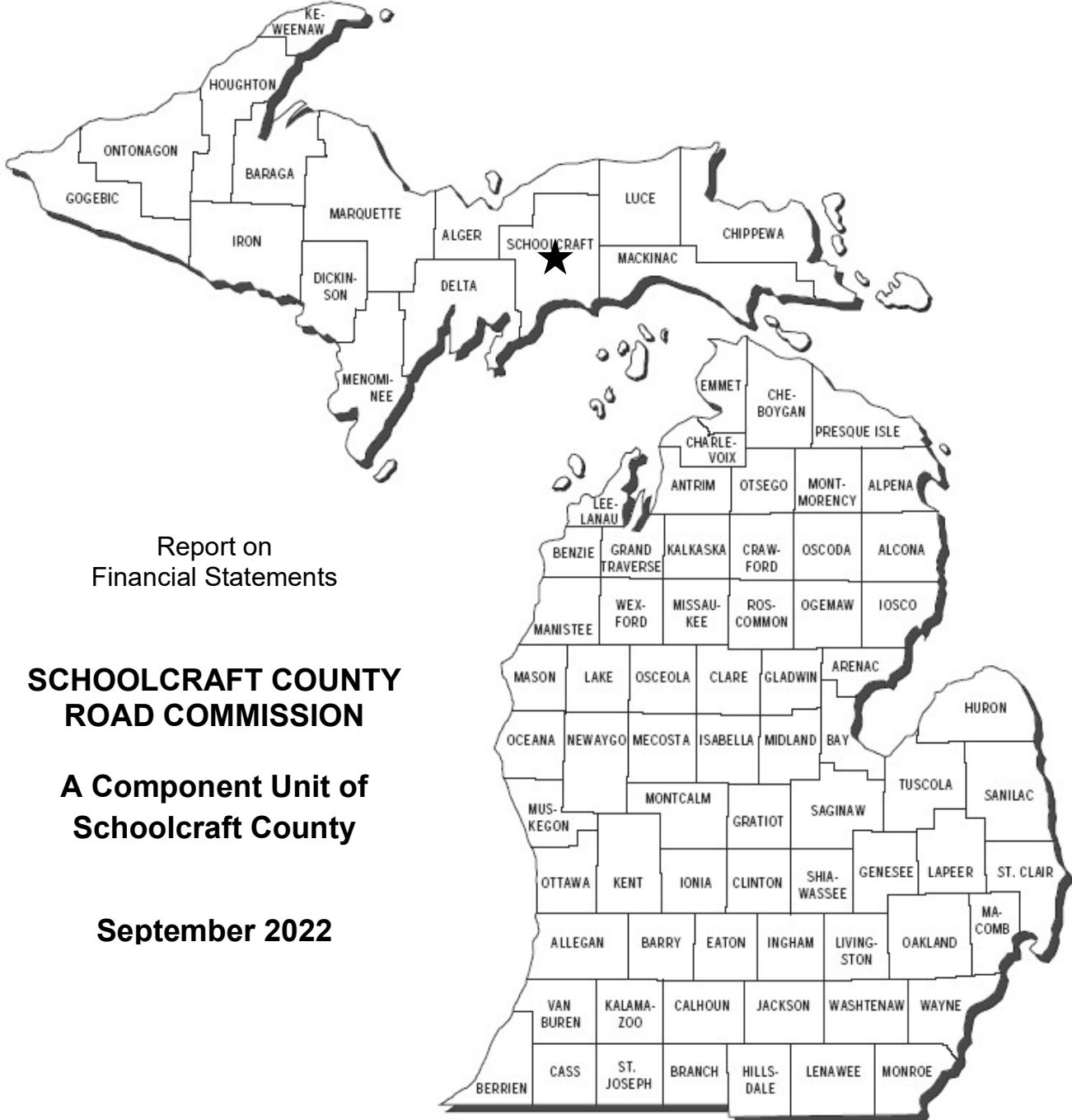


STATE OF MICHIGAN

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 2022

SCHOOLCRAFT COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

March 10, 2023

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--2022
\$495,104,645



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

INDEPENDENT AUDITOR'S REPORT

March 10, 2023

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying 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, 2022, and the 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major fund, and the aggregate remaining fund information of the Schoolcraft County Road Commission, as of September 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Schoolcraft County Road Commission, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Schoolcraft County Road Commission's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Schoolcraft County Road Commission's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Schoolcraft County Road Commission's basic financial statements. The accompanying supplementary and related information presented in Exhibits O through Q is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary and related information

March 10, 2023

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2023, on our consideration of the Schoolcraft County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS	1
<u>BASIC FINANCIAL STATEMENTS</u>	
EXHIBIT A--Statement of Net Position	11
EXHIBIT B--Statement of Activities	12
EXHIBIT C--Balance Sheet--Governmental Fund	13
EXHIBIT D--Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	14
EXHIBIT E--Statement of Revenues, Expenditures, and Changes in Fund Balance--Governmental Fund	15
EXHIBIT F--Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	16
EXHIBIT G--Statement of Plan Net Position--Fiduciary Fund	17
EXHIBIT H-- Statement of Changes in Plan Net Position--Fiduciary Fund.....	18
NOTES TO FINANCIAL STATEMENTS	19
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
EXHIBIT I--Schedule of Changes in the Road Commission’s Net Pension Liability and Related Ratios.....	45
EXHIBIT J--Schedule of Road Commission’s Pension Contributions	46
EXHIBIT K--Schedule of Changes in the Road Commission’s Net OPEB Liability and Related Ratios.....	47
EXHIBIT L--Schedule of Road Commission’s OPEB Contributions.....	48
EXHIBIT M--General Operating Fund--Schedule of Revenues and Other Financing Sources--Budgetary Comparison Schedule	49
EXHIBIT N--General Operating Fund--Schedule of Expenditures-- Budgetary Comparison Schedule.....	50

SCHOOLCRAFT COUNTY ROAD COMMISSION

TABLE OF CONTENTS

	<u>Page</u>
<u>SUPPLEMENTARY INFORMATION AND SCHEDULES</u>	
EXHIBIT O--General Operating Fund--Analysis of Changes in Fund Balance	51
EXHIBIT P--General Operating Fund--Analysis of Revenues and Other Financing Sources	52
EXHIBIT Q--General Operating Fund--Analysis of Expenditures	53
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 <u>Government Auditing Standards</u>	54
Report to Those Charged With Governance	56
Schedule of Findings and Responses	60

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2022

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, 2022

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 21.26% or \$2,210,551 from \$10,399,099 to \$12,609,650 for the fiscal year ending September 30, 2022. The net position and change in net position are summarized below.

Unrestricted net position, those restricted mainly for Act 51 purposes, increased \$1,161,095 or 43.50%. The net investment in capital assets increased 8.03% or \$1,049,456 from the prior fiscal year. This was primarily due to the capital asset additions of \$2,652,798 being more than the depreciation of \$1,642,337 and no new debt being issued during fiscal year 2022.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2022

Net position as of the fiscal year ended September 30, 2022, compared to the prior fiscal year end are as follows:

	Governmental Activities 9/30/21	Governmental Activities 9/30/22	Variance Increase (Decrease)	Percentage
Assets				
Current and Other Assets	\$ 6,206,207	\$ 7,535,073	\$ 1,328,866	21.41%
Net Capital Assets	13,978,785	14,875,165	896,380	6.41%
Total Assets	20,184,992	22,410,238	2,225,246	11.02%
Deferred Outflows of Resources				
Deferred Outflows--Pension	1,540,552	1,468,446	(72,106)	-4.68%
Deferred Outflows--OPEB	47,328	122,685	75,357	159.22%
Total Deferred Outflows of Resources	1,587,880	1,591,131	3,251	0.20%
Liabilities				
Current Liabilities	213,060	765,574	552,514	259.32%
Long-Term Liabilities	10,496,014	9,835,558	(660,456)	-6.29%
Total Liabilities	10,709,074	10,601,132	(107,942)	-1.01%
Deferred Inflows of Resources				
Deferred Inflows--Pensions	346,833	767,191	420,358	121.20%
Deferred Inflows -- OPEB	317,866	23,396	(294,470)	-92.64%
Total Deferred Inflows of Resources	664,699	790,587	125,888	18.94%
Net Position				
Net Investment in Capital Assets	13,068,223	14,117,679	1,049,456	8.03%
Unrestricted	(2,669,124)	(1,508,029)	1,161,095	43.50%
Total Net Position	\$ 10,399,099	\$ 12,609,650	\$ 2,210,551	21.26%

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2022

Changes in Net Position

A summary of changes in net position for the fiscal year ended September 30, 2022, compared to the prior year follows:

	Governmental Activities 2021	Governmental Activities 2022	Increase (Decrease)	Percentage
Program Revenue				
Licenses and Permits	\$ 5,875	\$ 8,550	\$ 2,675	45.53%
Federal Grants	533,788	826,063	292,275	54.75%
State Grants	3,556,717	4,499,057	942,340	26.49%
Charges for Services	2,239,158	2,244,422	5,264	0.24%
Contributions	129,472	159,187	29,715	22.95%
Interest & Royalties Earnings	26,028	84,746	58,718	225.60%
General Revenue				
Gain on Equipment Disposal	250	43,906	43,656	17462.40%
Total Revenue	6,491,288	7,865,931	1,374,643	21.18%
Expenses				
Primary Road Maintenance	1,494,104	1,402,069	(92,035)	-6.16%
Local Road Maintenance	882,893	983,169	100,276	11.36%
State Trunkline Maintenance	2,118,743	2,353,825	235,082	11.10%
Net Equipment Expense	(3,230)	(122,091)	(118,861)	3679.91%
Net Administrative Expense	455,912	498,665	42,753	9.38%
Non-Road Project	585	2,557	1,972	337.09%
Infrastructure Depreciation	1,193,542	1,172,792	(20,750)	-1.74%
Compensated Absences	6,914	3,317	(3,597)	-52.02%
Other Post-Employment Benefits	(518,267)	(327,161)	191,106	-36.87%
Pension Expense	(309,014)	(342,808)	(33,794)	10.94%
Interest Expense	34,887	31,046	(3,841)	-11.01%
Total Expenses	5,357,069	5,655,380	298,311	5.57%
Change in Net Position	1,134,219	2,210,551	1,076,332	94.90%
Ending Net Position	\$10,399,099	\$12,609,650	\$ 2,210,551	21.26%

The total revenue increased by \$1,374,643 or 21.18% from \$6,491,288 in fiscal year 2021 to \$7,865,931 in fiscal year 2022. The most significant variances were increases in Federal and State grants in 2022.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2022

The total expenditures increased by \$298,311 or 5.57% from \$5,357,069 in fiscal year 2021 to \$5,655,380 in fiscal year 2022. The most significant variances in expenses during fiscal year 2022 were increases in local road maintenance, State Trunkline Maintenance and Other Post-Employment Benefits, which were offset by decreases related to primary road maintenance and Net Equipment 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, 2022, the fund balance of the General Operations Fund increased by \$494,443 as compared to an increase of \$501,597 in the fund balance for the year ending September 30, 2021. Total revenues and other financing sources were \$7,865,931, an increase of \$1,374,643 compared with the prior fiscal year which amounted to \$6,491,288 at the end of September 30, 2021. The increase is primarily from an increase in federal and state grants.

Total expenditures amounted to \$7,371,488 as of September 30, 2022, an increase of \$1,381,797 compared to the prior fiscal year which amounted to \$5,989,691. This change in expenditures was primarily due to an increase in Primary and Local Road Preservation / Structural Improvements, State Trunkline Maintenance and capital outlay.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2022

	2021	2022	Variance	Percent
Revenues				
Licenses and Permits	\$ 5,875	\$ 8,550	\$ 2,675	45.53%
Federal Grants	533,788	826,063	292,275	54.75%
State Grants	3,556,717	4,499,057	942,340	26.49%
Contributions	90,890	157,983	67,093	73.82%
Charges for Services	2,239,158	2,244,422	5,264	0.24%
Interest and Royalties	26,028	84,746	58,718	225.60%
Other Revenue	38,582	1,204	(37,378)	-96.88%
Total Revenues	<u>6,491,038</u>	<u>7,822,025</u>	<u>1,330,987</u>	<u>20.50%</u>
Expenditures				
Public Works	5,938,608	6,563,462	624,854	10.52%
Capital Outlay	(139,485)	623,904	763,389	-547.29%
Debt Service	190,568	184,122	(6,446)	-3.38%
Total Expenditures	<u>5,989,691</u>	<u>7,371,488</u>	<u>1,381,797</u>	<u>23.07%</u>
Excess of Revenues Over (Under)				
Expenditures	501,347	450,537	(50,810)	-10.13%
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	250	43,906	43,656	17462.40%
Total Other Financing Sources (Uses)	<u>250</u>	<u>43,906</u>	<u>43,656</u>	<u>17462.40%</u>
Net Change in Fund Balance	501,597	494,443	(7,154)	-1.43%
Fund Balance--Beginning	<u>3,877,560</u>	<u>4,379,157</u>	<u>501,597</u>	<u>12.94%</u>
Fund Balance--Ending	<u>\$ 4,379,157</u>	<u>\$ 4,873,600</u>	<u>\$ 494,443</u>	<u>11.29%</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2022

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, 2022, was lower than the original budget by \$713,524. This was mainly due to decreases in anticipated State and Federal grants.

The actual revenue recognized during the current fiscal year was less than the final amended budget by \$4,732.

The final amended expenditure budget for the current fiscal year was \$1,119,767 less than the original budget, primarily due to less Primary and local road preservation / structural improvements than originally anticipated, less net equipment expenses, less net administrative expenses, less net capital outlay and lower state trunkline non-maintenance expenses, offset by more state trunkline maintenance. The actual expenditures recognized during the current fiscal year were \$114,361 more than the final amended budget.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2022

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2022, the Road Commission had \$ 14,875,165 invested in capital assets as follows:

	<u>9/30/21</u>	<u>9/30/22</u>	<u>Percentage Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 357,407	\$ 244,064	-31.71%
Construction in Progress	28,350	1,002,319	100.00%
Infrastructure--Land and Improvements	<u>1,537,473</u>	<u>1,537,473</u>	<u>0.00%</u>
Subtotal	<u>1,923,230</u>	<u>2,783,856</u>	<u>44.75%</u>
Capital Assets Being Depreciated			
Land Improvements	50,519	50,519	0.00%
Buildings	3,596,033	3,596,033	0.00%
Road Equipment	6,761,120	6,791,475	0.45%
Shop Equipment	249,114	277,545	11.41%
Yard Equipment	16,603	16,603	0.00%
Office Equipment	52,285	39,746	-23.98%
Engineer's Equipment	33,563	28,708	-14.47%
Depletable Assets	234,913	234,913	0.00%
Infrastructure--Bridges	4,090,673	4,093,760	0.08%
Infrastructure--Roads	<u>14,096,159</u>	<u>14,827,778</u>	<u>5.19%</u>
Subtotal	<u>29,180,982</u>	<u>29,957,080</u>	<u>2.66%</u>
Total Capital Assets	<u>31,104,212</u>	<u>32,740,936</u>	<u>5.26%</u>
Total Accumulated Depreciation	<u>(17,125,427)</u>	<u>(17,865,771)</u>	<u>4.32%</u>
Total Net Capital Assets	<u>\$ 13,978,785</u>	<u>\$ 14,875,165</u>	<u>6.41%</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2022

The Road Commission reported infrastructure current year asset additions in the amount of \$1,445,268. Infrastructure assets are financed through Federal, State, and local contributions.

Current year's major additions included the following:

Infrastructure	\$ 1,445,268
Construction in Progress	973,969
Equipment	<u>233,561</u>
Total Additions	<u>\$ 2,652,798</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 \$757,486 for the fiscal year ending September 30, 2022. Bonds on the building amount to \$740,000, which will be paid off over a remaining period of five (5) years. The Road Commission also owes on one installment purchase contract for equipment totaling \$17,486 that will be paid off over the next fiscal year. Vested employee benefits long-term debt amounts to \$113,697. 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, 2022 was as follows:

	<u>Balances</u> 09/30/21	<u>Balances</u> 09/30/22
2012 MTF Refunding Bonds	\$ 870,000	\$ 740,000
2020 Installment Purchase - Equipment	<u>40,562</u>	<u>17,486</u>
Total	<u>\$ 910,562</u>	<u>\$ 757,486</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2022

Next Year's Budget

The Board considered many factors when setting the fiscal year 2023 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. Amounts available for appropriation in the 2023 budget for projected revenues are \$9,503,080 and projected expenditures are \$9,428,599.

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, 2022

EXHIBIT A

ASSETS

Cash	\$ 4,080,605
Investments	1,494,105
Accounts Receivable	
State Trunkline Maintenance	54,277
Michigan Transportation Fund	566,370
Due from State--Other	534,688
Sundry Accounts	4,763
Inventories	
Road Materials	447,429
Equipment Parts and Materials	240,218
Prepaid Expenses	112,618
Capital Assets--Depreciating	12,091,309
Capital Assets--Non-Depreciating	2,783,856
Total Assets	<u>22,410,238</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows--Pension Assumptions	416,670
Deferred Outflows--Pension Experience	38,772
Deferred Outflows--Employer Pension Contributions	1,013,004
Deferred Outflows--OPEB Investments	122,685
Total Deferred Outflows of Resources	<u>1,591,131</u>

LIABILITIES

Current Liabilities	
Accounts Payable	498,512
Due to State	222,125
Accrued Liabilities	28,297
Driveway Plowing Deposits	16,640
Non-Current Liabilities	
Advance from State	528,381
Unearned Revenues--Forest Road Funds	1,367,518
Bonds Payable--Due Within One Year	140,000
Bonds Payable--Due in More than One Year	600,000
Installment Purchase Agreements Payable--Due Within One Year	17,486
Vested Employee Benefits Payable Due Within One Year	110,000
Vested Employee Benefits Payable--Due in More than One Year	3,697
Net OPEB Liability	10,490
Net Pension Liability	7,057,986
Total Liabilities	<u>10,601,132</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows--Pension Investments	646,036
Deferred Inflows--Pension Experience	121,155
Deferred Inflows--OPEB Experience	15,874
Deferred Inflows--OPEB Assumptions	7,522
Total Deferred Inflows of Resources	<u>790,587</u>

NET POSITION

Net Investment in Capital Assets	14,117,679
Unrestricted	(1,508,029)
Total Net Position	<u>\$ 12,609,650</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, 2022

EXHIBIT B

Program Expenses	
Primary Road Routine and Preventive Maintenance	\$ 1,402,069
Local Road Routine and Preventive Maintenance	983,169
State Trunkline Maintenance	2,353,825
Net Equipment Expense	(122,091)
Net Administrative Expense	498,665
Infrastructure Depreciation	1,172,792
Other Non-Road Maintenance	2,557
Compensated Absences	3,317
Pension Expense	(342,808)
Other Post Employment Benefits	(327,161)
Interest Expense	31,046
	<hr/>
Total Program Expenses	5,655,380
	<hr/>
Program Revenue	
Charges for Services	
License and Permits	8,550
Charges for Services	2,244,422
Operating Grants and Contributions	
Michigan Transportation Funds	3,510,867
Investment Earnings & Royalties	84,746
Capital Grants and Contributions	
Federal Grants	826,063
State Grants	988,190
Contributions	159,187
	<hr/>
Total Program Revenue	7,822,025
	<hr/>
Net Program Revenue	2,166,645
	<hr/>
General Revenue	
Gain on Equipment Disposal	43,906
	<hr/>
Total General Revenue	43,906
	<hr/>
Change in Net Position	2,210,551
	<hr/>
Net Position	
Beginning of Year	10,399,099
	<hr/>
End of Year	\$ 12,609,650
	<hr/> <hr/>

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

SCHOOLCRAFT COUNTY ROAD COMMISSION
 BALANCE SHEET--GOVERNMENTAL FUND
 September 30, 2022

EXHIBIT C

<u>ASSETS</u>	<u>General Operating Fund</u>
Cash	\$ 4,080,605
Investments	1,494,105
Accounts Receivable	
State Trunkline Maintenance	54,277
Michigan Transportation Fund	566,370
Due from State--Other	534,688
Sundry Accounts	4,763
Inventories	
Road Materials	447,429
Equipment Parts and Materials	240,218
Prepaid Expenses	<u>112,618</u>
Total Assets	<u>\$ 7,535,073</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</u>	
Liabilities	
Accounts Payable	\$ 498,512
Due to State	222,125
Accrued Interest Payable	4,553
Other Accrued Liabilities	23,744
Advances	
Driveway Plowing	16,640
State of Michigan	528,381
Unearned Revenues--Forest Road Funds	<u>1,367,518</u>
Total Liabilities	<u>2,661,473</u>
Fund Balance	
Fund Balance	
Nonspendable:	
Inventory	687,647
Prepaid Expenses	112,618
Restricted for Road Operations	<u>4,073,335</u>
Total Fund Balance	<u>4,873,600</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 7,535,073</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, 2022

EXHIBIT D

Total Governmental Fund Balance \$ 4,873,600

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. 14,875,165

Long-term liabilities are not due and payable in the current period
 and are not reported in the fund. (871,183)

Net pension liability is not due and payable in the current period and is
 not reported in the funds. (7,057,986)

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. 701,255

The liability for other post employment benefits is not due and payable in the
 current period and is not reported in the funds. (10,490)

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. 99,289

Net Position of Governmental Activities \$ 12,609,650

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, 2022

EXHIBIT E

	General Operating Fund
Revenues	
Licenses and Permits	\$ 8,550
Federal Grants	826,063
State Grants	4,499,057
Contributions from Local Units	157,983
Charges for Services	2,244,422
Interest and Royalties	84,746
Other Revenue	1,204
Total Revenues	<u>7,822,025</u>
Expenditures	
Public Works	6,563,462
Capital Outlay	623,904
Debt Service	184,122
Total Expenditures	<u>7,371,488</u>
Excess of Revenues Over (Under) Expenditures	<u>450,537</u>
Other Financing Sources (Uses)	
Proceeds from Sale of Capital Assets	43,906
Total Other Financing Sources (Uses)	<u>43,906</u>
Net Change in Fund Balance	494,443
Fund Balance--October 1, 2021	<u>4,379,157</u>
Fund Balance--September 30, 2022	<u><u>\$ 4,873,600</u></u>

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, 2022

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ 494,443

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. 896,380
 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 153,076
 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). (3,317)

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. 342,808

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. 327,161

Change in Net Position of Governmental Activities \$ 2,210,551

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, 2022

EXHIBIT G

	<u>OPEB Trust</u>
<u>ASSETS</u>	
Investments at Fair Value--Money Markets	\$ 983,701
Total Assets	<u>983,701</u>
<u>LIABILITIES</u>	
Total Liabilities	<u>-</u>
<u>NET POSITION</u>	
Restricted for Other Postemployment Benefits	<u><u>\$ 983,701</u></u>

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, 2022

EXHIBIT H

	<u>OPEB Trust</u>
<u>ADDITIONS</u>	
Contributions	
Employer Contributions	<u>\$ 60,000</u>
Total Contributions	<u>60,000</u>
Investment Earnings	
Interest and Dividends	<u>(177,959)</u>
Total Investment Earnings	<u>(177,959)</u>
Net Investment Earnings	<u>(177,959)</u>
Total Additions	<u>(117,959)</u>
<u>DEDUCTIONS</u>	
Administrative Expenses	<u>-</u>
Total Deductions	<u>-</u>
Changes in Net Position	(117,959)
Net Position Restricted for Other Postemployment Benefits	
Beginning of Year	<u>1,101,660</u>
End of Year	<u>\$ 983,701</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, 2022

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, 2022

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, 2022

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, 2022

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, 2022

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 \$687,647, and prepaid expenses in the amount of \$112,618.
- 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, 2022

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

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. During the year, the Road Commission incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Roads Preservation / Structural Improvements	\$ 1,103,252	\$ 1,224,341	\$ (121,089)
Primary Road Structures Routing and Preventive Maintenance	1,251	7,229	(5,978)
Local Roads Preservation / Structural Improvements	217,631	217,840	(209)
State Trunkline Maintenance	2,146,663	2,149,889	(3,226)
State Trunkline Non-Maintenance	194,287	203,936	(9,649)
Equipment Expense--Net	(163,409)	(122,091)	(41,318)

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2022

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, 2022

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
Cash	\$ 4,080,605	\$ -	\$ 4,080,605
Investments	1,494,105	983,701	2,477,806
Total	<u>\$ 5,574,710</u>	<u>\$ 983,701</u>	<u>\$ 6,558,411</u>

The breakdown between deposits is as follows:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposits)	\$ 4,075,305
Imprest Cash	<u>5,300</u>
Total	<u>\$ 4,080,605</u>

The bank balance of the Road Commission's deposits is \$4,098,064, 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.

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, 2022

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, 2022

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, 2022:

	Fair Value Measurements				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)	Total		
Constellation Trust Mutual Funds	\$ 983,701	\$ -	\$ -	\$ 983,701	N/A	N/A
U.S. Government Bonds	486,600	-	-	486,600	N/A	AA+
Total Investments at Fair Value	<u>\$ 1,470,301</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,470,301</u>		

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, 2022, rating information on the Road Commission’s investments is presented above. The Michigan Class investment is rated AAAM by S&P.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2022

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. The Michigan Class investment account has a weighted average maturity of 28 days.

Investments in Entities that Calculate Net Asset Value per Share

The Road Commission's investments in the Michigan CLASS government investment pool of \$1,007,505 are not categorized as they are measured at net asset value per share or its equivalent. The Road Commission holds share in Michigan CLASS whereby the fair value of the investment is measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient.

There were no unfunded commitments or redemptions associated with these investments.

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, 2022

NOTE D--CAPITAL ASSETS

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

	Beginning Balances	Additions	Deductions	Ending Balances
Capital Assets Not Being Depreciated				
Land	\$ 357,407	\$ -	\$ 113,343	\$ 244,064
Construction in Progress	28,350	973,969	-	1,002,319
Infrastructure--Land Improvements	1,537,473	-	-	1,537,473
Subtotal	1,923,230	973,969	113,343	2,783,856
Capital Assets Being Depreciated				
Land Improvements	50,519	-	-	50,519
Buildings	3,596,033	-	-	3,596,033
Road Equipment	6,761,120	202,016	171,661	6,791,475
Shop Equipment	249,114	31,545	3,114	277,545
Yard Equipment	16,603	-	-	16,603
Office Equipment	52,285	-	12,539	39,746
Engineer's Equipment	33,563	-	4,855	28,708
Depletable Assets	234,913	-	-	234,913
Infrastructure--Bridges	4,090,673	3,087	-	4,093,760
Infrastructure--Roads	14,096,159	1,442,181	710,562	14,827,778
Total	29,180,982	1,678,829	902,731	29,957,080
Less Accumulated Depreciation				
Land Improvements	50,518	-	-	50,518
Building	2,301,601	89,433	-	2,391,034
Road Equipment	5,818,808	366,476	170,923	6,014,361
Shop Equipment	199,418	7,891	3,114	204,195
Yard Equipment	4,140	1,660	-	5,800
Office Equipment	43,029	3,126	12,539	33,616
Engineer's Equipment	28,488	669	4,855	24,302
Depletable Assets	23,120	290	-	23,410
Infrastructure--Bridges	733,519	104,788	-	838,307
Infrastructure--Roads	7,922,786	1,068,004	710,562	8,280,228
Total	17,125,427	1,642,337	901,993	17,865,771
Net Capital Assets Being Depreciated	12,055,555	36,492	738	12,091,309
Total Net Capital Assets	\$ 13,978,785	\$ 1,010,461	\$ 114,081	\$ 14,875,165

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2022

NOTE D--CAPITAL ASSETS (Continued)

All depreciation has been charged to the public works function.

NOTE E--LONG-TERM OBLIGATIONS

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

	Beginning Balance	Additions	(Reductions)	Beginning Balance	Due in One Year
Bonds Payable					
Michigan Transportation Fund Bonds					
Series 2012	\$ 870,000	\$ -	\$ (130,000)	\$ 740,000	\$ 140,000
Installment Purchase Contract					
The State Savings Bank--2020 Equipment	40,562	-	(23,076)	17,486	17,486
Vested Employee Benefits					
Vacation and Sick Leave	110,380	108,356	(105,039)	113,697	110,000
Totals	<u>\$ 1,020,942</u>	<u>\$ 108,356</u>	<u>\$ (258,115)</u>	<u>\$ 871,183</u>	<u>\$ 267,486</u>

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
2023	\$ 157,486	\$ 27,414	\$ 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>\$ 757,486</u>	<u>\$ 86,460</u>	<u>\$ 843,946</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2022

NOTE E--LONG-TERM OBLIGATIONS (Continued)

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, 2022

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 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, 2022

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

2021 Valuation

	01 - General: Closed to new hires, linked to Division 10
	<hr/>
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:	2.50% (Non-Compound)
Employee Contributions:	0.00%
Act 88:	Yes (Adopted 7/11/2007)

	10 - General after 03/21/2013: Open Division, linked to Division 01
	<hr/>
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, 2022

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Employees covered by benefit terms: As of December 31, 2021, 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>16</u>
Total employees covered by MERS Plan	<u>63</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, 2022, the Road Commission's contribution rate was \$59,056 per month based on annual payroll for all employees.

Net Pension Liability

The employer's net pension liability reported as of September 30, 2022, was determined using a measure of the total pension liability and the pension net position as of December 31, 2021. The December 31, 2021, 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, 2021, 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	7.00%, net of investment expense, including inflation

Mortality rates used were a version of Pub-2010 and Fully generational MP-2019.

The actuarial assumptions used in the December 31, 2021 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, 2022

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, 2021, 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%	7.00%	4.20%	2.50%	2.70%
Global Fixed Income	20%	4.50%	0.90%	2.50%	0.40%
Private Investments	20%	9.00%	1.90%	2.50%	1.40%
Total	<u>100%</u>		<u>7.00%</u>		<u>4.50%</u>

Discount rate: The discount rate used to measure the total pension liability is 7.25%. The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because, for GASB 68 purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses. 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, 2022

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, 2020	\$ 16,411,057	\$ 8,517,799	\$ 7,893,258
Changes for the Year:			
Service Cost	85,748	-	85,748
Interest	1,203,183	-	1,203,183
Difference between expected and actual experience	(242,310)	-	(242,310)
Difference between expected and actual assumptions	551,846	-	551,846
Contributions--Employer	-	1,251,928	(1,251,928)
Net investment income	-	1,195,490	(1,195,490)
Benefit payments, including refunds	(1,245,168)	(1,245,168)	-
Administrative expense	-	(13,680)	13,680
Other	(1)	-	(1)
Net changes	<u>353,298</u>	<u>1,188,570</u>	<u>(835,272)</u>
Balances as of December 31, 2021	<u>\$ 16,764,355</u>	<u>\$ 9,706,369</u>	<u>\$ 7,057,986</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 7.25%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (6.25%) or 1% higher (8.25%) than the current rate.

	Current		
	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Net Pension Liability as of December 31, 2021		\$ 7,057,986	
Change in Net Pension Liability (NPL)	\$ 8,822,931		\$ 5,560,005

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2022

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, 2022, the Road Commission recognized pension expense of (\$342,808). As of September 30, 2022, 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*	\$ 1,013,004	\$ -
Net difference between projected and actual earnings on pension plan investments**	-	646,036
Net difference in pension assumptions	416,670	
Net difference in pension experience	<u>38,772</u>	<u>121,155</u>
Total	<u>\$ 1,468,446</u>	<u>\$ 767,191</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, 2023.

**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>
2022	\$ 244,675
2023	(261,222)
2024	(185,522)
2025	(109,680)

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2022

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, 2022, 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, 2022

NOTE I--POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

Employees covered by benefit terms. As of September 30, 2022, the following employees were covered by the benefit terms:

Active Plan Participants	5
Inactive Plan Members	0
Retirees and Beneficiaries	<u>6</u>
 Total Participants	 <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 \$60,000 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, 2022.

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of September 30, 2021, rolled forward to September 30, 2022. 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	7.45%
20-year Aa Municipal bond rate	4.77%
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, 2022

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>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	64.0%	9.00%
Global Fixed Income	26.0%	4.70%
Private Investments	5.0%	6.40%
Diversifying Strategies	5.0%	3.00%

The sum of each target allocation times its long-term expected real rate is 7.45%, including inflation.

Discount Rate. The discount rate used to measure the total OPEB liability was 7.45%. The employer is assumed to make \$60,000 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, 2021 was 7.00%.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2022

NOTE I--POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

<u>Changes in Net OPEB Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Beginning Balance	\$ 1,069,484	\$ 1,101,660	\$ (32,176)
Changes for the Year:			
Service Cost	17,672	-	17,672
Interest	72,613	-	72,613
Change in Expected and Actual Experience	(44,737)	-	(44,737)
Change in Actuarial Assumptions	(21,197)	-	(21,197)
Contributions to OPEB Trust	-	60,000	(60,000)
Contributions / benefit from general operating fund	-	99,644	(99,644)
Net Investment Income	-	(172,565)	172,565
Benefit Payments, Including Refunds	(99,644)	(99,644)	-
Administrative Expenses	-	(5,394)	5,394
Net Changes	<u>(75,293)</u>	<u>(117,959)</u>	<u>42,666</u>
Ending Balance	<u>\$ 994,191</u>	<u>\$ 983,701</u>	<u>\$ 10,490</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</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 1,042,167	\$ 994,191	\$ 949,294
Plan Fiduciary Net Position	<u>983,701</u>	<u>983,701</u>	<u>983,701</u>
Net OPEB Liability	<u>\$ 58,466</u>	<u>\$ 10,490</u>	<u>\$ (34,407)</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2022

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:

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Total OPEB Liability	\$ 934,132	\$ 994,191	\$ 1,059,033
Plan Fiduciary Net Position	983,701	983,701	983,701
Net OPEB Liability	<u>\$ (49,569)</u>	<u>\$ 10,490</u>	<u>\$ 75,332</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended September 30, 2022, the Road Commission recognized OPEB expense of (\$327,161). At September 30, 2022, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in Experience	\$ -	\$ 15,874
Differences in Assumptions	-	7,522
Excess (Deficit) Investment Returns	<u>122,685</u>	<u>-</u>
Total	<u>\$ 122,685</u>	<u>\$ 23,396</u>

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

Years Ending September 30	Amount
2023	\$ 4,048
2024	22,093
2025	22,828
2026	50,320
2027	-

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2022

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, 2022, the Road Commission received \$636,192 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, 2022, the Road Commission received and expended \$189,871 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, 2022.

NOTE K--STATE TRUNKLINE MAINTENANCE REVENUE

The difference between the State Trunkline maintenance revenues of \$2,032,810 and expenditures of \$2,149,889 is the result of the Michigan Department of Transportation (MDOT) issuing auditor's report 2022-72 for the 2020 State Trunkline Maintenance contract. The result of the audit decreased the payments by \$117,079.

SCHOOLCRAFT COUNTY ROAD COMMISSION
SCHEDULE OF CHANGES IN THE ROAD COMMISSION'S
NET PENSION LIABILITY AND RELATED RATIOS*
For the Measurement Date December 31, 2021

EXHIBIT I

	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability								
Service Cost	\$ 85,748	\$ 106,144	\$ 113,169	\$ 107,106	\$ 93,813	\$ 107,736	\$ 111,605	\$ 142,426
Interest	1,203,183	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	(242,310)	116,318	(268,185)	194,422	99,297	(58,265)	118,125	-
Changes in Assumptions	551,846	422,243	501,760	-	-	-	810,342	-
Other	(1)	-	-	-	-	-	(763)	-
Benefit Payments Including Employee Refunds	(1,245,168)	(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	353,298	584,889	364,021	292,935	251,137	130,298	1,131,256	253,646
Total Pension Liability--Beginning	16,411,057	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>\$ 16,764,355</u>	<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	\$ 1,251,928	\$ 1,116,546	\$ 1,149,147	\$ 912,468	\$ 847,654	\$ 807,649	\$ 822,340	\$ 688,346
Contributions--Employees	-	-	26,188	-	-	-	-	-
Net Investment Income	1,195,490	958,252	919,892	(282,168)	878,278	705,262	(99,707)	403,998
Benefit Payments Including Employee Refunds	(1,245,168)	(1,220,269)	(1,177,137)	(1,179,245)	(1,095,357)	(1,063,947)	(998,146)	(960,761)
Administrative Expense	(13,680)	(15,196)	(15,747)	(13,905)	(13,924)	(13,938)	(14,393)	(14,781)
Net Change in Plan Fiduciary Net Position	1,188,570	839,333	902,343	(562,850)	616,651	435,026	(289,906)	116,802
Plan Fiduciary Net Position--Beginning	8,517,799	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>\$ 9,706,369</u>	<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>\$ 7,057,986</u>	<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	58%	52%	49%	44%	48%	45%	43%	48%
Covered Employee Payroll	\$ 904,067	\$ 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	781%	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: Decreases in investment rate of return from 7.35% to 7.00%; change in discount rate from 7.60% to 7.25%.

SCHOOLCRAFT COUNTY ROAD COMMISSION
SCHEDULE OF ROAD COMMISSION'S CONTRIBUTIONS
For the Fiscal Year Ending September 30, 2022

EXHIBIT J

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Actuarial Determined Contributions	\$ 770,673	\$ 727,603	\$ 661,080	\$ 637,855	\$ 592,582	\$ 408,642	\$ 477,811	\$ 522,776	\$ 492,176	\$ 431,111
Contributions in Relation to the Actuarially Determined Contribution	1,250,673	1,241,212	1,101,080	1,142,855	981,755	807,649	822,340	688,347	663,210	564,606
Contribution Deficiency (Excess)	<u>\$ (480,000)</u>	<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>
Covered Employee Payroll	\$ 904,067	\$ 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
Contributions as a Percentage of Covered Employee Payroll	138%	116%	101%	113%	117%	84%	77%	64%	63%	55%

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	17 years
Asset valuation method	Five-year smoothed market
Inflation	2.5%
Salary Increases	3.00% in the long-term
Investment rate of return	7.00%, 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, 2022

EXHIBIT K

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability						
Service Cost	\$ 17,672	\$ 58,471	\$ 37,473	\$ 64,034	\$ 59,989	\$ 57,280
Interest	72,613	68,497	96,135	73,914	77,021	75,057
Difference Between Expected and Actual Experience	(44,737)	(323,408)	(24,571)	(201,001)	(24,814)	-
Change of Assumptions	(21,197)	(221,271)	213,392	(81,371)	28,252	
Benefit Payments Including Employee Refunds	(99,644)	(116,957)	(116,169)	(109,230)	(114,537)	(72,537)
Net Change in Total OPEB Liability	<u>(75,293)</u>	<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>1,069,484</u>	<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>\$ 994,191</u>	<u>\$ 1,069,484</u>	<u>\$ 1,604,152</u>	<u>\$ 1,397,892</u>	<u>\$ 1,651,546</u>	<u>\$ 1,625,635</u>
Plan Fiduciary Net Position						
Contributions to OPEB Trust	\$ 60,000	\$ 120,000	\$ 130,000	\$ 110,000	\$ 50,000	\$ 50,000
Contributions/Benefit Payments Made From General Operating Funds	99,644	116,957	116,169	109,230	114,537	72,537
Net Investment Income	(172,565)	174,590	52,296	12,996	35,358	48,133
Benefit Payments Including Employee Refunds	(99,644)	(116,957)	(116,169)	(109,230)	(114,537)	(72,537)
Administrative Expenses	(5,394)	(5,096)	(3,452)	(1,930)	(2,224)	(1,804)
Net Change in Plan Fiduciary Net Position	<u>(117,959)</u>	<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>1,101,660</u>	<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>\$ 983,701</u>	<u>\$ 1,101,660</u>	<u>\$ 812,166</u>	<u>\$ 633,322</u>	<u>\$ 512,256</u>	<u>\$ 429,122</u>
Employer Net OPEB Liability	<u>\$ 10,490</u>	<u>\$ (32,176)</u>	<u>\$ 791,986</u>	<u>\$ 764,570</u>	<u>\$ 1,139,290</u>	<u>\$ 1,196,513</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	99%	103%	51%	45%	31%	26%
Covered Employee Payroll	\$ 320,074	\$ 340,516	\$ 513,878	\$ 1,317,015	\$ 1,273,371	not available
Employer's Net OPEB Liability as a Percentage of Covered Employee Payroll	3%	-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, 2022

EXHIBIT L

	2022	2021	2020	2019	2018	2017
Actuarial Determined Contributions	\$ 9,410	\$ 280,542	\$ 226,461	\$ 287,410	\$ 256,333	\$ 236,720
Contributions in Relation to the Actuarially Determined Contribution	159,644	236,957	246,169	219,230	164,537	122,537
Contribution deficiency (excess)	<u>\$ (150,234)</u>	<u>\$ 43,585</u>	<u>\$ (19,708)</u>	<u>\$ 68,180</u>	<u>\$ 91,796</u>	<u>\$ 114,183</u>
Covered Employee Payroll	\$ 320,074	\$ 340,516	\$ 513,878	\$ 1,317,015	\$ 1,273,371	Not Available
Contributions as a Percentage of Covered Employee Payroll	50%	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, 2022

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method Entry Age Normal (level of percentage of compensation)
Asset Valuation Method Market Value
Discount Rate 7.00% for 2022 contribution; 7.45% for 2022 liability and 2023 contribution; Rationale - Blended rate based on long term expected return and the 20-year Aa Municipal Bond Rate
20-year Aa Municipal Bond Rate 4.77%
Inflation Included in investment rate of return
Payroll Inflation 2.0%
Return on Plan Assets 7.45%
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, 2022

EXHIBIT M

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 5,500	\$ 8,675	\$ 8,550	\$ (125)
Federal Grants (Negotiated Projects)				
Highway Infrastructure Program Covid	-	150,392	189,871	39,479
Federal Grants (Contracted Projects)				
Critical Bridge	425,000	-		-
Surface Transportation Program	658,162	636,192	636,192	-
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,458,259	2,564,359	2,530,226	(34,133)
Local Road	750,000	757,920	757,920	-
Snow Removal	200,000	212,721	212,721	-
Rural Primary "D" Funds	153,030	76,966	76,353	(613)
Forest Road "E" Funds	518,000	-	-	-
Chemical Storage Facility Grant	810,000	911,521	911,837	316
Contributions from Local Units				
Townships	85,000	157,983	157,983	-
Charges for Services				
State Trunkline Maintenance	2,000,000	2,029,584	2,032,810	3,226
State Trunkline Non-Maintenance	465,336	194,287	203,936	9,649
Other Non-Road Services	4,400	-	4,936	4,936
Salvage Sales	2,500	7,900	2,740	(5,160)
Interest and Rents				
Interest Earned	20,000	32,704	21,408	(11,296)
Rents and Royalties	-	74,349	63,338	(11,011)
Other Revenue				
Reimbursements	-	1,204	1,204	-
Total Revenues	<u>8,565,187</u>	<u>7,826,757</u>	<u>7,822,025</u>	<u>(4,732)</u>
Other Financing Sources				
Installment Loan Proceeds	10,000	-	-	-
Proceeds from Sale of Capital Assets	9,000	43,906	43,906	-
Total Other Financing Sources	<u>19,000</u>	<u>43,906</u>	<u>43,906</u>	<u>-</u>
Total Revenues and Other Financing Sources	<u>8,584,187</u>	<u>7,870,663</u>	<u>\$ 7,865,931</u>	<u>\$ (4,732)</u>
Fund Balance--October 1, 2021	<u>4,379,157</u>	<u>4,379,157</u>		
Total Budget	<u>\$ 12,963,344</u>	<u>\$ 12,249,820</u>		

SCHOOLCRAFT COUNTY ROAD COMMISSION
 REQUIRED SUPPLEMENTARY INFORMATION
 GENERAL OPERATING FUND--SCHEDULE OF
 EXPENDITURES--BUDGETARY COMPARISON SCHEDULE
 For the Fiscal Year Ended September 30, 2022

EXHIBIT N

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 982,993	\$ 1,103,252	\$ 1,224,341	\$ (121,089)
Routine and Preventive Maintenance	1,264,197	1,394,840	1,394,840	-
Local Road				
Preservation/Structural Improvements	119,862	217,631	217,840	(209)
Routine and Preventive Maintenance	878,308	979,640	979,640	-
Primary Road Structures				
Preservation/Structural Improvements	1,023,404	3,087	3,087	-
Routine and Preventive Maintenance	-	1,251	7,229	(5,978)
Local Road Structures				
Routine and Preventive Maintenance	-	4,711	3,529	1,182
State Trunkline				
Maintenance	1,975,000	2,146,663	2,149,889	(3,226)
Non-Maintenance	465,336	194,287	203,936	(9,649)
Other Non-Road Maintenance	3,953	2,573	2,557	16
Equipment Expense--Net	37,362	(163,409)		
Direct			\$ 1,031,606	
Indirect			594,152	
Operating			389,906	
Less: Equipment Rentals			(2,137,755)	(41,318)
Administrative Expense--Net	611,947	498,933		
Administrative Expense			738,380	
Handling Charge			(221,015)	
Purchase Discounts			(18,700)	268
Capital Outlay--Net	830,411	689,546		
Capital Outlay			1,207,530	
Less: Depreciation Credits			(469,545)	
Equipment Retirements			(114,081)	65,642
Debt Service				
Principal Payments	153,076	153,076	153,076	-
Interest Payments	31,045	31,046	31,046	-
Total Expenditures	8,376,894	7,257,127	\$ 7,371,488	\$ (114,361)
Fund Balance--September 30, 2022	4,586,450	4,992,693		
Total Budget	\$ 12,963,344	\$ 12,249,820		

SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF CHANGES IN FUND BALANCES
For the Fiscal Year Ended September 30, 2022

EXHIBIT O

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 3,608,417	\$ 1,035,799	\$ 3,177,809	\$ 7,822,025
Total Expenditures	<u>2,933,260</u>	<u>1,329,277</u>	<u>3,108,951</u>	<u>7,371,488</u>
Excess of Revenues Over (Under) Expenditures	675,157	(293,478)	68,858	450,537
Other Financing Sources (Uses)				
Optional Transfers	(270,000)	270,000	-	-
Proceeds from Sale of Capital Assets	<u>-</u>	<u>21,748</u>	<u>22,158</u>	<u>43,906</u>
Total Other Financing Sources (Uses)	<u>(270,000)</u>	<u>291,748</u>	<u>22,158</u>	<u>43,906</u>
Net Change in Fund Balance	405,157	(1,730)	91,016	494,443
Fund Balance--October 1, 2021	<u>898,241</u>	<u>981,205</u>	<u>2,499,711</u>	<u>4,379,157</u>
Fund Balance--September 30, 2022	<u><u>\$ 1,303,398</u></u>	<u><u>\$ 979,475</u></u>	<u><u>\$ 2,590,727</u></u>	<u><u>\$ 4,873,600</u></u>

SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND--ANALYSIS OF REVENUES
AND OTHER FINANCING SOURCES
For the Fiscal Year Ended September 30, 2022

EXHIBIT P

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Permits	\$ -	\$ -	\$ 8,550	\$ 8,550
Federal Grants (Negotiated Projects)				
Highway Infrastructure Program Covid	189,871	-	-	189,871
Federal Grants (Contracted Projects)				
Surface Transportation Funds	636,192	-	-	636,192
State Grants				
Michigan Transportation Fund				
Engineering	7,695	2,305	-	10,000
Allocation	2,530,226	757,920	-	3,288,146
Snow Removal	163,689	49,032	-	212,721
Rural Primary "D" Funds	76,353	-	-	76,353
Chemical Storage Facility Grant	-	-	911,837	911,837
Contributions from Local Units				
Townships	-	157,983	-	157,983
Charges for Services				
State Trunkline Maintenance	-	-	2,032,810	2,032,810
State Trunkline Non-Maintenance	-	-	203,936	203,936
Other Non-Road Services	-	4,936	-	4,936
Salvage Sales	-	-	2,740	2,740
Interest and Rents				
Interest Earned	4,391	4,797	12,220	21,408
Rents and Royalties	-	58,826	4,512	63,338
Other Revenue				
Reimbursements	-	-	1,204	1,204
Total Revenue	3,608,417	1,035,799	3,177,809	7,822,025
Other Financing Sources				
Proceeds from Sale of Capital Assets	-	21,748	22,158	43,906
Total Other Financing Sources	-	21,748	22,158	43,906
Total Revenues and Other Financing Sources	\$ 3,608,417	\$ 1,057,547	\$ 3,199,967	\$ 7,865,931

SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF EXPENDITURES
For the Fiscal Year Ended September 30, 2022

EXHIBIT Q

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 1,224,341	\$ -	\$ -	\$ 1,224,341
Routine and Preventive Maintenance	1,394,840	-	-	1,394,840
Local Road				
Preservation/Structural Improvements	-	217,840	-	217,840
Routine and Preventive Maintenance	-	979,640	-	979,640
Primary Road Structures				
Preservation/Structural Improvements	3,087	-	-	3,087
Routine and Preventive Maintenance	7,229	-	-	7,229
Local Road Structures				
Routine and Preventive Maintenance	-	3,529	-	3,529
State Trunkline				
Maintenance	-	-	2,149,889	2,149,889
Non-Maintenance	-	-	203,936	203,936
Other Non-Road Projects	-	2,557	-	2,557
Equipment Expense--Net (Per Exhibit J)	(38,552)	(30,639)	(52,900)	(122,091)
Administrative Expense--Net (Per Exhibit J)	342,315	156,350	-	498,665
Capital Outlay--Net (Per Exhibit J)	-	-	623,904	623,904
Debt Service				
Principal Payments	-	-	153,076	153,076
Interest Payments	-	-	31,046	31,046
Total Expenditures	<u>\$ 2,933,260</u>	<u>\$ 1,329,277</u>	<u>\$ 3,108,951</u>	<u>\$ 7,371,488</u>



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

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

March 10, 2023

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

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, 2022, 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, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Schoolcraft County Road Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in circumstance for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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, non-compliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of non-compliance or other matters that is required to be reported under *Government Auditing Standards* and is listed as Finding 2022-001 in the Schedule of Findings and Responses.

Purpose of this Report

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

Sincerely,



Cary Jay Vaughn, CPA, CGFM

Audit Manager

Community Engagement and Finance Division



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

INDEPENDENT AUDITOR'S COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

March 10, 2023

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

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, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 22, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

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, 2022. 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. All significant transactions have been recognized in the financial statements in the proper period.

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 financial statements of the governmental activities were:

Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. Management's estimate of the depreciation is based on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets.

Management's estimate of the compensated absences is based on current hourly rates and policies regarding payment of compensation banks. Management's calculation of the current and noncurrent compensated absence liability amounts was based on an estimate of the percentage of employees' use of compensated absences.

The calculation of the net pension liability and related deferred outflows and deferred inflows of resources is based on an actuarial study which utilized certain actuarial assumptions. The actuary's calculations are based on significant assumptions, including anticipated rate of return of investments, estimated future healthcare costs, employee eligibility rates, and project salary increases. Management is responsible for reviewing the assumptions used in the actuary's calculation for reasonableness.

The calculation of the net other post-employment asset is determined using an alternative method whose estimations and assumptions are based on actuarial techniques.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial statement taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant 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 clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the

financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 10, 2023.

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 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.

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.

Restriction on Use

This information is intended solely for the use of the Schoolcraft County Road Commission's 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, 2022

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.

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 2022-001

Condition: During the fiscal year ended September 30, 2022, 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 Preservation / Structural Improvements	\$ 1,103,252	\$ 1,224,341	\$ (121,089)
Primary Road Structures Routine and Preventive Maintenance	1,251	7,229	(5,978)
Local Road Structures Preservation / Structural Improvements	217,631	217,840	(209)
State Trunkline Maintenance	2,146,663	2,149,889	(3,226)
State Trunkline Non-Maintenance	194,287	203,936	(9,649)
Equipment Expense--Net	(163,409)	(122,091)	(41,318)

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.

SCHOOLCRAFT COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended September 30, 2022

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.