. For the Road Commission, the non-spendable balance reflects the inventory on hand in the amount of \$799,783, and prepaid expenses in the amount of \$106,476.
- Restricted – includes fund balance amounts that can be spent only for specific purposes stipulated by the State Constitution, external resource providers, or through enabling legislation.
- Committed – includes fund balance amounts that can be used only for specific purposes determined by a formal action of the government's highest level of decision-making authority.
- Assigned – includes fund balance amounts that are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Fund balance may be assigned by the Engineer/Manager or his/her/their designee.
- Unassigned – is to be used only to report a deficit balance from overspending for specific purposes for which amounts have been restricted, committed, or assigned.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

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

When the Road Commission incurs an expenditure for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the policy of the Road Commission to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, the Road Commission's policy would first use committed amounts, followed by assigned amounts and then unassigned amounts. The Road Commission does not have a formal minimum balance policy.

NOTE B--STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to Public Act (PA) 2 of 1968, MCL 141.421, which requires the Board of County Road Commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (CAO) (engineer/manager) prepares and submits a proposed operating budget to the Board of County Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year and is approved by the Board. Also, the Board has authorized the CAO to amend the Road Commission budget, when necessary, without increasing the overall budget, by transferring up to 15% from one line-item to another. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

Budget Violations

PA 2 of 1968, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. Although the actual 2021 expenditures were within the final amended budget by a total of \$35,121, some expenditure activities exceeded the amounts appropriated.

Expenditures by activity that exceeded appropriations are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road Routine and Preventive Maintenance	\$ 1,386,903	\$ 1,489,278	\$ (102,375)
Primary Road Structures Preservation / Structural Improvements	58,750	60,517	(1,767)
Local Road Structures Preservation / Structural Improvements	-	6,760	(6,760)
State Trunkline Maintenance	1,770,250	1,781,517	(11,267)
State Trunkline Non-Maintenance	333,049	337,226	(4,177)
Administrative Expense--Net	445,293	455,912	(10,619)

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE B--STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

The Road Commission will continue to develop budgetary control procedures to make sure that amendments are made to cover expenditures that may exceed amounts authorized in the General Appropriations Act.

NOTE C--DEPOSITS AND INVESTMENTS

MCL 129.91, authorizes the county treasurer to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investments by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Road Commission deposits are in accordance with statutory authority.

The OPEB Trust Fund was established with the Constellation Trust Company as governmental trust under Section 115 of the Internal Revenue Code to hold the assets of the retiree health funding vehicle and is administered under the discretion of Constellation Trust Company as fiduciary, directly by (or through a combination of) Constellation Trust Company and the Road Commission's Director of Finance whom directs payment of fund monies for the benefit of eligible employees under the road commission's retiree healthcare benefit program. The OPEB Trust Fund investments are authorized by PA 314 of 1965, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. Investments within the Trust are in accordance with statutory authority.

The investment policy adopted by the Board in accordance with PA 20 of 1943, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.



SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

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

	General Operating Fund	OPEB Trust Fund	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Cash	\$ 4,709,355	\$ -	\$ 4,709,355
Investments	-	1,101,660	1,101,660
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	<u>\$ 4,709,355</u>	<u>\$ 1,101,660</u>	<u>\$ 5,811,015</u>

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposits)	\$ 4,704,055
Imprest Cash	<u>5,300</u>
Total	<u>\$ 4,709,355</u>

The bank balance of the Road Commission’s deposits is \$5,060,863, of which \$250,000 is covered by Federal depository insurance.

Non-negotiable certificates of deposits that are placed by the depositors directly with financial institutions and that are subject to a penalty if redeemed before maturity are treated as bank deposits. Because non-negotiable certificates of deposits are deposits, no interest rate risk or credit risk disclosures are required, which are limited to investments.

Investments Authorized by the Road Commission’s Investment Policy

The Road Commission’s investment policy authorizes investment in all those that are authorized by law. As stated above, the Road Commission’s General Operating Fund did not have any investments in the fiscal year ending September 30, 2021.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds (money market fund) do not have a rating provided by a nationally recognized statistical rating organization.

The Road Commission's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over-concentration in a specific maturity, individual financial institution(s), or a specific class of securities.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Road Commission's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Michigan law does not contain legal requirements that would limit the exposure to custodial credit risk for investments. However, the Road Commission's investment policy does contain a safekeeping and custody section that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The Road Commission is not exposed to custodial credit risk for investments.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs.

There are three (3) levels of inputs that may be used to measure fair value:

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

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

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

Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period).

Unobservable inputs reflect the organization’s own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy.

The Road Commission had the following fair value measurements for investments as of September 30, 2021:

	Fair Value Measurements			Total	Weighted Average Maturity	S&P Rating
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			
Constellation Trust Mutual Funds	\$ 1,101,660	\$ -	\$ -	\$ 1,101,660	N/A	N/A
Total Investments at Fair Value	\$ 1,101,660	\$ -	\$ -	\$ 1,101,660		

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations. As of September 30, 2021, rating information on the Road Commission’s investments is presented above.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk

The Road Commission will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio.

Concentration of Credit Risk

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

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE D--CAPITAL ASSETS

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

	Beginning Balances	Additions	Deductions	Ending Balances
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 357,407	\$ -	\$ -	\$ 357,407
Construction in Progress	-	28,350	-	28,350
Infrastructure--Land Improvements	1,537,473	-	-	1,537,473
<b>Subtotal</b>	<b>1,894,880</b>	<b>28,350</b>	<b>-</b>	<b>1,923,230</b>
<b>Capital Assets Being Depreciated</b>				
Land Improvements	50,519	-	-	50,519
Buildings	3,596,033	-	-	3,596,033
Road Equipment	6,465,337	296,615	832	6,761,120
Shop Equipment	241,614	7,500	-	249,114
Yard Equipment	16,603	-	-	16,603
Office Equipment	52,285	-	-	52,285
Engineer's Equipment	33,563	-	-	33,563
Depletable Assets	234,913	-	-	234,913
Infrastructure--Bridges	4,132,879	67,277	109,483	4,090,673
Infrastructure--Roads	13,173,835	922,324	-	14,096,159
<b>Total</b>	<b>27,997,581</b>	<b>1,293,716</b>	<b>110,315</b>	<b>29,180,982</b>
<b>Less Accumulated Depreciation</b>				
Land Improvements	50,518	-	-	50,518
Building	2,210,255	91,346	-	2,301,601
Road Equipment	5,453,772	365,868	832	5,818,808
Shop Equipment	192,305	7,113	-	199,418
Yard Equipment	2,480	1,660	-	4,140
Office Equipment	38,009	5,020	-	43,029
Engineer's Equipment	27,819	669	-	28,488
Depletable Assets	22,846	274	-	23,120
Infrastructure--Bridges	743,094	99,908	109,483	733,519
Infrastructure--Roads	6,829,152	1,093,634	-	7,922,786
<b>Total</b>	<b>15,570,250</b>	<b>1,665,492</b>	<b>110,315</b>	<b>17,125,427</b>
<b>Net Capital Assets Being Depreciated</b>	<b>12,427,331</b>	<b>(371,776)</b>	<b>-</b>	<b>12,055,555</b>
<b>Total Net Capital Assets</b>	<b>\$ 14,322,211</b>	<b>\$ (343,426)</b>	<b>\$ -</b>	<b>\$ 13,978,785</b>

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE D--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 365,868
Indirect Equipment	
Shop Building	91,346
Shop Equipment	7,113
Yard Equipment	1,660
Net Administrative Expenses	
Office Equipment and Furniture	5,020
Engineer Equipment	669
Depletable Assets	274
Infrastructure Depreciation Expense	<u>1,193,542</u>
 Total Depreciation Expense	 <u><u>\$ 1,665,492</u></u>

NOTE E--LONG-TERM DEBT

The general long-term debt obligations of the Road Commission and changes therein, may be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Due in One Year</u>
Bonds Payable					
Michigan Transportation Fund Bonds					
Series 2012	\$ 995,000	\$ -	\$ (125,000)	\$ 870,000	\$ 130,000
Installment Purchase Contract					
The State Savings Bank--2017 Equipment	7,894	-	(7,894)	-	-
Installment Purchase Contract					
The State Savings Bank--2020 Equipment	63,349	-	(22,787)	40,562	23,071
Vested Employee Benefits					
Vacation and Sick Leave	<u>103,466</u>	<u>89,119</u>	<u>(82,205)</u>	<u>110,380</u>	<u>101,000</u>
Totals	<u><u>\$ 1,169,709</u></u>	<u><u>\$ 89,119</u></u>	<u><u>\$ (237,886)</u></u>	<u><u>\$1,020,942</u></u>	<u><u>\$ 254,071</u></u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE E--LONG-TERM DEBT (Continued)

The annual interest and principal requirements of the Road Commission's long-term borrowing excluding vested employee benefits may be summarized as follows:

Year	Principal	Interest	Annual Total
2022	\$ 153,071	\$ 31,723	\$ 184,794
2023	157,491	27,409	184,900
2024	140,000	22,628	162,628
2025	145,000	17,728	162,728
2026	155,000	12,290	167,290
2027	160,000	6,400	166,400
Total	<u>\$ 910,562</u>	<u>\$ 118,178</u>	<u>\$ 1,028,740</u>

Bonds Payable

Michigan Transportation Fund Bonds, Series 2012

On June 27, 2012, the County of Schoolcraft approved a \$1,825,000 Michigan Transportation Fund Refunding Bond issue, Series 2012, to refund the 2002 bond issue that was for the purpose of constructing Road Commission buildings. An advance refunding bond issue occurs when a new debt is issued to refinance an existing debt (old debt), but the proceeds must be placed in escrow pending call date or maturity. The difference between the cash flow required to service the old debt and the new debt and complete the refunding is \$230,546. The economic gain from the transaction (difference between the present value of the old debt service requirement and the present value of new debt service requirement, discounted at the effective interest rate on the new debt and adjusted for any additional cash) is \$178,100. The total bond issuance cost, including issuance cost, underwriter's discount, insurance fee, and additional proceeds, was \$18,033. The refunding bonds are payable over the period of 2013 to 2027 at interest rates that range from 1.1% to 4.0%.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE E--LONG-TERM DEBT (Continued)

The terms and annual principal and interest requirements are as follows:

Terms: Date of issue was June 27, 2012, in the amount of \$1,825,000 at variable interest rates paid semi-annually with interest ranging from 1.1% to 4.0% commencing on February 1, 2013 through August 1, 2027, and annual principal payments ranging from \$85,000 to \$160,000.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2022	\$ 130,000	\$ 31,348	\$ 161,348
2023	140,000	27,318	167,318
2024	140,000	22,628	162,628
2025	145,000	17,728	162,728
2026	155,000	12,290	167,290
2027	160,000	6,400	166,400
Total	<u>\$ 870,000</u>	<u>\$ 117,712</u>	<u>\$ 987,712</u>

Promissory Note Payable--Equipment Purchases

The Road Commission financed the purchase of a Gradall with the State Savings Bank of Manistique on June 25, 2020. The terms and annual principal and interest requirements are as follows:

Terms: Purchase price of \$69,000 at 1.25% interest, requiring monthly payments of \$1,953.85 beginning July 25, 2020.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 23,071	\$ 375	\$ 23,446
2023	17,491	91	\$ 17,582
Total	<u>\$ 40,562</u>	<u>\$ 466</u>	<u>\$ 41,028</u>



SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE E--LONG-TERM DEBT (Continued)

Vested Employee Benefits Payable

Vacation Benefits

Vacation benefits are earned in varying amounts depending on the employee's years of service. Prior to January 1, 1993, the Road Commission's vacation policy required all vacation benefits to be used within the calendar year in which they were credited. New vacation policies provide for all employees to be credited on January 1, 1993, with the vacation benefits they earned for the year 1992, and the 1993 vacation benefits to be credited on a per month basis with employees permitted to accumulate up to a maximum of 2 years of vacation benefits. The liability recorded in the long-term debt for vacation earned but not used, as of September 30, 2021, totaled \$72,015.

Sick Leave Benefits

Sick leave benefits are earned at the rate of one (1) day for each calendar month in which the employee has worked at least 12 days and the maximum accumulation will be 105 days. Upon retirement or death, an employee, or his estate, shall be paid for 100% of accumulated sick leave. The accumulated sick leave of \$38,365 recorded in the long-term debt consists of 100% of the maximum accumulated sick leave as of September 30, 2021.

The Road Commission has estimated the current portion of vested employee benefits payable within one (1) year based on historical trends and current policies regarding usage of these benefits.

NOTE F--DEFERRED COMPENSATION PLAN

The Board offers all Road Commission employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The assets of the plan are held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrator (PEBSCO) is an agent of the employer for purposes of providing direction to the custodian of the account regarding investment of funds, transfer of assets to or from the accounts, and all other matters. In accordance with the provisions of GASB Statement No. 32, the plan balances and activities are not reflected in the Road Commission's financial statements.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE G--EMPLOYEES' RETIREMENT SYSTEM

General Information about the Pension Plan

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

*Benefits Provided--Defined Benefit:* The Road Commission's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, established and amends the benefit provisions of the participants in MERS.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

2020 Valuation

	<u>01 - General Closed to new hires, linked to Division 10</u>
Benefit Multiplier:	2.50% Multiplier (80% max)
Normal Retirement Age	60
Vesting:	6 years
Early Retirement (Unreduced):	55/30
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
COLA for Future Retirees:	2.50% (Non-Compound)
COLA for Current Retirees:	2.505 (Non-Compound)
Employee Contributions:	0.00%
Act 88:	Yes (Adopted 7/11/2007)
	<u>10 - General after 3/21/2013: Open Division, linked to Division 01</u>
Benefit Multiplier:	2.00% Multiplier (no max)
Normal Retirement Age	60
Vesting:	10 years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
Employee Contributions:	0.00%
Act 88:	Yes (Adopted 7/11/2007)

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

*Employees covered by benefit terms:* As of December 31, 2020, measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	42
Inactive employees entitled to but not yet receiving benefits (including refunds)	5
Active employees	<u>20</u>
Total Employees covered by MERS Plan	<u>67</u>

*Contributions:* Const 1963, art 9, § 24 requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ending September 30, 2021, the Road Commission's contribution rate was \$56,525 per month based on annual payroll for all employees.

Net Pension Liability

The employer's net pension liability reported as of September 30, 2021, was determined using a measure of the total pension liability and the pension net position as of December 31, 2020. The December 31, 2020, total pension liability was determined by an annual actuarial valuation performed as of that date.

*Actuarial assumptions:* The total pension liability in the December 31, 2020, annual 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	7.35%, net of investment expense, including inflation

Mortality rates used were a version of Pub-2010 and Fully generational MP-2019, based upon the experience study dated February 14, 2020.

The actuarial assumptions used in the December 31, 2020; valuation was based on the results of the most recent actuarial experience study in 2014-2018.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

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 as of December 31, 2020, the measurement date, for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Gross Return</u>	<u>Long-Term Expected Gross Return Contribution</u>	<u>Inflation Assumption</u>	<u>Long-Term Real Rate of Return</u>
Global Equity	60%	7.75%	4.65%	2.50%	3.15%
Global Fixed Income	20%	3.75%	0.75%	2.50%	0.25%
Private Investments	<u>20%</u>	9.75%	<u>1.95%</u>	2.50%	<u>1.45%</u>
Total	<u>100%</u>		<u>7.35%</u>		<u>4.85%</u>

*Discount rate:* The discount rate used to measure the total pension liability is 7.60% for 2020. 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.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

<u>Changes in Net Pension Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Net Position</u>	<u>Net Pension Liability</u>
Balances as of December 31, 2019	\$ 15,826,168	\$ 7,678,466	\$ 8,147,702
Changes for the Year:			
Service Cost	106,144	-	106,144
Interest	1,160,453	-	1,160,453
Difference between expected and actual experience	116,318	-	116,318
Difference between expected and actual assumptions	422,243	-	422,243
Contributions--Employer	-	1,116,546	(1,116,546)
Net investment income	-	958,252	(958,252)
Benefit payments, including refunds	(1,220,269)	(1,220,269)	-
Administrative expense	-	(15,196)	15,196
Net changes	<u>584,889</u>	<u>839,333</u>	<u>(254,444)</u>
Balances as of December 31, 2020	<u>\$ 16,411,057</u>	<u>\$ 8,517,799</u>	<u>\$ 7,893,258</u>

*Sensitivity of the Net Pension Liability to changes in the discount rate:* The following presents the Net Pension Liability of the employer, calculated using the discount rate of 7.60%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (6.60%) or 1% higher (8.60%) than the current rate.

	<u>1% Decrease (6.60%)</u>	<u>Current Discount Rate (7.60%)</u>	<u>1% Increase (8.60%)</u>
Net Pension Liability as of December 31, 2020		\$ 7,893,258	
Change in Net Pension Liability (NPL)	\$ 9,588,348		\$6,451,349

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

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

For the year ending September 30, 2021, the Road Commission recognized pension expense of (\$309,014). As of September 30, 2021, the Road Commission reported deferred outflows of resources related to pensions from the following sources:

<u>Source</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Employer contributions to the plan subsequent to the measurement date*	\$ 1,014,258	\$ -
Net difference between projected and actual earnings on pension plan investments**	-	257,438
Net difference in pension assumptions	448,749	
Net difference in pension experience	<u>77,545</u>	<u>89,395</u>
Total	<u>\$ 1,540,552</u>	<u>\$ 346,833</u>

\*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the fiscal year ending September 30, 2022.

\*\*Amounts reported as deferred outflows of resources related to pensions will be recognized in the pension expense. These amounts are below.

<u>Years Ending September 30</u>	<u>Amount</u>
2021	\$ 207,258
2022	199,587
2023	(151,542)
2024	(75,842)

## SCHOOLCRAFT COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2021

#### NOTE H--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefit claims and participates in the Michigan County Road Commission Self-Insurance Pool (Pool) for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings, and contents) and workers' compensation. The Road Commission's maximum deductible for property and liability coverage and automobile coverage is \$1,000 per occurrence. The maximum liability, per occurrence, for property and liability is \$10,500,000. The automobile coverage provides for limits of liability of \$250,000 each person, \$500,000 each accident, and \$1,000,000 total. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

County road commissions in the State of Michigan established and created a trust fund known as the Pool pursuant to the provisions of PA 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities within the State. The Road Commission became a member of the Pool on March 1, 1986.

The Pool program operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund.

As of September 30, 2021, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road Commission have not exceeded the amount of insurance coverage in any of the past 4 years.

#### NOTE I--POSTEMPLOYMENT HEALTHCARE BENEFITS

*Plan Description:* The Road Commission provides postemployment healthcare benefits in accordance with the labor contract and personnel policy.

*Benefits Provided:* Effective December 23, 2009, upon retirement or disability retirement, from age 55 to 65 each employee will receive single subscriber health insurance benefits at a cost of \$224.10 each week paid by the Road Commission. The retiree will be required to reimburse to the Road Commission any costs incurred in excess of this amount. In order to be eligible, retirees must be at least 55 years of age and have worked a minimum of 15 years with the Road Commission. The benefit will cease when the retiree reaches 65 years of age. The expenditures are recognized as the insurance premiums become due.



SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE I--POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

*Employees covered by benefit terms.* As of September 30, 2021, the following employees were covered by the benefit terms:

Active members	5
Inactive members	0
Retirees and beneficiaries	<u>6</u>
 Total plan members	 <u><u>11</u></u>

*Contributions.* The Road Commission's OPEB plan was established and is being funded under the authority of the Road Commission and under agreements with the unions representing various classes of employees. The plan's funding policy is that the employer will contribute approximately \$120,000 per year. In addition, the Road Commission will pay retiree healthcare benefits from general operating funds until such time as the fund is sufficient to pay benefits. The plan has no legally required reserves.

*Net OPEB Liability.* The Road Commission's net OPEB liability was measured as of September 30, 2021.

*Actuarial Assumptions.* The total OPEB liability was determined by an actuarial valuation as of September 30, 2021. The following actuarial assumptions, applied to all periods included in the measurement:

Inflation	Included in investment rate of return
Salary increases	2.00%
Investment rate of return	4.27%
20-year Aa Municipal bond rate	2.43%
Mortality	2010 Public General Employees and Healthy Retirees, Headcount-weighted MP-2021 Mortality Improvement Scale

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE I--POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

The long-term expected rate of return on retirement plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of retirement plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the retirement plan's target asset allocation as of September 30, 2021 are summarized in the following table:

<u>Asset Class</u>	Long-Term Expected	
	<u>Target Allocation</u>	<u>Real Rate of Return</u>
Global Equity	64.0%	8.00%
Global Fixed Income	26.0%	5.50%
Real Estate	5.0%	6.20%
Diversifying Strategies	5.0%	2.75%
Cash	0.0%	50.00%

The sum of each target allocation times its long-term expected real rate is 7.00%, including inflation.

*Discount Rate.* The discount rate used to measure the total OPEB liability was 7.00%. The employer is assumed to make \$120,000 annual contributions. Given this assumption, the assets are projected to be sufficient to make projected future benefit payments of current plan members indefinitely. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. Because there is no Depletion Date (Cross-over Point) the effective discount rate is equal to the expected rate of return. This discount rate is used to determine the Total OPEB Liability. The discount rate used to determine the liability as of September 30, 2020 was 4.27%.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE I--POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

<u>Changes in Net OPEB Liability</u>	<u>OPEB Liability (a)</u>	<u>Fiduciary Net Position (b)</u>	<u>Net OPEB Liability (a)-(b)</u>
Balance as of September 30, 2020	\$ 1,604,152	\$ 812,166	\$ 791,986
Changes for the Year			
Service Cost	58,471	-	58,471
Interest	68,497	-	68,497
Experience (Gains)/Losses	(323,408)	-	(323,408)
Change in Actuarial Assumptions	(221,271)	-	221,271
Contributions/Benefit Paid from General Operating Fun	-	120,000	(120,000)
Net Investment Income	-	116,957	(116,957)
Benefit Payments (Including Refunds of Employee Contributions)	(116,957)	(116,957)	-
Administrative Expense	-	(5,096)	5,096
Total Changes	<u>(534,668)</u>	<u>289,494</u>	<u>(824,162)</u>
Balance as of September 30, 2021	<u>\$ 1,069,484</u>	<u>\$ 1,101,660</u>	<u>\$ (32,176)</u>

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net OPEB Liability of the Road Commission	\$ 20,012	\$ (32,176)	\$ (80,937)

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2021

NOTE I--POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

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

	Current Healthcare Cost		
	<u>1% Decrease</u>	<u>Trend Rate Assumption</u>	<u>1% Increase</u>
Net OPEB Liability of the Road Commission	\$ (88,655)	\$ (32,176)	\$ 28,822

*OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.* For the year ended September 30, 2021, the Road Commission recognized OPEB expense of (\$518,267). At September 30, 2021, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<u>Source</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 130,447
Assumption changes	47,328	85,522
Investment Earnings (Gains)/Losses	-	101,897
Total	<u>\$ 47,328</u>	<u>\$ 317,866</u>

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

<u>Year Ended September 30</u>	<u>Amount</u>
2022	\$ (191,949)
2023	(22,874)
2024	(28,225)
2025	(27,490)
2026	-
Thereafter	-

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2021

NOTE J--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ending September 30, 2021, the Road Commission received \$518,663 in Federal grants for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit.

During the fiscal year ending September 30, 2021, the Road Commission received and expended \$15,125 in Federal grants for negotiated (force account) projects. Negotiated projects are projects that are performed by the Road Commission and are subject to single audit requirements, if the amount expended is \$750,000 or more. A single audit was not required during the fiscal year ending September 30, 2021.

NOTE K--STATE TRUNKLINE MAINTENANCE REVENUE

The difference between the State Trunkline maintenance revenues of \$1,897,547 and expenditures of \$1,781,517 is the result of the Michigan Department of Transportation (MDOT) issuing auditor's report 2021-72 for the 2019 State Trunkline Maintenance contract. The result of the audit increased the payments by \$116,030.

NOTE L--UPCOMING REPORTING CHANGE

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, Leases, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Road Commission's financial statements for the 2023 fiscal year.

SCHOOLCRAFT COUNTY ROAD COMMISSION  
SCHEDULE OF CHANGES IN THE ROAD COMMISSION'S  
NET PENSION LIABILITY AND RELATED RATIOS\*  
For the Plan Year Ending December 31, 2020

EXHIBIT I

	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability							
Service Cost	\$ 106,144	\$ 113,169	\$ 107,106	\$ 93,813	\$ 107,736	\$ 111,605	\$ 142,426
Interest	1,160,453	1,194,414	1,170,652	1,153,384	1,144,774	1,090,093	1,071,981
Difference Between Expected and Actual Experience	116,318	(268,185)	194,422	99,297	(58,265)	118,125	-
Changes in Assumptions	422,243	501,760	-	-	-	810,342	-
Other	-	-	-	-	-	(763)	-
Benefit Payments Including Employee Refunds	(1,220,269)	(1,177,137)	(1,179,245)	(1,095,357)	(1,063,947)	(998,146)	(960,761)
Net Change in Total Pension Liability	584,889	364,021	292,935	251,137	130,298	1,131,256	253,646
Total Pension Liability--Beginning	15,826,168	15,462,147	15,169,212	14,918,075	14,787,777	13,656,521	13,402,875
Total Pension Liability--Ending	<u>\$ 16,411,057</u>	<u>\$ 15,826,168</u>	<u>\$ 15,462,147</u>	<u>\$ 15,169,212</u>	<u>\$ 14,918,075</u>	<u>\$ 14,787,777</u>	<u>\$ 13,656,521</u>
Plan Fiduciary Net Position							
Contributions--Employer	\$ 1,116,546	\$ 1,149,147	\$ 912,468	\$ 847,654	\$ 807,649	\$ 822,340	\$ 688,346
Contributions--Employees	-	26,188	-	-	-	-	-
Net Investment Income	958,252	919,892	(282,168)	878,278	705,262	(99,707)	403,998
Benefit Payments Including Employee Refunds	(1,220,269)	(1,177,137)	(1,179,245)	(1,095,357)	(1,063,947)	(998,146)	(960,761)
Administrative Expense	(15,196)	(15,747)	(13,905)	(13,924)	(13,938)	(14,393)	(14,781)
Net Change in Plan Fiduciary Net Position	839,333	902,343	(562,850)	616,651	435,026	(289,906)	116,802
Plan Fiduciary Net Position--Beginning	7,678,466	6,776,123	7,338,973	6,722,322	6,287,296	6,577,202	6,460,400
Plan Fiduciary Net Position--Ending	<u>\$ 8,517,799</u>	<u>\$ 7,678,466</u>	<u>\$ 6,776,123</u>	<u>\$ 7,338,973</u>	<u>\$ 6,722,322</u>	<u>\$ 6,287,296</u>	<u>\$ 6,577,202</u>
Employer Net Pension Liability	<u>\$ 7,893,258</u>	<u>\$ 8,147,702</u>	<u>\$ 8,686,024</u>	<u>\$ 7,830,239</u>	<u>\$ 8,195,753</u>	<u>\$ 8,500,481</u>	<u>\$ 7,079,319</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	52%	49%	44%	48%	45%	43%	48%
Covered Employee Payroll	\$ 1,065,915	\$ 1,088,766	\$ 1,008,908	\$ 838,376	\$ 957,342	\$ 1,071,002	\$ 1,074,102
Employer's Net Pension Liability as a Percentage of Covered Employee Payroll	741%	748%	861%	934%	856%	794%	659%

Notes to Schedule:

There were no benefit changes or changes in assumptions or methods affecting the 2020 valuation.

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

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

Changes in assumptions: In 2016, amounts reported as changes of assumptions resulted primarily from adjustments to the mortality table to reflect longer lifetimes, decreases in the assumed rate of return, and changes in asset smoothing. In 2020, amounts reported as changes of assumptions resulted primarily from a decrease in the assumed rate of return from , 7.75% to 7.35% and a decrease in the assumed rate of wage inflation from 3.75% to 3.00%. For 2020, a five year experience study analyzing historical experience from 2013 through 2018 was completed and changes in assumptions were made to update demographic assumptions. Adjustments were made to the following actuarial assumptions: mortality, retirement, disability, and termination rates.

SCHOOLCRAFT COUNTY ROAD COMMISSION  
 SCHEDULE OF ROAD COMMISSION'S CONTRIBUTIONS  
 For the Fiscal Year Ending September 30, 2021

EXHIBIT J

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Actuarial Determined Contributions	\$ 727,603	\$ 661,080	\$ 637,855	\$ 592,582	\$ 408,642	\$ 477,811	\$ 522,776	\$ 492,176	\$ 431,111	\$ 423,182
Contributions in Relation to the Actuarially Determined Contribution	1,241,212	1,101,080	1,142,855	981,755	807,649	822,340	688,347	663,210	564,606	496,688
Contribution Deficiency (Excess)	<u>\$ (513,609)</u>	<u>\$ (440,000)</u>	<u>\$ (505,000)</u>	<u>\$ (389,173)</u>	<u>\$ (399,007)</u>	<u>\$ (344,529)</u>	<u>\$ (165,571)</u>	<u>\$ (171,034)</u>	<u>\$ (133,495)</u>	<u>\$ (73,506)</u>
Covered Employee Payroll	\$ 1,065,915	\$ 1,088,766	\$ 1,008,908	\$ 838,376	\$ 957,342	\$ 1,071,002	\$ 1,074,102	\$ 1,050,832	\$ 1,031,916	\$ 1,111,005
Contributions as a Percentage of Covered Employee Payroll	116%	101%	113%	117%	84%	77%	64%	63%	55%	45%

Notes to Schedule:

Actuarial valuation information relative to the determination of contributions:

Valuation Date                      Actuarially determined contribution rates are calculated as of December 31 each year, which is 18 months prior to the beginning of the fiscal year in which the contributions are required.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	18 years
Asset valuation method	Five-year smoothed market
Inflation	2.5%
Salary Increases	3.00% in the long-term
Investment rate of return	7.35%, net of investment and administrative expense including inflation
Retirement age	Experienced-based tables of rates that are specific to the type of eligibility condition
Mortality	MP-2019 scale applied fully generationally from the Pub-2010 base year of 2010

SCHOOLCRAFT COUNTY ROAD COMMISSION  
SCHEDULE OF CHANGES IN THE ROAD COMMISSION'S  
NET OPEB LIABILITY AND RELATED RATIOS\*  
For the Fiscal Year Ending September 30, 2021

EXHIBIT K

	2021	2020	2019	2018	2017
Total OPEB Liability					
Service Cost	\$ 58,471	\$ 37,473	\$ 64,034	\$ 59,989	\$ 57,280
Interest	68,497	96,135	73,914	77,021	75,057
Difference Between Expected and Actual Experience	(323,408)	(24,571)	(201,001)	(24,814)	-
Change of Assumptions	(221,271)	213,392	(81,371)	28,252	
Benefit Payments Including Employee Refunds	(116,957)	(116,169)	(109,230)	(114,537)	(72,537)
Net Change in Total OPEB Liability	<u>(534,668)</u>	<u>206,260</u>	<u>(253,654)</u>	<u>25,911</u>	<u>59,800</u>
Total OPEB Liability Beginning	<u>1,604,152</u>	<u>1,397,892</u>	<u>1,651,546</u>	<u>1,625,635</u>	<u>1,565,835</u>
Total OPEB Liability Ending	<u><u>\$ 1,069,484</u></u>	<u><u>\$ 1,604,152</u></u>	<u><u>\$ 1,397,892</u></u>	<u><u>\$ 1,651,546</u></u>	<u><u>\$ 1,625,635</u></u>
Plan Fiduciary Net Position					
Contributions to OPEB Trust	\$ 120,000	\$ 130,000	\$ 110,000	\$ 50,000	\$ 50,000
Contributions/Benefit Payments Made From General Operating Funds	116,957	116,169	109,230	114,537	72,537
Net Investment Income	174,590	52,296	12,996	35,358	48,133
Benefit Payments Including Employee Refunds	(116,957)	(116,169)	(109,230)	(114,537)	(72,537)
Administrative Expenses	<u>(5,096)</u>	<u>(3,452)</u>	<u>(1,930)</u>	<u>(2,224)</u>	<u>(1,804)</u>
Net Change in Plan Fiduciary Net Position	<u>289,494</u>	<u>178,844</u>	<u>121,066</u>	<u>83,134</u>	<u>96,329</u>
Plan Fiduciary Net Position Beginning	<u>812,166</u>	<u>633,322</u>	<u>512,256</u>	<u>429,122</u>	<u>332,793</u>
Plan Fiduciary Net Position Ending	<u><u>\$ 1,101,660</u></u>	<u><u>\$ 812,166</u></u>	<u><u>\$ 633,322</u></u>	<u><u>\$ 512,256</u></u>	<u><u>\$ 429,122</u></u>
Employer Net OPEB Liability	<u><u>\$ (32,176)</u></u>	<u><u>\$ 791,986</u></u>	<u><u>\$ 764,570</u></u>	<u><u>\$ 1,139,290</u></u>	<u><u>\$ 1,196,513</u></u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	103%	51%	45%	31%	26%
Covered Employee Payroll	\$ 340,516	\$ 513,878	\$ 1,317,015	\$ 1,273,371	not available
Employer's Net OPEB Liability as a Percentage of Covered Employee Payroll	-9%	154%	58%	89%	n/a

Notes to Schedule:

There were no benefit changes or changes in assumptions or methods affecting the 2017 valuation.

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

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



SCHOOLCRAFT COUNTY ROAD COMMISSION  
SCHEDULE OF ROAD COMMISSION'S CONTRIBUTIONS--OPEB  
For the Fiscal Year Ending September 30, 2021

EXHIBIT L

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarial Determined Contributions	\$ 280,542	\$ 226,461	\$ 287,410	\$ 256,333	\$ 236,720
Contributions in Relation to the Actuarially Determined Contribution	<u>236,957</u>	<u>246,169</u>	<u>219,230</u>	<u>164,537</u>	<u>122,537</u>
Contribution deficiency (excess)	<u>\$ 43,585</u>	<u>\$ (19,708)</u>	<u>\$ 68,180</u>	<u>\$ 91,796</u>	<u>\$ 114,183</u>
Covered Employee Payroll	\$ 340,516	\$ 513,878	\$ 1,317,015	\$ 1,273,371	Not Available
Contributions as a Percentage of Covered Employee Payroll	70%	48%	17%	13%	n/a

Notes to Schedule

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

Actuarial Valuation Information Relative to the Determination of Contributions:

Valuation Date      September 30, 2021  
Measurement Date      September 30, 2021

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method      Entry Age Normal (level of percentage of compensation)  
Amortization Method      Level Dollar  
Discount Rate      4.27% for 2021 contribution; 7.00% for 2021 liability; Rationale - Blended rate based on long term  
expected return and the 20-year Aa Municipal Bond Rate  
20-year Aa Municipal Bond Rate      2.43%  
Inflation      Included in investment rate of return  
Payroll Inflation      2.0%  
Return on Plan Assets      7.00%  
Mortality      2010 Public General Employees and Healthy Retirees, Headcount weighted; MP-2021  
Rationale - Most current mortality rates available for municipalities

SCHOOLCRAFT COUNTY ROAD COMMISSION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 GENERAL OPERATING FUND--SCHEDULE OF  
 REVENUES AND OTHER FINANCING SOURCES  
 BUDGETARY COMPARISON SCHEDULE  
 For the Fiscal Year Ended September 30, 2021

EXHIBIT M

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 5,100	\$ 5,225	\$ 5,875	\$ 650
Federal Grants (Negotiated Projects)				
Highway Safety Improvement Program	-	-	15,125	15,125
Federal Grants (Contracted Projects)				
Surface Transportation Program	933,625	555,318	518,663	(36,655)
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,349,108	2,400,000	2,444,943	44,943
Local Road	711,619	730,277	737,151	6,874
Snow Removal	195,000	200,000	202,432	2,432
Rural Primary "D" Funds	112,560	162,191	162,191	-
Contributions from Local Units				
Townships	118,000	107,652	90,890	(16,762)
Charges for Services				
State Trunkline Maintenance	1,967,000	1,886,281	1,897,547	11,266
State Trunkline Non-Maintenance	130,000	333,049	337,226	4,177
Other Non-Road Services	8,000	1,806	1,861	55
Salvage Sales	2,500	2,500	2,524	24
Interest and Rents				
Interest Earned	50,000	27,320	23,739	(3,581)
Rents and Royalties	29,122	-	2,289	2,289
Other Revenue				
Timber Sales	-	6,500	6,562	62
Reimbursements	1,000	31,850	32,020	170
Total Revenues	6,622,634	6,459,969	6,491,038	31,069
Other Financing Sources				
Proceeds from Sale of Capital Assets	7,000	250	250	-
Total Other Financing Sources	7,000	250	250	-
Total Revenues and Other Financing Sources	6,629,634	6,460,219	<u>\$ 6,491,288</u>	<u>\$ 31,069</u>
Fund Balance--October 1, 2020	3,877,560	3,877,560		
Total Budget	<u>\$ 10,507,194</u>	<u>\$ 10,337,779</u>		

SCHOOLCRAFT COUNTY ROAD COMMISSION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 GENERAL OPERATING FUND--SCHEDULE OF  
 EXPENDITURES--BUDGETARY COMPARISON SCHEDULE  
 For the Fiscal Year Ended September 30, 2021

EXHIBIT N

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 1,200,000	\$ 864,135	\$ 849,273	\$ 14,862
Routine and Preventive Maintenance	1,376,019	1,386,903	1,489,278	(102,375)
Local Road				
Preservation/Structural Improvements	158,000	98,628	73,051	25,577
Routine and Preventive Maintenance	905,620	893,658	882,314	11,344
Primary Road Structures				
Preservation/Structural Improvements	196,959	58,750	60,517	(1,767)
Routine and Preventive Maintenance	5,000	4,931	4,826	105
Local Road Structures				
Preservation/Structural Improvements	10,423	-	6,760	(6,760)
Routine and Preventive Maintenance	5,000	9,192	579	8,613
State Trunkline				
Maintenance	1,950,000	1,770,250	1,781,517	(11,267)
Non-Maintenance	130,000	333,049	337,226	(4,177)
Other Non-Road Maintenance	8,647	656	585	71
Equipment Expense--Net	107,172	74,941		
Direct			\$ 970,581	
Indirect			573,383	
Operating			205,974	
Less: Equipment Rentals			<u>(1,753,168)</u>	78,171
Administrative Expense--Net	473,935	445,293		
Administrative Expense			649,725	
Handling Charge			(187,603)	
Purchase Discounts			<u>(6,210)</u>	(10,619)
Capital Outlay--Net	(175,182)	(106,142)		
Capital Outlay			332,465	
Less: Depreciation Credits			(471,950)	
Equipment Retirements			<u>-</u>	33,343
Debt Service				
Principal Payments	182,518	155,681	155,681	-
Interest Payments	<u>40,000</u>	<u>34,887</u>	<u>34,887</u>	-
Total Expenditures	6,574,111	6,024,812	<u>\$ 5,989,691</u>	<u>\$ 35,121</u>
Fund Balance--September 30, 2021	<u>3,933,083</u>	<u>4,312,967</u>		
Total Budget	<u>\$ 10,507,194</u>	<u>\$ 10,337,779</u>		

SCHOOLCRAFT COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND  
ANALYSIS OF CHANGES IN FUND BALANCES  
For the Fiscal Year Ended September 30, 2021

EXHIBIT O

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 3,310,669	\$ 888,343	\$ 2,292,026	\$ 6,491,038
Total Expenditures	<u>2,728,303</u>	<u>1,092,962</u>	<u>2,168,426</u>	<u>5,989,691</u>
Excess of Revenues Over (Under) Expenditures	582,366	(204,619)	123,600	501,347
Other Financing Sources (Uses)				
Optional Transfers	(750,000)	750,000	-	-
Proceeds from Sale of Capital Assets	<u>-</u>	<u>-</u>	<u>250</u>	<u>250</u>
Total Other Financing Sources (Uses)	<u>(750,000)</u>	<u>750,000</u>	<u>250</u>	<u>250</u>
Net Change in Fund Balance	(167,634)	545,381	123,850	501,597
Fund Balance--October 1, 2020	<u>1,065,875</u>	<u>435,824</u>	<u>2,375,861</u>	<u>3,877,560</u>
Fund Balance--September 30, 2021	<u>\$ 898,241</u>	<u>\$ 981,205</u>	<u>\$ 2,499,711</u>	<u>\$ 4,379,157</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND--ANALYSIS OF REVENUES  
AND OTHER FINANCING SOURCES  
For the Fiscal Year Ended September 30, 2021

EXHIBIT P

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Permits	\$ -	\$ -	\$ 5,875	\$ 5,875
Federal Grants (Negotiated Projects)				
Highway Safety Improvement Program	15,125	-	-	15,125
Federal Grants (Contracted Projects)				
Surface Transportation Funds	518,663	-	-	518,663
State Grants				
Michigan Transportation Fund				
Engineering	7,684	2,316	-	10,000
Allocation	2,444,943	737,151	-	3,182,094
Snow Removal	155,537	46,895	-	202,432
Rural Primary "D" Funds	162,191	-	-	162,191
Contributions from Local Units				
Townships	-	90,890	-	90,890
Charges for Services				
State Trunkline Maintenance	-	-	1,897,547	1,897,547
State Trunkline Non-Maintenance	-	-	337,226	337,226
Other Non-Road Services	-	1,861	-	1,861
Salvage Sales	-	-	2,524	2,524
Interest and Rents				
Interest Earned	6,526	2,668	14,545	23,739
Rents and Royalties	-	-	2,289	2,289
Other Revenue				
Timber Sales	-	6,562	-	6,562
Reimbursements	-	-	32,020	32,020
<b>Total Revenue</b>	<b><u>3,310,669</u></b>	<b><u>888,343</u></b>	<b><u>2,292,026</u></b>	<b><u>6,491,038</u></b>
Other Financing Sources				
Proceeds from Sale of Capital Assets	-	-	250	250
<b>Total Other Financing Sources</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>250</u></b>	<b><u>250</u></b>
<b>Total Revenues and Other Financing Sources</b>	<b><u>\$ 3,310,669</u></b>	<b><u>\$ 888,343</u></b>	<b><u>\$ 2,292,276</u></b>	<b><u>\$ 6,491,288</u></b>

SCHOOLCRAFT COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND  
ANALYSIS OF EXPENDITURES  
For the Fiscal Year Ended September 30, 2021

EXHIBIT Q

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 849,273	\$ -	\$ -	\$ 849,273
Routine and Preventive Maintenance	1,489,278	-	-	1,489,278
Local Road				
Preservation/Structural Improvements	-	73,051	-	73,051
Routine and Preventive Maintenance	-	882,314	-	882,314
Primary Road Structures				
Preservation/Structural Improvements	60,517	-	-	60,517
Routine and Preventive Maintenance	4,826	-	-	4,826
Local Road Structures				
Preservation/Structural Improvements	-	6,760	-	6,760
Routine and Preventive Maintenance	-	579	-	579
State Trunkline				
Maintenance	-	-	1,781,517	1,781,517
Non-Maintenance	-	-	337,226	337,226
Other Non-Road Projects	-	585	-	585
Equipment Expense--Net (Per Exhibit J)	(1,132)	(698)	(1,400)	(3,230)
Administrative Expense--Net (Per Exhibit J)	325,541	130,371	-	455,912
Capital Outlay--Net (Per Exhibit J)	-	-	(139,485)	(139,485)
Debt Service				
Principal Payments	-	-	155,681	155,681
Interest Payments	-	-	34,887	34,887
Total Expenditures	<u>\$ 2,728,303</u>	<u>\$ 1,092,962</u>	<u>\$ 2,168,426</u>	<u>\$ 5,989,691</u>



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

GRETCHEN WHITMER  
GOVERNOR

RACHAEL EUBANKS  
STATE TREASURER

March 10, 2022

Board of County Road Commissioners  
Schoolcraft County Road Commission  
332 N. East Road  
Manistique, Michigan 49854

Independent Auditor's Report

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

Dear Commissioners:

We have audited, in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, Michigan, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Schoolcraft County Road Commission’s basic financial statements and have issued our report thereon dated March 10, 2022.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Schoolcraft County Road Commission’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 identify one deficiency in internal control that we consider to be significant deficiency, which is described in the accompanying Schedule of Findings and Responses as Finding 2021-001.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schoolcraft County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of statutory non-compliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as Finding 2021-002.

#### Schoolcraft County Road Commission's Responses to Findings

The Schoolcraft County Road Commission's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Schoolcraft County Road Commission's response and, accordingly, we express no opinion on it.

#### Purpose of this Report

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

Sincerely,



Cary Jay Vaughn, CPA, CGFM

Audit Manager

Community Engagement and Finance Division





STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

GRETCHEN WHITMER  
GOVERNOR

RACHAEL EUBANKS  
STATE TREASURER

March 10, 2022

Board of County Road Commissioners  
Schoolcraft County Road Commission  
332 N. East Road  
Manistique, Michigan 49854

RE: Report to Those Charged With Governance

Dear Commissioners:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, Michigan, for the fiscal year ended September 30, 2021, and have issued our report thereon dated March 10, 2022. Professional standards require that we provide you with the following information related to our audit.

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

As stated in the engagement letter dated October 26, 2021 our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

### Other Information in Documents Containing Audited Financial Statements

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

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and meeting about planning matters on January 24, 2022, with management.

### Significant Results of the Audit

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Schoolcraft County Road Commission are described in Note A to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the fiscal year ended September 30, 2021. We noted no transactions entered into by the Schoolcraft County Road Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

The most sensitive estimates affecting the governmental activities in the government-wide statements relate to depreciation, the net pension liability, the liability for other post-employment benefits and the estimate of the current portion of vested employee benefits. Management's estimate of the depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets in accordance with Generally Accepted Accounting Principles. For the pension, estimates and assumptions are

determined by MERS and its actuary, based on the Road Commission's negotiations with its bargaining units and resolutions of the Board of County Road Commissioners. For retiree health care, the estimates and assumptions are based on actuarial techniques. Management's estimate of the current portion of vested employee benefits payable within the next year is based on historical trends and current policies regarding the usage of these benefits. We evaluated the key factors and assumptions used to develop the depreciation, the net pension liability, the liability for other post-employment benefits, and the current portion of vested employee benefits payable in determining that they are reasonable in relation to the financial statements, taken as a whole.

#### Difficulties Encountered in Performing the Audit

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

#### Corrected and Uncorrected Misstatements

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

#### Disagreements with Management

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

#### Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 10, 2022.

#### Management Consultations with Other Independent Accountants

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

Other Matters

We applied certain limited procedures to the management's discussion and analysis, the budgetary comparison information and pension and OPEB trend data in Exhibits I through N, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on Exhibit O through Q, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Audit Findings or Issues

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

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

Sincerely,



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Community Engagement and Finance Division

## SCHOOLCRAFT COUNTY ROAD COMMISSION

### SCHEDULE OF FINDINGS AND RESPONSES For the Fiscal Year Ended September 30, 2021

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.

#### SIGNIFICANT DEFICIENCIES

##### Inventory

*Finding 2021-001*

*Condition:* We randomly selected 23 various stock items from the Equipment Parts and Materials and 2 items from the Road Materials inventory accounts. We compared the inventory status report (computerized perpetual records) with the actual counts to determine the accuracy of the inventory status reports. We also compared the distribution report with the inventory status report at September 30, 2021.

*Findings:* We found variations in 6 of the 25 items counted (24%). The discrepancies are the result of weaknesses over the internal control for these types of inventory items. The discrepancies do not appear to be the result of inefficiencies in counting inventory due to labeling, storage, etc., as items are well labeled, and storage space is orderly. The inventory status report was in balance with the distribution report.

*Criteria:* All assets must be safeguarded, and detailed records must be reconciled to control totals.

*Recommendation:* We recommend that a physical inventory be performed on the faster moving parts as well as high priced inventory (blades/tires/culverts/signs) on a more frequent basis. We also recommend that the Road Commission develop better controls over physical inventory including the process of removing parts from the parts room without being properly accounted for.

*Management's Response:* We have had a turnover of staff in our purchasing and stock clerk area, and we changed our process for charging out parts from the storeroom. We believe some discrepancies took place during these transitions. Since the audit, we have educated our staff on charging for parts. We also implemented a bi-monthly random count of inventory to correct past variances and to identify any current errors. We feel with the changes we made that we have good procedures and processes in place and expect to continue seeing improvement in our inventory control and documentation going forward.

SCHOOLCRAFT COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES  
For the Fiscal Year Ended September 30, 2021

NONCOMPLIANCE WITH STATE STATUTES

Our review and study for compliance with State statutes and regulations revealed the following noncompliance procedures:

Violation of Public Act 2 of 1968

*Finding 2021-002*

*Condition:* During the fiscal year ended September 30, 2021, expenditures were incurred in excess of amounts appropriated in the amended budgets as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road Routine and Preventative Maintenance	\$ 1,386,903	\$ 1,489,278	\$ (102,375)
Primary Road Structures Preservation/Structural Improvements	58,750	60,517	(1,767)
Local Road Structures Preservation/Structural Improvements	-	6,760	(6,760)
State Trunkline Maintenance	1,770,250	1,781,517	(11,267)
State Trunkline Non-Maintenance	333,049	337,226	(4,177)
Administrative Expense--Net	445,293	455,912	(10,619)

*Criteria:* The expenditure of funds in excess of appropriations is contrary to the provisions of Section 17 of Public Act 2 of 1968.

*Cause:* The Board of County Road Commissioners did not adjust the budget sufficiently to avoid the overages.

*Effect:* The Road Commission is in non-compliance with State statute.

*Directive:* We direct that the Road Commission develop budgetary control procedures which will ensure that expenditures will not exceed amounts authorized in the General Appropriations Act or amendments thereof.

*Management's Response:* The budget will be reviewed to compare budgeted amounts to actual year to date revenues and expenditures with a budget amendment being processed, if necessary, just prior to the end of the fiscal year to ensure expenditures will not exceed amounts authorized.