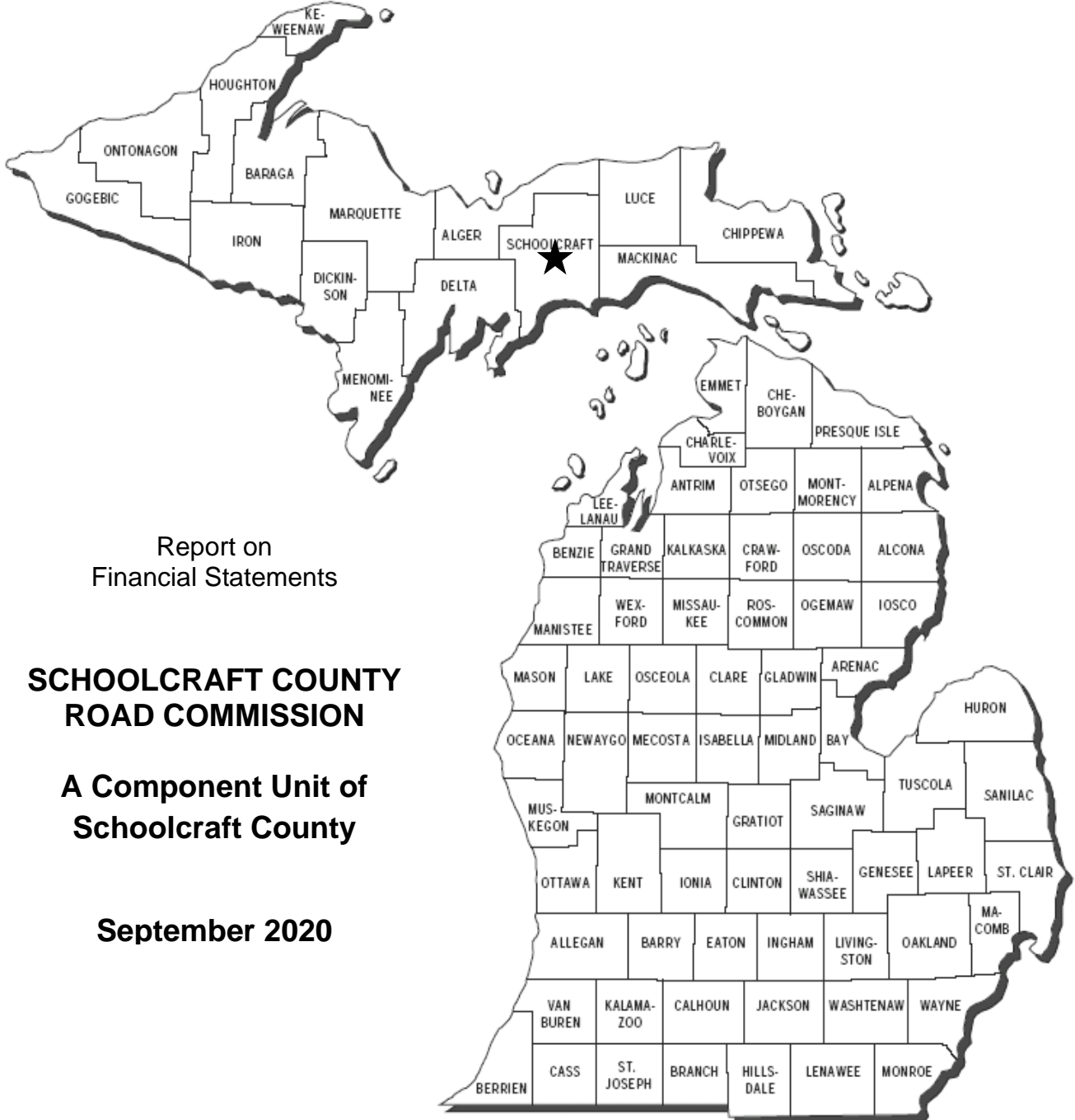


STATE OF MICHIGAN

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 2020

SCHOOLCRAFT COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

(March 2, 2021)

Thomas J. Klarich
Chairperson

Keith Rochefort
Vice Chairperson

Robin LaCroix
Member

Randy Lund
Member

Dale DuFour
Member

Jean Frankovich
Manager

Tanya Hoar
Finance Director

COUNTY POPULATION--2010
8,485

STATE EQUALIZED VALUATION--2020
\$468,175,240



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

March 2, 2021

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

Independent Auditor's Report

Dear Commissioners:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and aggregate remaining fund information of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, Michigan, as of and for the fiscal year ended September 30, 2020, and related notes to the financial statements, which collectively comprise the Schoolcraft County Road Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence supporting the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, major fund and aggregate remaining fund information of the Schoolcraft County Road Commission, as of September 30, 2020, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 10, the budgetary comparison information in Exhibits I and J, 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with the sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2021, on our consideration of Schoolcraft County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Schoolcraft County Road Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Schoolcraft County Road Commission's internal control over financial reporting and compliance.

Sincerely,



Cary Jay Vaughn, CPA, CGFM
Audit Manager

Community Engagement and Finance Division

SCHOOLCRAFT COUNTY ROAD COMMISSION

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SCHOOLCRAFT COUNTY ROAD COMMISSION

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SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2020

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, 2020

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 approximately 0.20% or \$18,607 from \$9,246,273 to \$9,264,880 for the fiscal year ending September 30, 2020. The net position and change in net position are summarized below.

Unrestricted net position, those restricted mainly for Act 51 purposes, increased \$458,498 or approximately 10.30%. The net investment in capital assets decreased approximately 3.21% or \$439,891 from the prior fiscal year. This was primarily due to the capital asset additions of \$1,005,843 being less than the depreciation of \$1,244,357 and new debt in the amount of \$69,000 being issued during fiscal year 2020.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2020

Net position as of the fiscal year ended September 30, 2020, compared to the prior fiscal year end are as follows:

	Governmental Activities 9/30/2019	Governmental Activities 9/30/2020	Variance Increase (Decrease)	Percentage
Assets				
Current and Other Assets	\$ 5,080,430	\$ 5,569,805	\$ 489,375	9.63%
Net Capital Assets	<u>14,916,378</u>	<u>14,322,211</u>	<u>(594,167)</u>	<u>-3.98%</u>
Total Assets	<u>19,996,808</u>	<u>19,892,016</u>	<u>(104,792)</u>	<u>-0.52%</u>
Deferred Outflows of Resources				
Deferred Outflows--Pension	1,584,808	1,317,939	(266,869)	-16.84%
Deferred Outflows--OPEB	<u>32,886</u>	<u>147,647</u>	<u>114,761</u>	<u>100.00%</u>
Total Deferred Outflows of Resources	1,617,694	1,465,586	(152,108)	-9.40%
Liabilities				
Current Liabilities	181,088	300,971	119,883	66.20%
Long-Term Liabilities	<u>11,988,307</u>	<u>11,500,671</u>	<u>(487,636)</u>	<u>-4.07%</u>
Total Liabilities	<u>12,169,395</u>	<u>11,801,642</u>	<u>(367,753)</u>	<u>-3.02%</u>
Deferred Inflows of Resources				
Deferred Inflows--Pension	-	178,790	178,790	-100.00%
Deferred Inflows--OPEB	<u>198,834</u>	<u>112,290</u>	<u>(86,544)</u>	<u>-43.53%</u>
Total Deferred Inflows of Resources	198,834	291,080	92,246	46.39%
Net Position				
Net Investment in Capital Assets	13,695,859	13,255,968	(439,891)	-3.21%
Unrestricted	<u>(4,449,586)</u>	<u>(3,991,088)</u>	<u>458,498</u>	<u>10.30%</u>
Total Net Position	<u>\$ 9,246,273</u>	<u>\$ 9,264,880</u>	<u>\$ 18,607</u>	<u>0.20%</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2020

Changes in Net Position

A summary of changes in net position for the fiscal year ended September 30, 2020, compared to the prior year follows:

	Governmental Activities 2019	Governmental Activities 2020	Increase (Decrease)	Percentage
Program Revenue				
Licenses and Permits	\$ 5,255	\$ 5,475	\$ 220	4.19%
Federal Grants	332,563	228,991	(103,572)	-31.14%
State Grants	3,454,226	3,136,049	(318,177)	-9.21%
Charges for Services	1,938,627	2,245,180	306,553	15.81%
Contributions	373,415	37,227	(336,188)	-90.03%
Interest & Royalties Earnings	94,491	73,046	(21,445)	-22.70%
General Revenue				
Gain on Equipment Disposal	10,100	172	(9,928)	-98.30%
Total Revenue	6,208,677	5,726,140	(482,537)	-7.77%
Expenses				
Primary Road Maintenance	1,226,074	1,349,291	123,217	10.05%
Local Road Maintenance	851,400	949,054	97,654	11.47%
State Trunkline Maintenance	1,898,485	2,217,283	318,798	16.79%
Net Equipment Expense	(100,030)	(256,214)	(156,184)	156.14%
Net Administrative Expense	458,523	417,929	(40,594)	-8.85%
Non-Road Project	7,769	9,973	2,204	28.37%
Cost of General Sales	2,911	-	(2,911)	-100.00%
Infrastructure Depreciation	1,252,419	1,244,357	(8,062)	-0.64%
Compensated Absences	18,196	4,136	(14,060)	-77.27%
Other Postemployment Benefits	(207,998)	(173,889)	34,109	-16.40%
Pension Expense	(103,500)	(92,663)	10,837	-10.47%
Interest Expense	44,563	38,276	(6,287)	-14.11%
Total Expenses	5,348,812	5,707,533	358,721	6.71%
Change in Net Position	859,865	18,607	(841,258)	-97.84%
Ending Net Position	\$9,246,273	\$9,264,880	\$ 18,607	0.20%

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2020

The total revenue decreased by \$482,537 or 7.77% from \$6,208,677 in fiscal year 2019 to \$5,726,140 in fiscal year 2020. The most significant variances were decreases in Federal and State grants and contributions, which were offset by increases in Charges for Services in 2020.

The total expenditures increased by \$358,721 or 6.71% from \$5,348,812 in fiscal year 2019 to \$5,707,533 in fiscal year 2020. The most significant variances in expenses during fiscal year 2020 were increases in primary road maintenance and State Trunkline maintenance, which were offset by decreases related to 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, 2020, the fund balance of the General Operations Fund increased by \$196,082 as compared to an increase of \$179,114 in the fund balance for the year ending September 30, 2019. Total revenues and other financing sources were \$5,795,140, a decrease of \$413,537 compared with the prior fiscal year which amounted to \$6,208,677 at the end of September 30, 2019. The decrease is primarily from a decrease in federal and state grants and contributions, offset by increases in charges for services and proceeds from installment purchase agreements.

Total expenditures amounted to \$5,599,058, a decrease of \$430,505 compared to the prior fiscal year which amounted to \$6,029,563 as of September 30, 2019. This change in expenditures was primarily due to a decrease in Primary and Local Road Preservation / Structural Improvements and debt service, offset by an increase in capital outlay.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2020

	<u>2019</u>	<u>2020</u>	<u>Variance</u>	<u>Percent</u>
Revenues				
Licenses and Permits	\$ 5,255	\$ 5,475	\$ 220	4.19%
Federal Grants	332,563	228,991	(103,572)	-31.14%
State Grants	3,454,226	3,136,049	(318,177)	-9.21%
Contributions	362,672	34,987	(327,685)	-90.35%
Charges for Services	1,938,627	2,245,180	306,553	15.81%
Interest and Royalties	94,491	73,046	(21,445)	-22.70%
Other Revenue	<u>10,743</u>	<u>2,240</u>	<u>(8,503)</u>	<u>-79.15%</u>
Total Revenue	<u>6,198,577</u>	<u>5,725,968</u>	<u>(472,609)</u>	<u>-7.62%</u>
Expenditures				
Public Works	5,517,281	5,038,903	(478,378)	-8.67%
Capital Outlay	149,146	298,603	149,457	100.21%
Debt Service	<u>363,136</u>	<u>261,552</u>	<u>(101,584)</u>	<u>-27.97%</u>
Total Expenditures	<u>6,029,563</u>	<u>5,599,058</u>	<u>(4,30,505)</u>	<u>-7.14%</u>
Excess of Revenues Over (Under)				
Expenditures	169,014	126,910	(42,104)	-24.91%
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	10,100	172	(9,928)	-98.30%
Proceeds from Installment Purchase	<u>-</u>	<u>69,000</u>	<u>69,000</u>	<u>100.00%</u>
Total Other Financing Sources (Uses)	<u>10,100</u>	<u>69,172</u>	<u>59,072</u>	<u>584.87%</u>
Net Change in Fund Balane	179,114	196,082	16,968	9.47%
Fund Balance--Beginning	<u>3,502,364</u>	<u>3,681,478</u>	<u>179,114</u>	<u>5.11%</u>
Fund Balance--Ending	<u>\$3,681,478</u>	<u>\$3,877,560</u>	<u>\$ 196,082</u>	<u>5.33%</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2020

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, 2020, was higher than the original budget by \$15,695. This was due, in part, to loan proceeds and more state Maintenance funding.

The actual revenue recognized during the current fiscal year was more than the final amended budget by \$51,729.

The final amended expenditure budget for the current fiscal year was \$62,755 less than the original budget, primarily due less Primary and Local road preservation / structural improvements than originally anticipated, less net equipment expenses, and lower administrative expenses, offset by more state trunkline non-maintenance and more capital outlay. The actual expenditures recognized during the current fiscal year were \$56,390 lower than the final amended budget. This was primarily due to less net equipment expense than anticipated.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2020

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2020, the Road Commission had \$ 13,255,968 invested in capital assets as follows:

	<u>9/30/2019</u>	<u>9/30/2020</u>	<u>Percentage Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 357,407	\$ 357,407	0.00%
Infrastructure--Land and Improvements	<u>1,537,473</u>	<u>1,537,473</u>	<u>0.00%</u>
Subtotal	<u>1,894,880</u>	<u>1,894,880</u>	<u>0.00%</u>
Capital Assets Being Depreciated			
Land Improvements	50,519	50,519	0.00%
Buildings	3,596,033	3,596,033	0.00%
Road Equipment	5,853,783	6,465,337	10.45%
Shop Equipment	232,916	241,614	3.73%
Yard Equipment	16,603	16,603	0.00%
Office Equipment	57,896	52,285	-9.69%
Engineer's Equipment	33,563	33,563	0.00%
Depletable Assets	233,126	234,913	0.77%
Infrastructure--Bridges	4,132,879	4,132,879	0.00%
Infrastructure--Roads	<u>17,711,509</u>	<u>13,173,835</u>	<u>-25.62%</u>
Subtotal	<u>31,918,827</u>	<u>27,997,581</u>	<u>-12.29%</u>
Total Capital Assets	<u>33,813,707</u>	<u>29,892,461</u>	<u>-11.60%</u>
Total Accumulated Depreciation	<u>(18,897,329)</u>	<u>(15,570,250)</u>	<u>-17.61%</u>
Total Net Capital Assets	<u>\$ 14,916,378</u>	<u>\$ 14,322,211</u>	<u>-3.98%</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2020

The Road Commission reported infrastructure current year asset additions in the amount of \$351,587. Infrastructure assets are financed through Federal, State, and local contributions.

Current year's major additions included the following:

Infrastructure	\$ 351,587
Equipment	<u>654,256</u>
 Total Additions	 <u><u>\$ 1,005,843</u></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 \$1,169,709 for the fiscal year ending September 30, 2020. Bonds on the building amount to \$995,000, which will be paid off over a remaining period of eight (8) years. The Road Commission also owes on two installment purchase contracts for equipment totaling \$71,243 that will be paid off over a remaining period of three (3) years. Vested employee benefits long-term debt amounts to \$103,466. 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, 2020 was as follows:

	<u>Balances</u> <u>9/30/2019</u>	<u>Balances</u> <u>9/30/2020</u>
2012 MTF Refunding Bonds	\$ 1,115,000	\$ 995,000
2014 Installment Purchase - Equipment	42,898	-
2016 Installment Purchase - Equipment	7,788	-
2017 Installment Purchase - Equipment	54,833	7,894
2020 Installment Purchase - Equipment	<u>-</u>	<u>63,349</u>
 Total	 <u><u>\$ 1,220,519</u></u>	 <u><u>\$ 1,066,243</u></u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2020

Next Year's Budget

The Board considered many factors when setting the fiscal year 2021 budget. The most significant change from the previous year budget was the increase in Federal STP and State D funding based on projected road projects; and the increase in MTF funds for 2021. Amounts available for appropriation in the 2021 budget for projected revenues are \$6,629,635 and projected expenditures are \$6,574,111.

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, 2020

EXHIBIT A

ASSETS

Cash	\$ 916,761
Investments	3,333,717
Accounts Receivable	
State Trunkline Maintenance	178,669
Michigan Transportation Fund	259,596
Due from State--Other	20,256
Due on County Road Agreements	4,753
Inventories	
Road Materials	526,467
Equipment Parts and Materials	225,515
Prepaid Expenses	104,071
Capital Assets--Depreciating	12,427,331
Capital Assets--Non-Depreciating	1,894,880
Total Assets	<u>19,892,016</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows--Pension Investments	29,032
Deferred Outflows--Pension Assumptions	334,507
Deferred Outflows--Pension Experience	64,808
Deferred Outflows--Employer Pension Contributions	889,592
Deferred Outflows--OPEB Investments	12,255
Deferred Outflows--OPEB Assumptions	135,392
Total Deferred Outflows of Resources	<u>1,465,586</u>

LIABILITIES

Current Liabilities	
Accounts Payable	221,485
Due to State	339
Accrued Liabilities	63,491
Driveway Plowing Deposits	15,656
Non-Current Liabilities	
Advance from State	378,346
Unearned Revenues--Forest Road Funds	1,012,928
Bonds Payable--Due Within One Year	120,000
Bonds Payable--Due in More than One Year	875,000
Installment Purchase Agreements Payable--Due Within One Year	30,677
Installment Purchase Agreements--Due in More than One Year	40,566
Vested Employee Benefits Payable Due Within One Year	78,300
Vested Employee Benefits Payable--Due in More than One Year	25,166
Net OPEB Liability	791,986
Net Pension Liability	8,147,702
Total Liabilities	<u>11,801,642</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows--Pension Experience	178,790
Deferred Inflows--OPEB Experience	85,531
Deferred Inflows--OPEB Assumptions	26,759
Total Deferred Inflows of Resources	<u>291,080</u>

NET POSITION

Net Investment in Capital Assets	13,255,968
Unrestricted	(3,991,088)
Total Net Position	<u>\$ 9,264,880</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, 2020

EXHIBIT B

Program Expenses	
Primary Road Routine and Preventive Maintenance	\$ 1,349,291
Local Road Routine and Preventive Maintenance	949,054
State Trunkline Maintenance	2,217,283
Net Equipment Expense	(256,214)
Net Administrative Expense	417,929
Infrastructure Depreciation	1,244,357
Other Non-Road Maintenance	9,973
Compensated Absences	4,136
Pension Expense	(92,663)
Other Post Employment Benefits	(173,889)
Interest Expense	38,276
	<hr/>
Total Program Expenses	5,707,533
	<hr/>
Program Revenue	
Charges for Services	
License and Permits	5,475
Charges for Services	2,245,180
Operating Grants and Contributions	
Michigan Transportation Funds	3,136,049
Investment Earnings & Royalties	73,046
Capital Grants and Contributions	
Federal Grants	228,991
Contributions	37,227
	<hr/>
Total Program Revenue	5,725,968
	<hr/>
Net Program Revenue	18,435
	<hr/>
General Revenue	
Gain on Equipment Disposal	172
	<hr/>
Total General Revenue	172
	<hr/>
Change in Net Position	18,607
	<hr/>
Net Position	
Beginning of Year	9,246,273
	<hr/>
End of Year	\$ 9,264,880
	<hr/> <hr/>

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

SCHOOLCRAFT COUNTY ROAD COMMISSION
 BALANCE SHEET--GOVERNMENTAL FUND
 September 30, 2020

EXHIBIT C

<u>ASSETS</u>	<u>General Operating Fund</u>
Cash	\$ 916,761
Investments	3,333,717
Accounts Receivable	
State Trunkline Maintenance	178,669
Michigan Transportation Fund	259,596
Due from State--Other	20,256
Due on County Road Agreements	4,753
Inventories	
Road Materials	526,467
Equipment Parts and Materials	225,515
Prepaid Expenses	<u>104,071</u>
Total Assets	<u>\$ 5,569,805</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</u>	
Liabilities	
Accounts Payable	\$ 221,485
Due to State	339
Accrued Interest Payable	5,798
Other Accrued Liabilities	57,693
Advances	
Driveway Plowing	15,656
State of Michigan	378,346
Unearned Revenues--Forest Road Funds	<u>1,012,928</u>
Total Liabilities	<u>1,692,245</u>
Fund Balance	
Fund Balance	
Nonspendable:	
Inventory	751,982
Prepaid Expenses	104,071
Restricted for Road Operations	<u>3,021,507</u>
Total Fund Balance	<u>3,877,560</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 5,569,805</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, 2020

EXHIBIT D

Total Governmental Fund Balance	\$ 3,877,560
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.	14,322,211
Long-term liabilities are not due and payable in the current period and are not reported in the fund.	(1,169,709)
Net pension liability is not due and payable in the current period and is not reported in the funds.	(8,147,702)
Certain pension contributions and changes in pension plan net position are reported as deferred outflows of resources in the statement of net position, but are reported as expenses in the governmental funds.	1,139,149
The liability for other postemployment benefits is not due and payable in the current period and is not reported in the funds.	(791,986)
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.	<u>35,357</u>
Net Position of Governmental Activities	<u><u>\$ 9,264,880</u></u>

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, 2020

EXHIBIT E

	General Operating Fund
Revenues	
Licenses and Permits	\$ 5,475
Federal Grants	228,991
State Grants	3,136,049
Contributions from Local Units	34,987
Charges for Services	2,245,180
Interest and Royalties	73,046
Other Revenue	2,240
	<hr/>
Total Revenues	5,725,968
	<hr/>
Expenditures	
Public Works	5,038,903
Capital Outlay	298,603
Debt Service	261,552
	<hr/>
Total Expenditures	5,599,058
	<hr/>
Excess of Revenues Over (Under) Expenditures	126,910
	<hr/>
Other Financing Sources (Uses)	
Installment Lease Proceeds	69,000
Proceeds from Sale of Capital Assets	172
	<hr/>
Total Other Financing Sources (Uses)	69,172
	<hr/>
Net Change in Fund Balance	196,082
	<hr/>
Fund Balance--October 1, 2019	3,681,478
	<hr/>
Fund Balance--September 30, 2020	\$ 3,877,560
	<hr/> <hr/>

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

SCHOOLCRAFT COUNTY ROAD COMMISSION
 RECONCILIATION OF THE GOVERNMENTAL
 FUND STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE TO THE
 STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended September 30, 2020

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ 196,082

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. (594,167)
 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
 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. 154,276

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). (4,136)

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. 92,663

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. 173,889

Change in Net Position of Governmental Activities \$ 18,607

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, 2020

EXHIBIT G

	<u>OPEB Trust</u>
<u>ASSETS</u>	
Investments at Fair Value--Money Markets	<u>\$ 812,166</u>
Total Assets	<u>812,166</u>
<u>LIABILITIES</u>	
Total Liabilities	<u>-</u>
<u>NET POSITION</u>	
Restricted for Other Postemployment Benefits	<u><u>\$ 812,166</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, 2020

EXHIBIT H

<u>ADDITIONS</u>	<u>OPEB Trust</u>
Contributions	
Employer Contributions	\$ 130,000
Total Contributions	<u>130,000</u>
Investment Earnings	
Interest and Dividends	<u>48,844</u>
Total Investment Earnings	<u>48,844</u>
Net Investment Earnings	<u>48,844</u>
Total Additions	<u>178,844</u>
<u>DEDUCTIONS</u>	
Administrative Expenses	<u>-</u>
Total Deductions	<u>-</u>
Changes in Net Position	178,844
Net Position Restricted for Other Postemployment Benefits	
Beginning of Year	<u>633,322</u>
End of Year	<u><u>\$ 812,166</u></u>

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

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2020

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, 2020

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.

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.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2020

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

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, 2020

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 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

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2020

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

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 \$751,982, and prepaid expenses in the amount of \$104,071.
- 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.

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.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2020

NOTE B--STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Procedures

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

Budget Violations

PA 2 of 1968, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. Although the actual 2020 expenditures were within the final amended budget by a total of \$56,419, some expenditure activities exceeded the amounts appropriated.

Expenditures by activity that exceeded appropriations are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road Preservation / Structural Improvements	\$ 322,249	\$ 327,529	\$ (5,280)
Local Road Routine and Preventive Maintenance	943,906	949,054	(5,148)
State Trunkline Non-Maintenance	209,566	210,044	(478)
Other Non-Road Maintenance	9,134	9,973	(839)
Administrative Expense--Net	401,833	417,929	(16,096)
Capital Outlay--Net	233,742	298,603	(64,861)
Debt Service--Interest	36,780	38,276	(1,496)

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.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2020

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.

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	\$ 916,761	\$ -	\$ 916,761
Investments	3,333,717	812,166	4,145,883
Total	\$ 4,250,478	\$ 812,166	\$ 5,062,644

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2020

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposits)	\$ 911,461
Investments at Fair Market Value	3,333,717
Imprest Cash	<u>5,300</u>
Total	<u>\$ 4,250,478</u>

The bank balance of the Road Commission's deposits is \$1,268,506, of which \$250,000 is covered by Federal depository insurance.

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

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy authorizes investment in all those that are authorized by law. As stated above, the Road Commission's General Operating Fund did not have any investments in the fiscal year ending September 30, 2020.

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.

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.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2020

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

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.

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.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2020

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

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, 2020:

	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	\$ 812,166	\$ -	\$ -	\$ 812,166	N/A	N/A	
Cash Management Funds	-	3,333,717	-	3,333,717	N/A	AAAm	
Total Investments at Fair Value	\$ 812,166	\$ 3,333,717	\$ -	\$ 4,145,883			

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, 2020, rating information on the Road Commission’s investments is presented above.

Interest Rate Risk

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

Concentration of Credit Risk

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

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2020

NOTE D--CAPITAL ASSETS

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

	Balances <u>10/1/2019</u>	<u>Additions</u>	<u>Deductions</u>	Balances <u>9/30/2020</u>
Capital Assets Not Being Depreciated				
Land	\$ 357,407	\$ -	\$ -	\$ 357,407
Infrastructure--Land Improvements	<u>1,537,473</u>	<u>-</u>	<u>-</u>	<u>1,537,473</u>
Subtotal	<u>1,894,880</u>	<u>-</u>	<u>-</u>	<u>1,894,880</u>
Capital Assets Being Depreciated				
Land Improvements	50,519	-	-	50,519
Buildings	3,596,033	-	-	3,596,033
Road Equipment	5,853,783	631,670	20,116	3,465,337
Shop Equipment	232,916	10,993	2,295	241,614
Yard Equipment	16,603	-	-	16,603
Office Equipment	57,896	9,806	15,417	52,285
Engineer's Equipment	33,563	-	-	33,563
Depletable Assets	233,126	1,787	-	234,913
Infrastructure--Bridges	4,132,879	-	-	4,132,879
Infrastructure--Roads	<u>17,711,509</u>	<u>351,587</u>	<u>4,889,261</u>	<u>13,174</u>
Total	<u>31,918,827</u>	<u>1,005,843</u>	<u>4,927,089</u>	<u>27,997,581</u>
Less Accumulated Depreciation				
Land Improvements	50,518	-	-	50,518
Buildings	2,118,578	91,677	-	2,210,255
Road Equipment	5,224,567	249,321	-	5,453,772
Shop Equipment	187,695	6,905	2,295	192,305
Yard Equipment	820	1,660	-	2,480
Office Equipment	48,607	4,819	15,417	38,009
Engineer's Equipment	26,991	828	-	27,819
Depletable Assets	22,403	443	-	22,846
Infrastructure--Bridges	643,827	99,267	-	743,094
Infrastructure--Roads	<u>10,573,323</u>	<u>1,145,090</u>	<u>4,889,261</u>	<u>6,829,152</u>
Total	<u>18,897,329</u>	<u>1,600,010</u>	<u>4,927,089</u>	<u>15,570,250</u>
Net Capital Assets Being Depreciated	<u>13,021,498</u>	<u>(594,167)</u>	<u>-</u>	<u>12,427,331</u>
Total Net Capital Assets	<u>\$ 14,916,378</u>	<u>\$ (594,167)</u>	<u>\$ -</u>	<u>\$ 14,322,211</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2020

NOTE D--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 249,321
Indirect Equipment	
Shop Building	91,677
Shop Equipment	6,905
Yard Equipment	1,660
Net Administrative Expenses	
Office Equipment and Furniture	4,819
Engineer Equipment	828
Depletable Assets	443
Infrastructure Depreciation Expense	1,244,357
 Total Depreciation Expense	 \$ 1,600,010

NOTE E--LONG-TERM DEBT

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

	Balance 10/01/19	Additions	(Reductions)	Balance 09/30/20	Due in One Year
Bonds Payable					
Michigan Transportation Fund Bonds Series 2012	\$ 1,115,000	\$ -	\$ (120,000)	\$ 995,000	\$ 125,000
 Installment Purchase Contract					
The State Savings Bank--2014 Equipment	42,898	-	(42,898)	-	-
 Installment Purchase Contract					
The State Savings Bank--2017 Equipment	54,832	-	(46,939)	7,893	7,893
 Installment Purchase Contract					
The State Savings Bank--2020 Equipment	-	69,000	(5,651)	63,349	22,784
 Installment Purchase Contract					
The State Savings Bank--2016 Equipment	7,788	-	(7,788)	-	-
 Vested Employee Benefits					
Vacation and Sick Leave	99,330	82,757	(78,621)	103,466	78,300
 Totals	 \$ 1,319,848	\$ 151,757	\$ (301,897)	\$ 1,169,708	\$ 233,977

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2020

NOTE E--LONG-TERM DEBT (Continued)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 155,677	\$ 35,468
2022	153,071	31,723
2023	157,495	27,409
2024	140,000	22,628
2025	145,000	17,728
2026-2027	<u>315,000</u>	<u>18,690</u>
Total	<u>\$ 1,066,243</u>	<u>\$ 153,646</u>

Bonds Payable

Michigan Transportation Fund Bonds, Series 2012

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

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2020

NOTE E--LONG-TERM DEBT (Continued)

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

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

Year	Principal	Interest	Annual Total
2021	\$ 125,000	\$ 34,785	\$ 159,785
2022	130,000	31,348	161,348
2023	140,000	27,318	167,318
2024	140,000	22,628	162,628
2025	145,000	17,728	162,728
2026-2027	315,000	18,690	333,690
Total	<u>\$ 995,000</u>	<u>\$ 152,497</u>	<u>\$ 1,147,497</u>

Promissory Note Payable--Equipment Purchases

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

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

Year	Principal	Interest	Total
2021	\$ 22,784	\$ 662	\$ 23,446
2022	23,071	375	23,446
2023	17,495	91	17,586
Total	<u>\$ 63,350</u>	<u>\$ 1,128</u>	<u>\$ 64,478</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2020

NOTE E--LONG-TERM DEBT (Continued)

Loans Payable--Equipment Purchases

The Road Commission financed the purchase of a loader with the State Savings Bank of Manistique on December 13, 2017. The terms and annual principal and interest requirements are as follows:

Terms: Purchase price of \$138,325 at 2.15% interest from January 2017 to December 2020, requiring monthly payments of \$3,971.06 beginning January 13, 2018.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 7,893	\$ 21	\$ 7,914
Total	<u>\$ 7,893</u>	<u>\$ 21</u>	<u>\$ 7,914</u>

Vested Employee Benefits Payable

Vacation Benefits

Vacation benefits are earned in varying amounts depending on the employee's years of service. Prior to January 1, 1993, the Road Commission's vacation policy required all vacation benefits to be used within the calendar year in which they were credited. New vacation policies provide for all employees to be credited on January 1, 1993, with the vacation benefits they earned for the year 1992, and the 1993 vacation benefits to be credited on a per month basis with employees permitted to accumulate up to a maximum of 2 years of vacation benefits. The liability recorded in the long-term debt for vacation earned but not used, as of September 30, 2020, totaled \$64,501.

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 \$38,965 recorded in the long-term debt consists of 100% of the maximum accumulated sick leave as of September 30, 2020.

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.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2020

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.

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, 2020

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Table 2

2019 Valuation

	01 - General: Closed to new hires, linked to Division 10
Benefit Multiplier:	<u>2.50% Multiplier (80% max)</u>
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: <u>Open Division, linked to Division 01</u>
Benefit Multiplier:	2.00% Multiplier (no max)
Normal Retirement Age	60
Vesting:	10 years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
Employee Contributions:	0.00%
Act 88:	Yes (Adopted 7/11/2007)

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2020

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Employees covered by benefit terms: As of December 31, 2019, 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)	4
Active employees	<u>20</u>
Total employees covered by MERS Plan	<u>66</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, 2020, the Road Commission's contribution rate was \$52,726 per month based on annual payroll for all employees.

Net Pension Liability

The employer's net pension liability reported as of September 30, 2020, was determined using a measure of the total pension liability and the pension net position as of December 31, 2019. The December 31, 2019, 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, 2019, 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 inflation	7.35%, net of investment expense, including inflation

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in the December 31, 2019; valuation was based on the results of the most recent actuarial experience study in 2009-2013.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2020

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, 2019, the measurement date, for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	55.50%	8.65%
Global Fixed Income	18.50%	3.76%
Real Assets	13.50%	9.72%
Diversifying Strategies	12.50%	7.50%

Discount rate: The discount rate used to measure the total pension liability is 8% for 2019. 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, 2020

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, 2018	\$ 15,462,147	\$ 6,776,123	\$ 8,686,024
Changes for the Year:			
Service Cost	113,169	-	113,169
Interest	1,194,414	-	1,194,414
Difference Between Expected and Actual Experience	(268,185)	-	(268,185)
Difference Between Expected and Actual Assumptions	501,760	-	501,760
Contributions--Employer	-	1,149,147	(1,149,147)
Contributions--Employees	-	26,188	(26,188)
Net Investment Income	-	919,892	(919,892)
Benefit Payments (Including Refunds)	(1,177,137)	(1,177,137)	-
Administrative Expense	-	(15,747)	15,747
Net Changes	<u>364,021</u>	<u>902,343</u>	<u>(538,322)</u>
Balances as of December 31, 2019	<u>\$ 15,826,168</u>	<u>\$ 7,678,466</u>	<u>\$ 8,147,702</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2020

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

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

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
Net Pension Liability as of December 31, 2019		\$ 8,147,702	
Change in Net Pension Liability (NPL)	\$ 1,597,527		\$(1,365,227)

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

For the year ending September 30, 2020, the Road Commission recognized pension expense of (\$173,889). As of September 30, 2020, the Road Commission reported deferred outflows of resources related to pensions from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions to the plan subsequent to the measurement date*	\$ 889,592	\$ -
Net difference between projected and actual earnings on pension plan investments**	29,032	-
Net difference in pension assumptions	334,507	
Net difference in pension experience	64,808	178,790
Total	\$ 1,317,939	\$ 178,790

*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, 2021.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2020

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

**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>
2020	\$ 125,769
2021	103,578
2022	95,910
2023	(75,700)

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, 2020, 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.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2020

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.

Employees covered by benefit terms. As of September 30, 2020, the following employees were covered by the benefit terms:

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	6
Covered Spouse	-
Active Plan Members	8
 Total Plan Members	 14

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

Net OPEB Liability. The Road Commission’s net OPEB liability was measured as of September 30, 2020.

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of September 30, 2019 rolled forward to September 30, 2020. The following actuarial assumptions, applied to all periods included in the measurement:

Inflation	Included in investment rate of return	
Salary increases	3.50%	
Investment rate of return	4.27%	
20-year Aa Municipal bond rate	2.14%	
Mortality	2010 Public General Employees and Healthy Retirees, Headcount-weighted MP-2020 Mortality Improvement Scale	

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2020

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, 2020 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected</u>	
	<u>Target Allocation</u>	<u>Real Rate of Return</u>
Global Equity	58.6%	4.80%
Global Fixed Income	35.0%	3.60%
Private Assets	2.0%	6.40%
Diversifying Strategies	1.7%	3.00%
Real Estate	2.7%	0.50%

The sum of each target allocation times its long-term expected real rate is 4.27%, including inflation.

Discount Rate. The discount rate used to measure the total OPEB liability was 4.27%. The employer is assumed to make \$120,000 annual contributions. Given this assumption, the assets are projected to be sufficient to make projected future benefit payments of current plan members indefinitely. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. Because there is no Depletion Date (Cross-over Point) the effective discount rate is equal to the expected rate of return. This discount rate is used to determine the Total OPEB Liability. The discount rate used to determine the liability as of September 30, 2019 was 6.98%.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2020

NOTE I--POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

<u>Changes in Net OPEB Liability</u>	<u>OPEB Liability (a)</u>	<u>Fiduciary Net Position (b)</u>	<u>Net OPEB Liability (a)-(b)</u>
Balance as of September 30, 2019	\$1,397,892	\$ 633,322	\$ 764,570
Changes for the Year			
Service Cost	37,473	-	37,473
Interest	96,135	-	96,135
Experience (Gains)/Losses	(24,571)	-	(24,571)
Change in Actuarial Assumptions	213,392	-	213,392
Contributions to OPEB Trust	-	130,000	(130,000)
Contributions/Benefit Paid from General Operating Fund	-	116,169	(116,169)
Net Investment Income	-	52,296	(52,296)
Benefit Payments (Including Refunds of Employee Contributions)	(116,169)	(116,169)	-
Administrative Expense	-	(3,452)	3,452
Total changes	206,260	178,844	27,416
Balance as of September 30, 2020	<u>\$1,604,152</u>	<u>\$ 812,166</u>	<u>\$ 791,986</u>

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net OPEB Liability of the Road Commission	\$ 881,415	\$ 791,986	\$ 708,374

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2020

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:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate Assumption</u>	<u>1% Increase</u>
Net OPEB Liability of the Road Commission	\$ 674,281	\$ 791,986	\$ 921,390

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended September 30, 2020, the Road Commission recognized OPEB expense of \$72,280. At September 30, 2020, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<u>Source</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 85,531
Assumption changes	135,392	26,759
Investment Earnings (Gains)/Losses	12,255	-
Total	<u>\$ 147,647</u>	<u>\$ 112,290</u>

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

<u>Year Ended September 30</u>	<u>Amount</u>
2021	\$(14,591)
2022	46,063
2023	4,618
2024	(733)
2025	-
Thereafter	-

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2020

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, 2020, the Road Commission received \$110,944 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, 2020, the Road Commission received and expended \$118,047 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, 2020.

NOTE K--STATE TRUNKLINE MAINTENANCE REVENUE

The difference between the State Trunkline maintenance revenues of \$2,024,118 and expenditures of \$2,007,239 is the result of the Michigan Department of Transportation (MDOT) issuing auditor's report 2020-68 for the 2018 State Trunkline Maintenance contract. The result of the audit increased the payments by \$16,879.

NOTE L--UPCOMING REPORTING CHANGE

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

SCHOOLCRAFT COUNTY ROAD COMMISSION
SCHEDULE OF CHANGES IN THE ROAD COMMISSION'S
NET PENSION LIABILITY AND RELATED RATIOS*
For the Plan Year Ending December 31, 2019

SCHEDULE 1

	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service Cost	\$ 113,169	\$ 107,106	\$ 93,813	\$ 107,736	\$ 111,605	\$ 142,426
Interest	1,194,414	1,170,652	1,153,384	1,144,774	1,090,093	1,071,981
Difference Between Expected and Actual Experience	(268,185)	194,422	99,297	(58,265)	118,125	-
Changes in Assumptions	501,760	-	-	-	810,342	-
Other	-	-	-	-	(763)	-
Benefit Payments Including Employee Refunds	(1,177,137)	(1,179,245)	(1,095,357)	(1,063,947)	(998,146)	(960,761)
Net Change in Total Pension Liability	364,021	292,935	251,137	130,298	1,131,256	253,646
Total Pension Liability--Beginning	15,462,147	15,169,212	14,918,075	14,787,777	13,656,521	13,402,875
Total Pension Liability--Ending	<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	\$ 1,149,147	\$ 912,468	\$ 847,654	\$ 807,649	\$ 822,340	\$ 688,346
Contributions--Employees	26,188	-	-	-	-	-
Net Investment Income	919,892	(282,168)	878,278	705,262	(99,707)	403,998
Benefit Payments Including Employee Refunds	(1,177,137)	(1,179,245)	(1,095,357)	(1,063,947)	(998,146)	(960,761)
Administrative Expense	(15,747)	(13,905)	(13,924)	(13,938)	(14,393)	(14,781)
Net Change in Plan Fiduciary Net Position	902,343	(562,850)	616,651	435,026	(289,906)	116,802
Plan Fiduciary Net Position--Beginning	6,776,123	7,338,973	6,722,322	6,287,296	6,577,202	6,460,400
Plan Fiduciary Net Position--Ending	<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>\$ 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	49%	44%	48%	45%	43%	48%
Covered Employee Payroll	\$ 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	748%	861%	934%	856%	794%	659%

Notes to Schedule:

There were no benefit changes or changes in assumptions or methods affecting the 2014 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.

SCHOOLCRAFT COUNTY ROAD COMMISSION
 SCHEDULE OF ROAD COMMISSION'S CONTRIBUTIONS
 For the Fiscal Year Ending September 30, 2020

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarial Determined Contributions	\$ 661,080	\$ 637,855	\$ 592,582	\$ 408,642	\$ 477,811	\$ 522,776	\$ 492,176	\$ 431,111	\$ 423,182	\$ 414,827
Contributions in Relation to the Actuarially Determined Contribution	1,101,080	1,142,855	981,755	807,649	822,340	688,347	663,210	564,606	496,688	414,827
Contribution Deficiency (Excess)	<u>\$ (440,000)</u>	<u>\$ (505,000)</u>	<u>\$ (389,173)</u>	<u>\$ (399,007)</u>	<u>\$ (344,529)</u>	<u>\$ (165,571)</u>	<u>\$ (171,034)</u>	<u>\$ (133,495)</u>	<u>\$ (73,506)</u>	<u>\$ -</u>
Covered Employee Payroll	\$ 1,088,766	\$ 1,008,908	\$ 838,376	\$ 957,342	\$ 1,071,002	\$ 1,074,102	\$ 1,050,832	\$ 1,031,916	\$ 1,111,005	\$ 1,145,011
Contributions as a Percentage of Covered Employee Payroll	101%	113%	117%	84%	77%	64%	63%	55%	45%	36%

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	25 years
Asset valuation method	Five-year smoothed market
Inflation	
Salary Increases	3.00% in the long-term
Investment rate of return	7.35%, net of investment and administrative expense including inflation
Retirement age	Experienced-based tables of rates that are specific to the type of eligibility condition
Mortality	RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

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, 2020

SCHEDULE 3

	2020	2019	2018	2017
Total OPEB Liability				
Service Cost	\$ 37,473	\$ 64,034	\$ 59,989	\$ 57,280
Interest	96,135	73,914	77,021	75,057
Difference Between Expected and Actual Experience	(24,571)	(201,001)	(24,814)	-
Change of Assumptions	213,392	(81,371)	28,252	
Benefit Payments Including Employee Refunds	(116,169)	(109,230)	(114,537)	(72,537)
Net Change in Total OPEB Liability	<u>206,260</u>	<u>(253,654)</u>	<u>25,911</u>	<u>59,800</u>
Total OPEB Liability Beginning	<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>\$ 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	\$ 130,000	\$ 110,000	\$ 50,000	\$ 50,000
Contributions/Benefit Payments Made From General Operating Funds	116,169	109,230	114,537	72,537
Net Investment Income	52,296	12,996	35,358	48,133
Benefit Payments Including Employee Refunds	(116,169)	(109,230)	(114,537)	(72,537)
Administrative Expenses	(3,452)	(1,930)	(2,224)	(1,804)
Net Change in Plan Fiduciary Net Position	<u>178,844</u>	<u>121,066</u>	<u>83,134</u>	<u>96,329</u>
Plan Fiduciary Net Position Beginning	<u>633,322</u>	<u>512,256</u>	<u>429,122</u>	<u>332,793</u>
Plan Fiduciary Net Position Ending	<u>\$ 812,166</u>	<u>\$ 633,322</u>	<u>\$ 512,256</u>	<u>\$ 429,122</u>
Employer Net OPEB Liability	<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	51%	45%	31%	26%
Covered Employee Payroll	\$ 513,878	\$ 1,317,015	\$ 1,273,371	not available
Employer's Net OPEB Liability as a Percentage of Covered Employee Payroll	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, 2020

SCHEDULE 4

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarial Determined Contributions	\$ 226,461	\$ 287,410	\$ 256,333	\$ 236,720
Contributions in Relation to the Actuarially Determined Contribution	<u>246,169</u>	<u>219,230</u>	<u>164,537</u>	<u>122,537</u>
Contribution deficiency (excess)	<u>\$ 19,708</u>	<u>\$ (68,180)</u>	<u>\$ (91,796)</u>	<u>\$ (114,183)</u>
Covered Employee Payroll	\$ 513,878	\$ 1,317,015	\$ 1,273,371	Not Available
Contributions as a Percentage of Covered Employee Payroll	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, 2020
 Measurement Date September 30, 2020

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method Entry Age Normal (level of percentage of compensation)
 Amortization Method Level Dollar
 Discount Rate 4.27% - Average effective rate consisting of long term return on
 asset and 20-year Aa Municipal Bond
 20-year Aa Municipal Bond Rate 2.14%
 Inflation Included in investment rate of return
 Payroll Inflation 3.5%
 Return on Plan Assets 4.27% including inflation
 Mortality Public General Headcount-weighted 2010 Employee and Healthy
 Retiree with MP-2020 Mortality Improvement Scale

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, 2020

EXHIBIT I

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 5,000	\$ 5,500	\$ 5,475	\$ (25)
Federal Grants (Negotiated Projects)				
Highway Safety Improvement Program	-	-	118,047	118,047
Federal Grants (Contracted Projects)				
Surface Transportation Program	312,480	228,082	43,328	(184,754)
Highway Safety Improvement Program	-	-	67,616	67,616
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,390,736	2,200,000	2,251,296	51,296
Local Road	675,000	673,587	683,893	10,306
Snow Removal	190,000	190,000	190,860	860
Contributions from Local Units				
Townships	127,300	38,417	34,987	(3,430)
Charges for Services				
State Trunkline Maintenance	1,700,000	2,033,448	2,024,118	(9,330)
State Trunkline Non-Maintenance	200,000	209,566	210,044	478
Other Non-Road Services	7,000	8,581	9,696	1,115
Salvage Sales	4,700	1,321	1,322	1
Interest and Rents				
Interest Earned	80,000	43,461	43,128	(333)
Rents and Royalties	15,000	29,996	29,918	(78)
Other Revenue				
Reimbursements	500	2,280	2,240	(40)
Total Revenues	5,717,716	5,674,239	5,725,968	51,729
Other Financing Sources				
Installment Lease Proceeds	-	69,000	69,000	-
Proceeds from Sale of Capital Assets	10,000	172	172	-
Total Other Financing Sources	10,000	69,172	69,172	-
Total Revenues and Other Financing Sources	5,727,716	5,743,411	<u>\$ 5,795,140</u>	<u>\$ 51,729</u>
Fund Balance--October 1, 2019	3,681,478	3,681,478		
Total Budget	<u>\$ 9,409,194</u>	<u>\$ 9,424,889</u>		

SCHOOLCRAFT COUNTY ROAD COMMISSION
 REQUIRED SUPPLEMENTARY INFORMATION
 GENERAL OPERATING FUND--SCHEDULE OF
 EXPENDITURES--BUDGETARY COMPARISON SCHEDULE
 For the Fiscal Year Ended September 30, 2020

EXHIBIT J

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 374,529	\$ 322,249	\$ 327,529	\$ (5,280)
Routine and Preventive Maintenance	1,336,656	1,368,922	1,349,291	19,631
Local Road				
Preservation/Structural Improvements	126,663	27,889	24,058	3,831
Routine and Preventive Maintenance	883,094	943,906	949,054	(5,148)
State Trunkline				
Maintenance	1,750,000	2,016,568	2,007,239	9,329
Non-Maintenance	200,000	209,566	210,044	(478)
Other Non-Road Maintenance	9,010	9,134	9,973	(839)
Cost of General Services	-	-	-	-
Equipment Expense--Net	187,274	(138,417)		
Direct			\$ 743,305	
Indirect			536,244	
Operating			235,279	
Less: Equipment Rentals			(1,771,042)	(256,214)
Administrative Expense--Net	520,223	401,833		
Administrative Expense			631,227	
Handling Charge			(210,957)	
Purchase Discounts			(2,341)	(16,096)
Capital Outlay--Net	74,501	233,742		
Capital Outlay			654,256	
Less: Depreciation Credits			(355,653)	
Equipment Retirements			-	(64,861)
Debt Service				
Principal Payments	223,276	223,276	223,276	-
Interest Payments	32,977	36,780	38,276	(1,496.00)
Total Expenditures	5,718,203	5,655,448	\$ 5,599,058	\$ 56,390
Fund Balance--September 30, 2020	3,690,991	3,769,441		
Total Budget	\$ 9,409,194	\$ 9,424,889		

SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF CHANGES IN FUND BALANCES
For the Fiscal Year Ended September 30, 2020

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 2,641,289	\$ 780,422	\$ 2,304,257	\$ 5,725,968
Total Expenditures	<u>1,864,948</u>	<u>1,078,414</u>	<u>2,655,696</u>	<u>5,599,058</u>
Excess of Revenues Over (Under) Expenditures	776,341	(297,992)	(351,439)	126,910
Other Financing Sources (Uses)				
Optional Transfers	(303,038)	303,038	-	-
Installment Lease Proceeds	-	-	69,000	69,000
Proceeds from Sale of Capital Assets	-	-	172	172
Total Other Financing Sources (Uses)	<u>(303,038)</u>	<u>303,038</u>	<u>69,172</u>	<u>69,172</u>
Net Change in Fund Balance	473,303	5,046	(282,267)	196,082
Fund Balance--October 1, 2019	<u>592,572</u>	<u>430,778</u>	<u>2,658,128</u>	<u>3,681,478</u>
Fund Balance--September 30, 2020	<u>\$ 1,065,875</u>	<u>\$ 435,824</u>	<u>\$ 2,375,861</u>	<u>\$ 3,877,560</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND--ANALYSIS OF REVENUES
AND OTHER FINANCING SOURCES
For the Fiscal Year Ended September 30, 2020

EXHIBIT L

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Permits	\$ -	\$ -	\$ 5,475	\$ 5,475
Federal Grants (Negotiated Projects)				
Highway Safety Improvement Program	118,047	-	-	118,047
Federal Grants (Contracted Projects)				
Surface Transportation Funds	43,328	-	-	43,328
Highway Safety Improvement Program	67,616	-	-	67,616
State Grants				
Michigan Transportation Fund				
Engineering	7,670	2,330	-	10,000
Allocation	2,251,296	683,893	-	2,935,189
Snow Removal	146,390	44,470	-	190,860
Contributions from Local Units				
Townships	-	34,987	-	34,987
Charges for Services				
State Trunkline Maintenance	-	-	2,024,118	2,024,118
State Trunkline Non-Maintenance	-	-	210,044	210,044
Other Non-Road Services	-	9,696	-	9,696
Salvage Sales	-	-	1,322	1,322
Interest and Rents				
Interest Earned	6,942	5,046	31,140	43,128
Rents and Royalties	-	-	29,918	29,918
Other Revenue				
Reimbursements	-	-	2,240	2,240
Total Revenue	<u>2,641,289</u>	<u>780,422</u>	<u>2,304,257</u>	<u>5,725,968</u>
Other Financing Sources				
Installment Lease Proceeds	-	-	69,000	69,000
Proceeds from Sale of Capital Assets	-	-	172	172
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>69,172</u>	<u>69,172</u>
Total Revenues and Other Financing Sources	<u>\$ 2,641,289</u>	<u>\$ 780,422</u>	<u>\$ 2,373,429</u>	<u>\$ 5,795,140</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF EXPENDITURES
For the Fiscal Year Ended September 30, 2020

EXHIBIT M

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 327,529	\$ -	\$ -	\$ 327,529
Routine and Preventive Maintenance	1,349,291	-	-	1,349,291
Local Road				
Preservation/Structural Improvements	-	24,058	-	24,058
Routine and Preventive Maintenance	-	949,054	-	949,054
State Trunkline				
Maintenance	-	-	2,007,239	2,007,239
Non-Maintenance	-	-	210,044	210,044
Other Non-Road Projects	-	9,973	-	9,973
Equipment Expense--Net (Per Exhibit J)	(76,328)	(58,144)	(121,742)	(256,214)
Administrative Expense--Net (Per Exhibit J)	264,456	153,473	-	417,929
Capital Outlay--Net (Per Exhibit J)	-	-	298,603	298,603
Debt Service				
Principal Payments	-	-	223,276	223,276
Interest Payments	-	-	38,276	38,276
Total Expenditures	<u>\$ 1,864,948</u>	<u>\$ 1,078,414</u>	<u>\$ 2,655,696</u>	<u>\$ 5,599,058</u>



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

March 2, 2021

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

Independent Auditor's Report

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

Dear Commissioners:

We have audited, in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, Michigan, as of and for the year ended September 30, 2020, 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 2, 2021.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Schoolcraft County Road Commission's financial statements will not

be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies or material weaknesses. However, significant deficiencies or 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of statutory non-compliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as Finding 2020-001.

Schoolcraft County Road Commission's Responses to Findings

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

Purpose of this Report

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

Sincerely,



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



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

March 2, 2021

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

RE: Report to Those Charged With Governance

Dear Commissioners:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, Michigan, for the fiscal year ended September 30, 2020, and have issued our report thereon dated March 2, 2021. Professional standards require that we provide you with the following information related to our audit.

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

As stated in the engagement letter dated October 22, 2018, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described in professional standards, is to evaluate the presentation of supplementary information in relation to the financial statements as a whole and to report on whether the supplementary

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and meeting about planning matters on October 22, 2018, with management.

Significant Results of the Audit

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Schoolcraft County Road Commission are described in Note A to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the fiscal year ended September 30, 2020. We noted no transactions entered into by the Schoolcraft County Road Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

The most sensitive estimates affecting the governmental activities in the government-wide statements relate to depreciation, the net pension liability, the liability for other postemployment benefits and the estimate of the current portion of vested employee benefits. Management's estimate of the depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets in accordance with Generally Accepted Accounting Principles. For the pension, estimates and assumptions are determined by MERS and its actuary, based on the Road Commission's negotiations with its bargaining units and resolutions of the Board of County Road Commissioners. For retiree health care, the estimates and assumptions are based on actuarial techniques. Management's estimate of the current portion of vested employee benefits payable within the next year is based on historical trends and current policies regarding the usage of these benefits. We evaluated the key factors and assumptions used to develop the depreciation, the net pension liability, the liability for other postemployment benefits, and the current portion of vested employee benefits payable in determining that they are reasonable in relation to the financial statements, taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 2, 2021.

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.

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

Sincerely,



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

SCHOOLCRAFT COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended September 30, 2020

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 2020-001

Condition: During the fiscal year ended September 30, 2020, expenditures were incurred in excess of amounts appropriated in the amended budgets as follows:

	Budget	Actual	Variance
Primary Road Preservation / Structural Improvements	\$ 322,249	\$ 327,529	\$ (5,280)
Local Road Routine and Preventive Maintenance	943,906	949,054	(5,148)
State Trunkline Non-Maintenance	209,566	210,044	(478)
Other Non-Road Maintenance	9,134	9,973	(839)
Administrative Expense--Net	401,833	417,929	(16,096)
Capital Outlay--Net	233,742	298,603	(64,861)
Debt Service--Interest	36,780	38,276	(1,496)

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

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

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

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

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