

OTSEGO COUNTY ROAD COMMISSION

(A Component Unit of Otsego County)

Otsego County, Michigan

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023



Vredeveld Haefner LLC
CPAs and Consultants

OTSEGO COUNTY ROAD COMMISSION
(A Component Unit of Otsego County)

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INDEPENDENT AUDITORS' REPORT

April 8, 2024

Otsego County Road Commission
Board of Commissioners
Gaylord, Michigan

Report on the Financial Statements

Opinions

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

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

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and required supplementary information on pages 33 through 37 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Otsego County Road Commission's basic financial statements. The general fund schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the general fund schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2024, on our consideration of the Otsego 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 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 Otsego County Road Commission's internal control over financial reporting and compliance.

Uredaxold Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Otsego County Road Commission (the Commission), we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended December 31, 2023. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- Year end net position of governmental activities was \$53 million which is an increase of \$6 million over the 2022 balance.
- Municipal and other local sources funded projects of \$1.5 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's financial statements. The Commission's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

Note that Otsego County's government-wide financial statements are not presented herein because the Commission is a component unit of the County. The County presents their financial statements in a separately issued annual comprehensive financial report.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with an overview of the Commission's finances, in a manner similar to a private-sector business. The government-wide financial statements include only the Commission itself (known as a *special purpose government*). The Commission has no legally separate component units for which the Commission is financially accountable.

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., payments on long-term liabilities).

Both of the government-wide financial statements display functions of the Commission that are principally supported by intergovernmental revenues (*governmental activities*). The governmental activities of the Commission include providing construction, repair, maintenance, and snow removal of roads within Otsego County. The Commission does not have any business-type activities.

In this report, financial information for the Commission is reported separately from the financial information presented for Otsego County which reports the Commission as a component unit.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Commission utilizes and presents a general fund and an OPEB trust fund. The Commission does not utilize proprietary funds.

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

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

Information is presented in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the general fund which is considered to be major fund.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Commission's own programs. The fiduciary funds provide the same type of information as the government-wide financial statements, only in more detail.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. Required supplementary information includes this management discussion and analysis, the general fund budgetary comparison schedule and benefit plan schedules.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets exceeded liabilities by \$52,964,953 at the close of the most recent fiscal year.

The most significant portion of the Commission's net position reflects investment in capital assets (e.g., land, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Commission's capital assets consist of road infrastructure and capital assets used to construct and maintain this infrastructure; consequently, these assets are *not* available for future spending. Although the Commission investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities	
	<u>2023</u>	<u>2022</u>
Assets		
Current assets	\$16,386,022	\$15,231,503
Noncurrent assets		
Capital assets	42,282,898	38,185,812
Total assets	<u>58,668,920</u>	<u>53,417,315</u>
Deferred outflows	<u>754,919</u>	<u>1,810,251</u>
Liabilities		
Current liabilities	688,537	1,066,547
Long-term liabilities	4,217,393	5,572,995
Total liabilities	<u>4,905,930</u>	<u>6,639,542</u>
Deferred inflows	<u>1,552,956</u>	<u>1,655,945</u>
Net position		
Net capital assets	42,282,898	37,913,602
Restricted	10,682,055	9,018,477
Total net position	<u>\$52,964,953</u>	<u>\$ 46,932,079</u>

Net position of the Commission increased by \$6,032,874. The increase in net position is primarily the result of the timing difference between when infrastructure is purchased and when depreciation is recorded on the infrastructure.

	Governmental Activities	
	<u>2023</u>	<u>2022</u>
Revenue		
Program revenue		
Charges for services	\$ 2,430,265	\$ 2,714,507
Operating grants and contributions	7,659,147	7,242,790
Capital grants and contributions	4,342,060	3,292,371
General revenue		
Interest	366,131	116,180
Gain on sale of capital assets	50,000	-
Other	37,767	34,179
Total revenue	<u>14,885,370</u>	<u>13,400,027</u>
Expenses		
Public works	8,842,789	9,643,424
Debt service	9,707	11,214
Total expenses	<u>8,852,496</u>	<u>9,654,638</u>
Increase (decrease) in net position	6,032,874	3,745,389
Net position, beginning of year	<u>46,932,079</u>	<u>43,186,690</u>
Net position, end of year	<u>\$52,964,953</u>	<u>\$46,932,079</u>

Governmental Activities

During the year the Commission reported approximately 27% of its total expenses for depreciation of capital assets. The remaining 73% of total expenses was for public works activities.

Financial Analysis of the Government's Funds (General Fund)

As noted earlier, the Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Commission's *general fund* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Commission's financing requirements. In particular, *fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Commission's general fund reported ending fund balance of \$14,372,721, an increase of \$1,306,740 in comparison with the prior year. This increase is primarily the result of the State of Michigan gas tax increases (Act 51 distributions), County property tax receipts and project completions.

The General fund is the chief operating fund of the Commission. At the end of the current fiscal year, the general fund largest component of fund balance included unassigned fund balance of \$866,772. As a measure of the General fund's liquidity, it is important to note that the general fund operates primarily on operating and capital grant funding.

General Fund Budgetary Highlights

- Revenues:
 - Act 51 funding (gas and weight tax) exceeded estimates
 - State trunkline maintenance was less than budget
 - Local participation in projects was higher than budget
- Expenditures:
 - Primary road expenditures were approximately \$2 million under budget due to project timing and winter weather conditions
 - Local road expenditures were approximately \$1.6 million under budget due to project timing and winter weather conditions
 - Trunkline expenditures were approximately \$.6 million under budget due to winter weather conditions and state requested maintenance levels
 - Equipment expenditures were approximately \$.4 million under budget due to lower capital purchases than anticipated

Capital Asset and Debt Administration

Capital Assets. The Commission's investment in capital assets for its governmental activities as of December 31, 2023 amounted to \$42.3 million (net of accumulated depreciation).

Significant capital asset additions during the year include the following:

- \$4.7 million of primary road construction and heavy maintenance
- \$.8 million of local road construction and heavy maintenance
- \$1 million of building improvements and road equipment

The Commission's capital assets (net of depreciation) are summarized as follows:

	<u>Governmental Activities</u>
Land, right-of-way and construction in progress	\$13,523,841
Property and equipment, net	3,161,906
Infrastructure, net	<u>25,597,151</u>
Total	<u>\$42,282,898</u>

Additional information on the Commission's capital assets can be found in Note 4 of this report.

Debt. At the end of the current fiscal year, the Commission had outstanding long-term debt as follows:

	<u>Governmental Activities</u>
Compensated absences	<u>\$253,995</u>

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Commission's budget for the 2024 fiscal year:

- Stable MTF revenue
- Continued township contributions for local projects
- Continued countywide millage revenue
- Accumulated fund balance included in investment and depository accounts

Requests for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Otsego County Road Commission, Managing Director, 669 W. McCoy Road, P.O. Box 537, Gaylord, MI 49735.

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BASIC FINANCIAL STATEMENTS

OTSEGO COUNTY ROAD COMMISSION
(a Component Unit of Otsego County)

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

DECEMBER 31, 2023

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash and investments	\$ 12,314,461	\$ -	\$ 12,314,461
Receivables			
State trunkline maintenance	234,236	-	234,236
Due from local units of government	1,502,734	-	1,502,734
Motor vehicle highway funds	1,353,053	-	1,353,053
Other	2,850	-	2,850
Inventories			
Equipment, material, and parts	357,155	-	357,155
Road materials	549,069	-	549,069
Prepaid insurance	72,464	-	72,464
Capital assets			
Land and improvements, right-of-way and construction in progress	-	13,523,841	13,523,841
Property and equipment, net	-	3,161,906	3,161,906
Infrastructure, net	-	25,597,151	25,597,151
Total assets	<u>16,386,022</u>	<u>42,282,898</u>	<u>58,668,920</u>
Deferred outflows of resources			
Deferred outflow related to pension plan	-	685,390	685,390
Deferred outflow related to OPEB	-	69,529	69,529
Total deferred outflows of resources	<u>-</u>	<u>754,919</u>	<u>754,919</u>
Liabilities			
Accounts payable	126,586	-	126,586
Accrued liabilities	170,730	-	170,730
Advances			
State trunkline equipment purchase	241,009	-	241,009
State trunkline maintenance	150,212	-	150,212
Noncurrent liabilities			
Net pension liability	-	3,634,012	3,634,012
Net OPEB liability	-	329,386	329,386
Compensated absences	-	253,995	253,995
Total liabilities	<u>688,537</u>	<u>4,217,393</u>	<u>4,905,930</u>
Deferred inflows of resources			
Taxes levied for subsequent period	1,324,764	-	1,324,764
Deferred inflow related to pension plan	-	228,192	228,192
Total deferred inflows of resources	<u>1,324,764</u>	<u>228,192</u>	<u>1,552,956</u>
Fund balance			
Non-spendable			
Inventory	906,224	(906,224)	-
Prepaid	72,464	(72,464)	-
Restricted			
Primary roads	377,202	(377,202)	-
Local roads	3,117,967	(3,117,967)	-
Road construction and improvement	6,847,055	(6,847,055)	-
Assigned for subsequent year budget	2,185,037	(2,185,037)	-
Unassigned	866,772	(866,772)	-
Total fund balance	<u>14,372,721</u>	<u>(14,372,721)</u>	<u>-</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 16,386,022</u>		
Net position			
Net investment in capital assets		42,282,898	42,282,898
Restricted for road system		10,682,055	10,682,055
Total net position		<u>\$ 52,964,953</u>	<u>\$ 52,964,953</u>

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

OTSEGO COUNTY ROAD COMMISSION
(a Component Unit of Otsego County)

**RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO NET POSITION OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION**

DECEMBER 31, 2023

Fund balances - total governmental funds	\$ 14,372,721
Amounts reported for <i>governmental activities</i> in the statement of net position are different because	
Long-term assets and deferred outflows in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add - capital assets (net)	42,282,898
Add - deferred outflows related to net pension liability	685,390
Add - deferred outflows related to OPEB	69,529
Certain liabilities, such as bonds, installment purchase agreements, compensated absences, and claims payable, are not payable in the current period and therefore are not reported in the funds.	
Deduct - compensated absences payable	(253,995)
Deduct - net pension liability	(3,634,012)
Deduct - other post-employment benefit liability	(329,386)
Deduct - deferred inflows related to net pension liability	<u>(228,192)</u>
Net position of governmental activities	<u>\$ 52,964,953</u>

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

OTSEGO COUNTY ROAD COMMISSION
(a Component Unit of Otsego County)

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2023

	General Fund	Adjustments	Statement of Activities
Expenditures/expenses			
Public works	\$ 7,811,779	\$ 1,031,010	\$ 8,842,789
Capital outlay	5,484,934	(5,484,934)	-
Debt service			
Principal	272,210	(272,210)	-
Interest	9,707	-	9,707
	<u>13,578,630</u>	<u>(4,726,134)</u>	<u>8,852,496</u>
Total expenditures/expenses			
Program revenues			
Charges for services			
State trunkline maintenance	1,570,643	-	1,570,643
State trunkline nonmaintenance	786,945	-	786,945
Other charges	72,677	-	72,677
Operating grants and contributions			
State transportation funds	7,659,147	-	7,659,147
Capital grants and contributions			
Federal and state sources	1,394,513	-	1,394,513
Local units of government	1,506,509	-	1,506,509
Other local sources	194,662	-	194,662
County millage	1,246,376	-	1,246,376
	<u>14,431,472</u>	<u>-</u>	<u>14,431,472</u>
Net program revenue			
General revenue			
Salvage sales	3,109	-	3,109
Interest	366,131	-	366,131
Other	34,658	-	34,658
	<u>403,898</u>	<u>-</u>	<u>403,898</u>
Total general revenue			
Other financing sources			
Sales of capital assets	50,000	-	50,000
	<u>14,885,370</u>	<u>-</u>	<u>14,885,370</u>
Total revenues and other financing sources			
Change in fund balance/net position	1,306,740	4,726,134	6,032,874
Fund balances/net position, beginning of year	<u>13,065,981</u>	<u>33,866,098</u>	<u>46,932,079</u>
Fund balances/net position, end of year	<u>\$ 14,372,721</u>	<u>\$ 38,592,232</u>	<u>\$ 52,964,953</u>

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

OTSEGO COUNTY ROAD COMMISSION
(a Component Unit of Otsego County)

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED DECEMBER 31, 2023

Net changes in fund balances - general fund	\$ 1,306,740
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.</p>	
Add - capital outlay	6,467,422
Deduct - depreciation expense	(2,370,336)
<p>Long-term debt provides current financial resources to governmental funds in the period issued, but issuance increases long-term liabilities in the statement of net assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the statement of net assets.</p>	
Add - principal payments on long-term debt	272,210
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.</p>	
Add - decrease in compensated absences	49,181
Add - decrease in net OPEB liability	408,996
Deduct - decrease in deferred outflows related to net OPEB liability	(365,519)
Add - decrease in deferred inflows related to net OPEB liability	124,808
Add - decrease in net pension liability	761,763
Deduct- increase in deferred outflows related to net pension liability	(689,813)
Add - increase in deferred inflows related to net pension liability	67,422
Change in net position of governmental activities	\$ <u>6,032,874</u>

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

OTSEGO COUNTY ROAD COMMISSION
(a Component Unit of Otsego County)

FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2023

	Other Post-employment Benefit <u>Trust Fund</u>
Assets	
Investments	
Mutual funds	\$ 2,317,012
Bond funds	<u>668,079</u>
Total assets	<u>2,985,091</u>
Liabilities	
Accounts payable	<u>-</u>
Total liabilities	<u>-</u>
Net position	
Net position restricted for OPEB	<u>\$ 2,985,091</u>

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

OTSEGO COUNTY ROAD COMMISSION
(a Component Unit of Otsego County)

FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2023

	Other Post-employment Benefit <u>Trust Fund</u>
Additions	
Contributions	
Employer contributions	\$ 223,957
Investment earnings	
Interest	<u>431,853</u>
Total additions	<u>655,810</u>
Deductions	
Benefit payments	223,957
Administrative expense	<u>13,996</u>
Total deductions	<u>237,953</u>
Changes in net position	417,857
Net position, beginning of year	<u>2,567,234</u>
Net position, end of year	<u>\$ 2,985,091</u>

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

OTSEGO COUNTY ROAD COMMISSION
(a Component Unit of Otsego County)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Otsego County Road Commission (the Commission) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

The Otsego County Road Commission is a discretely presented component unit of Otsego County, Michigan. The Commission was established pursuant to (MCL 224.1), and is governed by a five member Board of County Road Commissioners appointed by the Otsego County Board of Commissioners.

The criteria established under generally accepted accounting principles for determining the reporting entity includes a significant operational or financial relationship with another entity. Based on the above criteria, these financial statements present all funds of the Otsego County Road Commission. The Commission has no component units.

The Commission general fund is used to control the expenditures of Michigan Transportation Fund monies and other grants and charges, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Commission.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the governmental activities of the special purpose government (the Commission). *Governmental activities* are reported in total. The Commission has no business-type activities.

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. Internally dedicated resources are reported as general revenues rather than as program revenues.

A combined financial statement is provided for the governmental funds balance sheet and the statement of net position as well as the governmental funds statement of revenues, expenditures and changes in fund balance and the statement of activities. The General fund is considered to be a major fund for financial reporting purposes. Fiduciary fund financial statements are presented separately from governmental activities as these assets are held in trust for retiree other post-employment benefits and not available for Commission operations.

The Commission reports the following major governmental fund:

The *General Fund* is the government's only operating fund. It accounts for all current financial resources of the government activities.

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Additionally, the Commission reports the following fund type:

The *Other Post-retirement Benefit Fund (a fiduciary fund)* is used to account for the accumulation and disbursement of assets held in trust for retiree other post-employment benefits.

Measurement Focus and Basis of Accounting

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

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The general fund is accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for charges for services, interest and grant revenues which use one year. County millage is a property tax levied and collected by Otsego County which is recognized as revenue when received by the Commission. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include compensated absences, claims, unfunded benefit plan balances and deferred items and principal and interest on long-term debt which are recognized when due.

The general fund is accounted for on a spending or “flow of current financial resources” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of “available, spendable resources”.

The general fund operating statement presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, it is said to present a summary of sources and uses of “available, spendable resources” during a period.

Budgets and Budgetary Accounting

The Commission’s procedures for establishing budgetary data are as follows:

- The Managing Director submits a proposed budget for the upcoming year to the Commission.
- The budget is reviewed by the Commission and a public hearing is held. Prior to the beginning of the year, the budget is adopted by the Commissioners.
- The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the original and amended budget. The budget was amended.
- The Commission adopts a budget for the general fund, by means of an appropriations act, on a activity basis in summary form.
- Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts. The budget is prepared on the modified accrued basis of accounting.
- All amendments to the budget require the approval of the Commissioners. The legal level of budgetary control for the Commission is at the activity level.

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Cash and Investments

Cash and investments consist of the balance of cashing, check, savings, certificates of deposit, investment and mutual fund accounts. The Commission has several depository accounts in its name with remaining depository and investment accounts managed by and held in the name of Otsego County. Michigan law and Commission policy authorizes the Commission to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended.
- h. The OPEB trust funds can also invest in corporate debt and equity securities.

The Otsego County investment policy allows for the above investments with restrictions on maturity and maximum portfolio percentages.

Receivables

Receivables consist primarily of the balance of gas and weight tax and trunkline maintenance fees due from the State of Michigan, balances due from the county for shared property taxes and balances due from local units of government for services provided. These balances are reported net of estimated uncollectible balances (estimated uncollectible balances were zero at year-end).

Inventory

Inventory, consisting of various operating parts, supplies, and road material is stated at the lower of cost or market, using the FIFO (first-in, first-out) method.

Capital Assets

Capital assets, which include land, property, equipment, and infrastructure are reported in the governmental activities column in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist.

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Donated capital assets are valued at acquisition value (the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction) on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets is computed using the Michigan Department of Transportation depreciation schedules for equipment and the straight-line method for infrastructure over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	30-50
Equipment	3-10
Infrastructure	8-50

Compensated Absences

Under the Commission's personnel policy and contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation and sick leave under formulas and conditions specified in the policy and contracts. Accumulated leave of the General fund is recorded on the statement of net position and not on the General fund balance sheet because it is not expected to be liquidated with expendable available financial resources.

Advances

Advances consist of monies provided by the Michigan Department of Transportation (MDOT) to provide cash flow to finance equipment and services provided by the Commission on MDOT trunkline designated roads. The cost of equipment and services provided on trunk line roads is billed to the MDOT periodically.

Long-Term Obligations

In the government-wide financial statements the long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, premiums and discounts, are deferred and amortized over the life of the long-term debt using the effective interest method.

In the fund financial statements, governmental fund types recognize premiums, discounts and issuance costs during the year of issuance. The face amount of debt issued and any premiums received are reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs are reported as public works expenditures/expenses regardless of fund or activity.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Commission has items that qualify for reporting in this category related to the benefit plans that are discussed in note 7 and 8.

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In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has items that qualify for reporting in this category. Governmental funds report deferred inflows for unavailable county property taxes levied for the following year; in addition, governmental activities report deferred inflows related to certain employee benefit plans discussed in note 7 and 8. The County property tax amounts are deferred and recognized as an inflow of resources in the period for which they are levied.

Net Position and Fund Balance Reporting

Governmental funds report fund balance in the following five categories:

1. Non-spendable - the related asset's form does not allow expenditure of the balance. The assets are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. Nonspendable fund balance would be equal to inventory, prepaid items, non-current financial assets, and the nonspendable portion of endowments.
2. Restricted - the related assets can only be spent for the specific purposes stipulated by constitution, external resource providers, or as identified in enabling legislation.
3. Committed - the related assets can only be spent for a specific purpose identified by formal resolution of the governing board.
4. Assigned - the related assets can only be spent for a specific purpose but do not meet the criteria to be classified as committed.
5. Unassigned - is the residual classification and includes all spendable amounts not contained in the other classifications.

The Commission has not delegated the authority to assign fund balance. Only the Commission can assign or commit fund balance.

Net Position and Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position/fund balance and unrestricted – net position/fund balance, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to use restricted resources first, then unrestricted resource as they are needed. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the 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.

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2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

State law provides that the Commission shall not incur expenditures in excess of the amount appropriated for the general fund. In the body of the financial statements, the Commission's actual expenditures and budgeted expenditures for the general fund have been shown on a activity basis.

During the year the Commission incurred expenditures in the general fund which were in excess of the amounts appropriated as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General fund			
Administration	\$720,000	\$781,529	\$(61,529)

3. CASH AND INVESTMENTS

The cash and investment balances reported on the financial statements are either held in the Commission's name or Otsego County's name. Investments and certificates of deposit (excluding OPEB trust investments held in the Commission's OPEB trust's name) are held in Otsego County's name and may be allocated to both County and Commission funds. Balance held at year end are as follows:

	<u>Cash and Investments</u>
Governmental funds	
Held in the name of the Commission	
Petty Cash	\$ 500
Deposits	73,980
Held in the name of Otsego County	
Deposits	4,817,230
Investments	7,422,751
Fiduciary fund	
Held in the name of the Commission/OPEB trust	
investments	<u>2,985,091</u>
Total	<u>\$15,299,552</u>

Deposits

The deposits are in financial institutions located in Michigan in varying amounts. State law and Commission policy limits the Commission's investing options to financial institutions located in Michigan. They are recorded in Commission records at fair value. Interest is recorded when earned.

Deposit risk

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require, and the Commission does not have, a policy for deposit custodial credit risk. As of year-end, \$912,289 of the Commission's bank balance of \$1,162,289 was exposed to custodial credit risk because the balance was uninsured and uncollateralized. As of year-end the Commission's exposure to custodial credit risk on deposits held in Otsego County's name can be determined for Otsego County as a whole, but cannot be separately identified for the Commission.

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Investments

The Commission chooses to disclose its investments by specifically identifying each. Investments held in Otsego County's name are allocated to County and Commission funds at original purchase cost with any unrealized gain or lost being allocated to County internal service funds. Investments held in the County's name may be moved between County and Commission funds to maintain liquidity. As of year-end, the Commission's investments were as follows:

	<u>Maturity</u>	<u>Book Value</u>	<u>Rating</u>	<u>Source</u>
Held in Otsego County's name				
Pooled government agency securities	N/A	\$ 3,087,342	N/A	
Michigan Class	N/A	4,335,409	AAAm	S&P
Held in Commission/OPEB trust's name				
Destinations Large Cap Equity	N/A	1,550,265	N/A	
Destinations Core Fixed Income	N/A	460,000	2 star	Morning Star
Destinations Small Mid Cap Equity	N/A	252,686	N/A	
Destinations International Equity	N/A	225,204	N/A	
Destinations Multi Strategy Alt	N/A	177,202	4 star	Morning Star
Destinations Global Fixed Income	N/A	114,480	5 star	Morning Star
Destinations Equity Income Fund	N/A	110,279	N/A	
Destinations Low Duration Fixed Income	N/A	93,600	5 star	Morning Star
Constellation trust Money Market	N/A	1,375	Unrated	
Total		\$10,407,842		

Investment risk

Interest Rate Risk. State law, Otsego County and the Commission's policy limit the allowable investments and the maturities of some of the allowable investments as identified in Note 1, the summary of significant accounting policies. Otsego County's investment policy does have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Otsego County's investment policy limits the maximum US Agency investment duration to 7 years which is exceeded for some investments held in Otsego County's name. There is no stated maturity date for the Commission's investment in Michigan Class and Destination and Constellation funds identified above.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1, the summary of significant accounting policies. Otsego County's investment policy does not have specific limits in excess of state law on investment credit risk. The rating for select (excluding pooled investments) fixed income investments is identified above for investments held at year-end.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require, and Otsego County does have, a policy for investment custodial credit risk. Of the above investments held in the name of Otsego County custodial credit risk exposure cannot be determined for the Commission as the securities are not held in the Commission name. Of the above investments held in the name of the Commission custodial credit risk exposure cannot be determined because the investments do not consist of specifically identifiable securities.

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Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1, the summary of significant accounting policies. Otsego County's does have specific limits in excess of state law on concentration of credit risk. Compliance with the County policy can only be determined for the County as a whole. The Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

The Commission categorizes its fair value measurements of investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Commission has the following recurring fair value measurements as of year-end.

- The Commission's Constellation equity mutual funds are valued using quoted market prices (Level 1 inputs).
- All investments excluding Constellation equity mutual funds are valued using a pricing model utilizing observable fair value measures of fund investments and other observable inputs to determining the fair value of the securities making up the of investment fund (Level 2 inputs).
- The Commission does not have any investments that report fair value based on significant unobservable inputs (Level 3 inputs).

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4. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance January 1, <u>2023</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2023</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 125,501	\$ -	\$ -	\$ 125,501
Land Improvements - Infrastructure	13,398,340	-	-	13,398,340
Total capital assets, not being depreciated	13,523,841	-	-	13,523,841
Capital assets, being depreciated				
Buildings	4,200,190	105,541	-	4,305,731
Road equipment	9,068,681	876,947	288,613	9,657,015
Shop equipment	97,486	-	-	97,486
Office equipment	46,844	-	-	46,844
Engineers' equipment	8,583	-	-	8,583
Yard and storage equipment	1,800	-	-	1,800
Traffic Signals	49,557	-	-	49,557
Infrastructure				
Bridges	1,446,834	-	-	1,446,834
Roads	37,576,691	5,484,934	-	43,061,625
Total capital assets, being depreciated	52,496,666	6,467,422	288,613	58,675,457
Less accumulated depreciation for:				
Buildings	2,331,674	113,647	-	2,445,321
Road Equipment	8,221,179	425,858	288,613	8,358,424
Shop equipment	94,393	644	-	95,037
Office equipment	45,323	1,065	-	46,388
Engineers' equipment	8,583	-	-	8,583
Yard and storage equipment	1,800	-	-	1,800
Traffic Signals	46,996	320	-	47,316
Infrastructure				
Bridges	456,306	39,534	-	495,840
Roads	16,628,441	1,789,268	-	18,417,709
Total accumulated depreciation	27,834,695	2,370,336	288,613	29,916,418
Net capital assets, being depreciated	24,661,971	4,097,086	-	28,759,057
Governmental Activities capital assets, net	\$38,185,812	\$4,097,086	\$ -	\$42,282,898

Depreciation expense was charged to the public works function during the year.

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5. LONG-TERM DEBT

The following is a summary of long-term debt activity and balances of the Commission for the year:

	Balance January 1, 2023	Additions	Deletions	Balance December 31, 2023	Due Within One Year
Governmental Activities					
Installment purchase secured by equipment, payable in annual installments of \$28,859, including interest at 3.3%, paid in full 2023	\$159,234	\$ -	\$159,234	\$ -	\$ -
Installment purchase secured by equipment, payable in annual installments of \$14,122, including interest at 4.2%, balance due 2023	112,976	-	112,976	-	-
Compensated absences	303,176	-	49,181	253,995	-
Total Governmental Activities	\$575,386	\$ -	\$321,391	\$253,995	\$ -

6. RISK MANAGEMENT

The Commission is exposed to lawsuits, claims, torts, destruction of assets and errors and omissions. In response to this exposure, the Commission participates in the Michigan County Road Commission Self Insurance Pool (MCRCSIP). Participation in the MCRCSIP requires payment of premiums to the pool. The pool purchases commercial reinsurance on behalf of its members. Due to the Commission's participation in this pool, the liability of the Commission relative to claims covered by the pool is limited to from \$1,000 to \$2,000 per occurrence. The maximum limit for pool liability for each claim is \$10,500,000.

The Commission is part of a group fund for worker's compensation coverage through the County Road Association Self-Insurance Fund (CRASIF). Through the membership of this group fund, the Commission's liability is covered up to \$1,000,000 per employee.

Settled claims for the Commission have not exceeded coverage during the past three years. There have been no significant reductions in insurance coverage during the past year.

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7. RETIREMENT PLANS

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits provided

Benefits provided include plans with multipliers ranging from 2 to 2.50% of final average compensation time number of year of service. Vesting period of 10 years. Normal retirement age is 60. Final average compensation is calculated based on a 3 years average. This plan is open to new entrants.

Membership of the defined benefit plan consisted of the following at the date of the latest actuarial valuation (December 31, 2022):

Inactive employees or beneficiaries currently receiving benefits	49
Inactive employees entitled but not yet receiving benefits	10
Active plan members	<u>33</u>
Total	<u><u>92</u></u>

Contributions

The Commission is required to contribute at an actuarially determined rate of 0 to 45.24% of covered payroll. Participating employees are required to contribute 7% of covered payroll. The contribution requirements of the Commission are established and may be amended by the MERS Retirement Board. The contribution requirements of employees are established and may be amended by labor agreements.

Net Pension Liability

The Library's net pension liability was measured as of December 31, 2023, and the total pension liability used to calculate the net pension liability at December 31, 2023 was determined by an annual actuarial valuation as of December 31, 2022 (which included roll forward procedures to December 31, 2023).

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

Inflation: 2.5%

Salary Increases: base wage inflation of 3.00% in the long-term (plus merit and longevity from 0 to 6.7% based on age)

Investment rate of return: 7.00%, net of investment expense, including inflation

Mortality rates used for non-disabled plan member were based on a weighted blend of MP-2019 mortality tables of a 50% Male and 50% Female blend. Mortality rates used for disabled plan member were based on a blend of MP-2019 disabled retiree mortality tables of a 50% Male and 50% Female blend of disabled retirees

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The actuarial assumptions used in the valuation were based on the results of the 2018 actuarial experience study, first used in December 31, 2020 valuations.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Expected Money Weighted Rate of Return*</u>
Global Equity	60.0%	4.50%	2.70%
Global Fixed Income	20.0%	2.00%	0.40%
Private investments	20.0%	7.00%	1.40%
Inflation			2.50%
Administrative fee			0.25%
Discount rate			<u>7.25%</u>

Discount rate. The discount rate used to measure the total pension liability is 7.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
	Balance at January 1, 2023	\$14,728,195	\$10,332,420
Changes for the year:			
Service cost	229,192	-	229,192
Interest	1,040,666	-	1,040,666
Change in benefits	-	-	-
Differences between expected and actual experience	(120,577)	-	(120,577)
Change in assumptions	-	-	-
Contributions : employer	-	711,683	(711,683)
Contributions: employee	-	132,192	(132,192)
Net investment income	-	1,145,037	(1,145,037)
Benefit payments, including refunds	(977,538)	(977,538)	-
Administrative expense	-	(24,298)	24,298
Other changes	53,570	-	53,570
Net changes	225,313	987,076	(761,763)
Balance at December 31, 2023	\$14,953,508	\$11,319,496	\$3,634,012

Sensitivity of the Net Pension Liability to changes in the discount rate.

The following presents the net pension liability of the employer, calculated using the discount rate of 7.25%, as well as what the employer's net pension liability would be using a discount rate that is 1 percentage point lower (6.25%) or higher (8.25%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Total pension liability	\$16,614,470	\$14,953,508	\$13,551,680
Fiduciary net position	11,319,496	11,319,496	11,319,496
Net pension liability	\$ 5,294,974	\$ 3,634,012	\$ 2,232,184

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

For the year ended December 31, 2023 the employer recognized pension expense of \$572,311. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in experience	\$	\$(228,192)
Differences in assumptions	170,706	-
Excess (deficit) investment returns	514,684	-
Total	\$685,390	\$(228,192)

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

2023	\$ 66,406
2024	147,181
2025	323,943
2026	(80,332)
Thereafter	-
Total	\$457,198

8. OTHER POST-EMPLOYMENT BENEFITS

Plan Description and Benefits Provided

The Commission administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides of health insurance premiums for retirees until age 65 (Medicare eligible). The plan was closed to employees hired after December 31, 2008. Benefit provisions are established through negotiations between the Commission and bargaining units and employee groups. The Commission makes 100% of the premium payment to the plan. The Retiree Health Plan does not issue a publicly available financial report but a legal trust has not been established for the plan.

Membership of the Retiree Health plan consisted of the following at the date of the latest actuarial valuation (December 31, 2022):

Inactive employees or beneficiaries currently receiving benefits	29
Active plan members	14
Total	43

Contributions

The contribution requirements of Plan members and the Commission are established and may be amended by the Commission. The actuarially determined contributions are based on the actuarial valuation of the plan. The actual contributions to the plan include benefit costs and a contribution to the trust which is made at the discretion of Commission.

Net OPEB Liability

The employer's net OPEB liability was measured as of December 31, 2023 rolling forward the 2022 valuation while using the fair market value of plan assets at December 31, 2023.

The total OPEB liability in the December 31, 2022 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: included in investment rate of return

Salary Increases: 3.0% (for purpose of allocating liability)

Investment rate of return: 7% (including inflation)

20-year Aa Municipal bond rate:4.31% (S&P Municipal Bond 20-Year High Grade Rate Index)

Mortality: Public General 2010 Employee and Healthy Retiree, Headcount weighted

Improvement Scale: MP-2021

OTSEGO COUNTY ROAD COMMISSION
(a Component Unit of Otsego County)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
Global equity	64%	9.0%
Global fixed income	26%	4.7%
Real assets	5%	6.4%
Diversifying strategies	5%	3.0%
Cash	0%	2.4%

Rate of return. For the year ended December 31, 2023, the annual money-weighted rate of return on investments, net of investment expense, was 16.8%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate. The discount rate used to measure the total OPEB liability is 7%. The projections of cash flows used to determine the discount rate assumed the Road Commission will contribute general fund dollars to pay benefits until the plan is fully funded and then will use plan assets to pay benefits. The retirement plan's fiduciary net position was projected to be sufficient to make projected future benefit payments of current plan members. For projected benefits that are covered by the projected assets, the long-term expected rate was used to discount the projected benefits. For the year that benefit payments were not projected to be covered by the projected assets, projected benefits were discounted at a discount rate reflecting a 20 year AA/Aa tax exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. The discount rate utilized for the 2023 valuation was 7.00%.

OTSEGO COUNTY ROAD COMMISSION
(a Component Unit of Otsego County)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balance at January 1, 2023	\$3,305,616	\$2,567,234	\$738,382
Changes for the year:			
Service cost	16,850	-	16,850
Interest	239,181	-	239,181
Experience (Gains)/Losses	(132,012)	-	(132,012)
Change in plan terms	-	-	-
Change in assumptions	108,799	-	108,799
Contributions to OPEB trust	-	-	-
Contributions/benefit paid from general operating funds	-	223,957	(223,957)
Contributions: employee	-	-	-
Net investment Income	-	431,853	(431,853)
Benefit payments, including refunds	(223,957)	(223,957)	-
Administrative expense	-	(13,996)	13,996
Other changes	-	-	-
Net changes	8,861	417,857	(408,996)
Balance at December 31, 2023	\$3,314,477	\$2,985,091	\$329,386

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate.

The following presents the net OPEB liability of the employer, calculated using the discount rate of 7%, as well as what the employer's net OPEB liability would be using a discount rate that is 1 percentage point lower (6%) or higher (8%) than the current rate.

	Current		
	1% Decrease	Discount Rate	1% Increase
Total OPEB liability	\$532,200	\$329,386	\$147,967

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates.

The following presents the net OPEB liability of the employer, calculated using the healthcare cost trend rate, as well as what the employer's net OPEB liability would be using a rate that is 1 percentage point lower or higher than the current rate.

	Current		
	1% Decrease	Healthcare Rate	1% Increase
Total OPEB liability	\$136,229	\$329,386	\$543,869

For the year ended December 31, 2023 the employer recognized OPEB expense of \$55,672.

OTSEGO COUNTY ROAD COMMISSION
(a Component Unit of Otsego County)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

Deferred outflows of resources and deferred inflows of resources related to OPEB

For the year ended December 31, 2023 the employer reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in experience	\$ -	\$ -
Differences in assumptions	-	-
(Excess) deficit investment returns	69,529	-
Total	\$69,529	\$ -

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

2023	\$ 14,974
2024	42,239
2025	60,539
2026	(48,223)
2027	-
Thereafter	-
Total	\$69,529

HEALTH CARE SAVINGS PLAN

The Commission contributes from 3 to 5% of covered payroll for full time employees hired after December 31, 2008 to a health care savings plan administered by MERS of Michigan. For the current year contributions by the Commission were \$37,603. The trust established by MERS of Michigan holds the plan assets and the related assets and liability are not included in the Commission's financial statements.

9. SINGLE AUDIT

Governmental and certain other entities, which expend \$750,000 or more of direct federal dollars, are subject to a single audit in accordance with the Uniform Guidance. The Commission expended \$1,303,420 of federal/state dollars, \$1,142,350 of which were administered by the Michigan Department of Transportation (MDOT). The monies administered by the Michigan Department of Transportation will be included in the State of Michigan's single audit. Because direct federal dollars were less than \$750,000, a single audit was not required and all disclosures regarding a single audit have been omitted from this report.

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REQUIRED SUPPLEMENTARY INFORMATION

OTSEGO COUNTY ROAD COMMISSION
(a Component Unit of Otsego County)

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2023

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Revenues				
State transportation fund	\$ 7,352,000	\$ 7,352,000	\$ 7,659,147	\$ 307,147
Federal and other state sources	1,392,400	1,392,400	1,394,513	2,113
County millage	1,175,000	1,175,000	1,246,376	71,376
State trunkline maintenance	2,150,000	2,150,000	1,570,643	(579,357)
State trunkline nonmaintenance	800,000	800,000	786,945	(13,055)
Local units of government	1,100,000	1,100,000	1,506,509	406,509
Other local sources	-	-	194,662	194,662
Salvage sales	4,500	4,500	3,109	(1,391)
Interest	65,000	65,000	366,131	301,131
Charges for services	105,000	105,000	72,677	(32,323)
Other revenues	30,000	30,000	34,658	4,658
Total revenues	<u>14,173,900</u>	<u>14,173,900</u>	<u>14,835,370</u>	<u>661,470</u>
Expenditures				
Primary road				
Construction and heavy maintenance	6,260,000	6,260,000	4,677,626	1,582,374
Maintenance	2,390,000	2,390,000	1,943,711	446,289
Total primary road	<u>8,650,000</u>	<u>8,650,000</u>	<u>6,621,337</u>	<u>2,028,663</u>
Local road				
Construction and heavy maintenance	1,375,313	1,375,313	807,308	568,005
Maintenance	3,395,000	3,395,000	2,310,937	1,084,063
Total local road	<u>4,770,313</u>	<u>4,770,313</u>	<u>3,118,245</u>	<u>1,652,068</u>
State trunkline				
State trunkline maintenance	1,900,000	1,900,000	1,304,145	595,855
State trunkline non-maintenance	900,000	900,000	786,946	113,054
Total state trunkline	<u>2,800,000</u>	<u>2,800,000</u>	<u>2,091,091</u>	<u>708,909</u>
Other				
Equipment expenditures, net	650,000	650,000	243,237	406,763
Administrative/engineering expenditures, net	470,000	720,000	781,529	(61,529)
Capital outlay, net of depreciation	440,000	540,000	441,274	98,726
Debt service				
Principal	75,000	300,000	272,210	27,790
Interest	15,000	15,000	9,707	5,293
Total other	<u>1,650,000</u>	<u>2,225,000</u>	<u>1,747,957</u>	<u>477,043</u>
Total expenditures	<u>17,870,313</u>	<u>18,445,313</u>	<u>13,578,630</u>	<u>4,866,683</u>
Revenues over (under) expenditures	<u>(3,696,413)</u>	<u>(4,271,413)</u>	<u>1,256,740</u>	<u>5,528,153</u>
Other financing sources				
Sales of capital assets	30,000	30,000	50,000	20,000
Net changes in fund balance	(3,696,413)	(4,271,413)	1,306,740	5,578,153
Fund balance, beginning of year	<u>13,065,981</u>	<u>13,065,981</u>	<u>13,065,981</u>	<u>-</u>
Fund balance, end of year	<u>\$ 9,369,568</u>	<u>\$ 8,794,568</u>	<u>\$ 14,372,721</u>	<u>\$ 5,578,153</u>

OTSEGO COUNTY ROAD COMMISSION
(a Component Unit of Otsego County)

DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CHANGES IN EMPLOYERS NET PENSION
LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED DECEMBER 31, 2023

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total pension liability									
Service cost	\$ 137,944	\$ 125,690	\$ 171,132	\$ 185,530	\$ 181,390	\$ 190,564	\$ 205,702	\$ 200,152	\$ 229,192
Interest	835,847	853,243	891,675	953,214	997,328	957,184	1,008,462	1,011,374	1,040,666
Changes in benefit terms	-	-	-	-	-	-	-	-	-
Changes in assumptions	-	-	-	-	-	-	-	-	-
Change in benefits	-	(5,403)	(10,166)	(4,710)	-	(19,628)	(13,367)	(11,654)	-
Difference between expected and actual experience	-	18,096	518,676	255,051	(187,144)	16,447	94,043	(443,420)	(120,577)
Change in assumptions	-	588,192	-	-	-	382,467	278,276	512,119	-
Benefit payments including employee refunds	(738,956)	(792,294)	(794,192)	(810,376)	(863,330)	(883,983)	(847,422)	(830,351)	(977,538)
Other changes	8,813	(5,518)	(7,172)	1,268	(19,581)	30,806	(50,705)	24,893	53,570
Other	-	-	-	-	-	-	-	-	-
Net change in total pension liability	<u>243,648</u>	<u>782,006</u>	<u>769,953</u>	<u>579,977</u>	<u>108,663</u>	<u>673,857</u>	<u>674,989</u>	<u>463,113</u>	<u>225,313</u>
Total pension liability, beginning of year	<u>10,431,989</u>	<u>10,675,637</u>	<u>11,457,643</u>	<u>12,227,596</u>	<u>12,807,573</u>	<u>12,916,236</u>	<u>13,590,093</u>	<u>14,265,082</u>	<u>14,728,195</u>
Total pension liability, ending of year	<u>\$ 10,675,637</u>	<u>\$ 11,457,643</u>	<u>\$ 12,227,596</u>	<u>\$ 12,807,573</u>	<u>\$ 12,916,236</u>	<u>\$ 13,590,093</u>	<u>\$ 14,265,082</u>	<u>\$ 14,728,195</u>	<u>\$ 14,953,508</u>
Plan Fiduciary Net Position									
Contributions-employer	\$ 498,792	\$ 508,482	\$ 667,663	\$ 1,065,147	\$ 1,135,488	\$ 1,152,526	\$ 676,103	\$ 717,585	\$ 711,683
Contributions-employee	77,134	39,017	121,913	68,858	87,733	205,038	121,826	154,684	132,192
Net investment income	(91,306)	662,026	838,774	(299,600)	1,016,274	1,161,479	1,425,633	(1,186,967)	1,145,037
Benefit payments including employee refunds	(738,956)	(792,294)	(794,192)	(810,376)	(863,330)	(883,983)	(847,422)	(830,351)	(977,538)
Administrative expense	(13,449)	(13,077)	(13,256)	(14,274)	(17,601)	(17,891)	(16,377)	(21,304)	(24,298)
Net change in plan fiduciary net position	<u>(267,785)</u>	<u>404,154</u>	<u>820,902</u>	<u>9,755</u>	<u>1,358,564</u>	<u>1,617,169</u>	<u>1,359,763</u>	<u>(1,166,353)</u>	<u>987,076</u>
Plan fiduciary net position, beginning of year	<u>6,196,251</u>	<u>5,928,466</u>	<u>6,332,620</u>	<u>7,153,522</u>	<u>7,163,277</u>	<u>8,521,841</u>	<u>10,139,010</u>	<u>11,498,773</u>	<u>10,332,420</u>
Plan fiduciary net position, ending of year	<u>\$ 5,928,466</u>	<u>\$ 6,332,620</u>	<u>\$ 7,153,522</u>	<u>\$ 7,163,277</u>	<u>\$ 8,521,841</u>	<u>\$ 10,139,010</u>	<u>\$ 11,498,773</u>	<u>\$ 10,332,420</u>	<u>\$ 11,319,496</u>
Employer net pension liability	<u>\$ 4,747,171</u>	<u>\$ 5,125,023</u>	<u>\$ 5,074,074</u>	<u>\$ 5,644,296</u>	<u>\$ 4,394,395</u>	<u>\$ 3,451,083</u>	<u>\$ 2,766,309</u>	<u>\$ 4,395,775</u>	<u>\$ 3,634,012</u>
Plan fiduciary net position as a percentage of the total pension liability	56%	55%	59%	56%	66%	75%	81%	70%	76%
Covered employee payroll	\$ 1,409,673	\$ 1,256,307	\$ 1,576,491	\$ 1,668,776	\$ 1,609,345	\$ 1,705,930	\$ 1,782,025	\$ 1,766,136	\$ 1,870,670
Employer's net pension liability as a percentage of covered employee payroll	337%	408%	322%	338%	273%	202%	155%	249%	194%

Notes to schedule:

Above dates are based on a December 31, measurement date.

This schedule is being accumulated prospectively until ten years of data is presented.

OTSEGO COUNTY ROAD COMMISSION
(a Component Unit of Otsego County)

DEFINED BENEFIT PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED DECEMBER 31, 2023

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Actuarially determined contributions	\$ 376,152	\$ 366,192	\$ 437,460	\$ 470,448	\$ 521,628	\$ 552,744	\$ 582,180	\$ 589,000	\$ 576,480
Contributions in relation to the actuarially determined contribution	<u>498,792</u>	<u>508,482</u>	<u>667,663</u>	<u>1,065,147</u>	<u>1,135,488</u>	<u>1,152,526</u>	<u>676,103</u>	<u>717,585</u>	<u>711,683</u>
Contribution excess (deficiency)	<u>\$ 122,640</u>	<u>\$ 142,290</u>	<u>\$ 230,203</u>	<u>\$ 594,699</u>	<u>\$ 613,860</u>	<u>\$ 599,782</u>	<u>\$ 93,923</u>	<u>\$ 128,585</u>	<u>\$ 135,203</u>
Covered employee payroll	\$ 1,399,784	\$ 1,256,307	\$ 1,576,491	\$ 1,576,491	\$ 4,952,025	\$ 4,831,208	\$ 4,831,208	\$ 1,766,136	\$ 1,870,670
Contributions as a percentage of covered employee payroll	36%	40%	42%	68%	23%	24%	14%	41%	38%
Actuarial cost method	Entry Age								
Amortization method	Level percentage of payroll, open								
Remaining amortization period	16 years								
Asset valuation method	5 year smoothed								
Inflation	2.50%								
Salary increases	3.00% (3.75% for 2015 through 2019)								
Investment rate of return	7.00% (7.35% for 2020 through 2021, 7.75% for 2015 through 2019)								
Retirement age	Varies depending on plan adoption								
Mortality	50% female/ 50% male RP-2019 mortality table								

Note to schedule:

This schedule is being accumulated prospectively until ten years of data is presented.

OTSEGO COUNTY ROAD COMMISSION
(a Component Unit of Otsego County)

DEFINED BENEFIT OPEB PLAN
SCHEDULE OF CHANGES IN EMPLOYERS NET OPEB
LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Total OPEB liability						
Service cost	\$ 84,409	\$ 87,279	\$ 73,071	\$ 64,745	\$ 28,150	\$ 16,850
Interest	208,495	208,114	250,107	173,392	240,238	239,181
Experience (Gains/Losses)	-	(141,420)	(1,440,437)	(69,503)	(167,156)	(132,012)
Changes in benefit terms	-	-	-	-	-	-
Difference between expected and actual experience	-	-	-	-	-	-
Changes in assumptions	-	(402,224)	239,912	(969,366)	(88,989)	108,799
Benefit payments including employee refunds	(344,330)	(269,649)	(256,951)	(201,375)	(220,867)	(223,957)
Other	-	-	-	-	-	-
Net change in total OPEB liability	<u>(51,426)</u>	<u>(517,900)</u>	<u>(1,134,298)</u>	<u>(1,002,107)</u>	<u>(208,624)</u>	<u>8,861</u>
Total OPEB liability, beginning of year	<u>6,219,971</u>	<u>6,168,545</u>	<u>5,650,645</u>	<u>4,516,347</u>	<u>3,514,240</u>	<u>3,305,616</u>
Total OPEB liability, end of year	<u>\$ 6,168,545</u>	<u>\$ 5,650,645</u>	<u>\$ 4,516,347</u>	<u>\$ 3,514,240</u>	<u>\$ 3,305,616</u>	<u>\$ 3,314,477</u>
Plan Fiduciary Net Position						
Contributions-employer	\$ 520,000	\$ 500,000	\$ 800,008	\$ 333,340	\$ 200,004	\$ -
Contributions/benefit payments made from general operating funds	344,330	269,649	256,951	201,375	220,867	223,957
Net investment income	(29,215)	128,666	242,288	253,378	(346,410)	431,853
Benefit payments including employee refunds	(344,330)	(269,649)	(256,951)	(201,375)	(220,867)	(223,957)
Administrative expense	(575)	(1,159)	(7,826)	(12,517)	(12,748)	(13,996)
Other	-	-	-	-	-	-
Net change in plan fiduciary net position	<u>490,210</u>	<u>627,507</u>	<u>1,034,470</u>	<u>574,201</u>	<u>(159,154)</u>	<u>417,857</u>
Plan fiduciary net position, beginning of year	<u>-</u>	<u>490,210</u>	<u>1,117,717</u>	<u>2,152,187</u>	<u>2,726,388</u>	<u>2,567,234</u>
Plan fiduciary net position, end of year	<u>\$ 490,210</u>	<u>\$ 1,117,717</u>	<u>\$ 2,152,187</u>	<u>\$ 2,726,388</u>	<u>\$ 2,567,234</u>	<u>\$ 2,985,091</u>
Employer net OPEB liability	<u>\$ 5,678,335</u>	<u>\$ 4,532,928</u>	<u>\$ 2,364,160</u>	<u>\$ 787,852</u>	<u>\$ 738,382</u>	<u>\$ 329,386</u>
Plan fiduciary net position as a percentage of the total OPEB liability	7.95%	19.78%	47.65%	77.58%	77.66%	90.06%
Covered employee payroll	Not available	\$ 840,951	\$ 833,246	\$ 842,000	\$ 894,000	\$ 789,396
Employer's net OPEB liability as a percentage of covered employee payroll	Not available	539%	284%	94%	83%	42%

Notes to schedule:

Above information is based on measurement date of December 31

No assets of the OPEB plan are being accumulated in a qualified trust to pay the related benefits.

The schedule is being accumulated prospectively until 10 years of information is presented.

OTSEGO COUNTY ROAD COMMISSION
(a Component Unit of Otsego County)

DEFINED BENEFIT OPEB PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED DECEMBER 31, 2023

Fiscal Year end	Actuarially determined contributions	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered employee payroll	Contributions as a percentage of covered employee payroll
12/31/2018	\$ 1,250,738	\$ 864,330	\$ 386,408	N/A	N/A
12/31/2019	1,344,332	769,649	574,683	840,963	92%
12/31/2020	1,338,975	1,056,959	282,016	833,235	127%
12/31/2021	917,072	534,715	382,357	841,938	64%
12/31/2022	465,875	420,871	45,004	894,000	47%
12/31/2023	429,046	223,957	205,089	789,396	28%

Notes to schedule

Actuarial cost method	Entry Age
Amortization method	Level dollar, closed
Remaining amortization period	2 years
Asset valuation method	Market value
Inflation	N/A
Healthcare cost trend rates	Pre-65: 7.25% graded down to 4.5% by 0.25% per year Post-65: 5.5% graded down to 4.5% by 0.25% per year
Discount rate	7%, (7.45% 2022. 7% 2021)
Salary increases	3.00%
Investment rate of return	N/A
Retirement age	Varies depending on plan adoption
Mortality	Public General 2010 Employee and Healthy Retiree, Headcount weighted, MP-2021 improvement

Notes to schedule:

The schedule is being accumulated prospectively until 10 years of information is presented.

	Schedule of Investment Returns				
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Annual money-weighted rate net of investment expense	17.38%	15.96%	10.93%	-12.26%	16.82%

State of Michigan PA 202 information

Actuarially recommended contributions	\$ 429,046
Minimum required contribution under PA 202	-
Actual contribution	223,957
Contribution for employees hired after June 30, 2018	n/a

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**GENERAL FUND
SCHEDULES**

OTSEGO COUNTY ROAD COMMISSION
(a Component Unit of Otsego County)

SCHEDULE OF CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
Fund balances, beginning of year	\$ 1,719,086	\$ 1,611,089	\$ 9,735,806	\$ 13,065,981
Revenues	5,762,576	4,911,900	4,160,894	14,835,370
Expenditures	<u>7,104,460</u>	<u>3,405,022</u>	<u>3,069,148</u>	<u>13,578,630</u>
Revenues over (under) expenditures	<u>(1,341,884)</u>	<u>1,506,878</u>	<u>1,091,746</u>	<u>1,256,740</u>
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>50,000</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>(1,341,884)</u>	<u>1,506,878</u>	<u>1,141,746</u>	<u>1,306,740</u>
Fund balances, end of year	<u>\$ 377,202</u>	<u>\$ 3,117,967</u>	<u>\$ 10,877,552</u>	<u>\$ 14,372,721</u>

OTSEGO COUNTY ROAD COMMISSION
(a Component Unit of Otsego County)

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES

FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
Revenues				
Michigan Transportation Fund				
Engineering	\$ 6,227	\$ 3,773	\$ -	\$ 10,000
Allocation	4,072,598	2,429,376	-	6,501,974
Urban road	487,268	221,509	-	708,777
Snow removal	-	438,396	-	438,396
	<u>4,566,093</u>	<u>3,093,054</u>	<u>-</u>	<u>7,659,147</u>
Total Michigan Transportation Fund				
Federal and other state sources				
Surface transportation program	1,142,349	-	161,070	1,303,419
Forest road	-	85,107	-	85,107
Transportation economic development	5,987	-	-	5,987
	<u>1,148,336</u>	<u>85,107</u>	<u>161,070</u>	<u>1,394,513</u>
Total federal and other state sources				
State trunkline maintenance	-	-	1,570,643	1,570,643
State trunkline nonmaintenance	-	-	786,945	786,945
Local units of government	-	1,506,509	-	1,506,509
Other local sources	-	182,086	12,576	194,662
County millage	-	-	1,246,376	1,246,376
Salvage sales	-	-	3,109	3,109
Interest	48,147	45,144	272,840	366,131
Charges	-	-	72,677	72,677
Other revenues	-	-	34,658	34,658
	<u>5,762,576</u>	<u>4,911,900</u>	<u>4,160,894</u>	<u>14,835,370</u>
Total Revenues				
Other financing sources (uses)				
Sales of capital assets	-	-	50,000	50,000
	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>50,000</u>
Total revenues and other financing sources	<u>\$ 5,762,576</u>	<u>\$ 4,911,900</u>	<u>\$ 4,210,894</u>	<u>\$ 14,885,370</u>

OTSEGO COUNTY ROAD COMMISSION
(a Component Unit of Otsego County)

SCHEDULE OF EXPENDITURES

FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
Expenditures				
Primary road				
Construction and heavy maintenance	\$ 4,677,626	\$ -	\$ -	\$ 4,677,626
Maintenance	1,943,711	-	-	1,943,711
Local road				
Construction and heavy maintenance	-	807,308	-	807,308
Maintenance	-	2,310,937	-	2,310,937
State trunkline maintenance	-	-	1,304,145	1,304,145
State trunkline nonmaintenance	-	-	786,946	786,946
Other				
Equipment expenditures, net	81,132	100,774	61,331	243,237
Administrative expenditures, net	401,991	186,003	193,535	781,529
Capital outlay net of depreciation	-	-	441,274	441,274
Debt service				
Principal	-	-	272,210	272,210
Interest	-	-	9,707	9,707
Total expenditures	<u>\$ 7,104,460</u>	<u>\$ 3,405,022</u>	<u>\$ 3,069,148</u>	<u>\$ 13,578,630</u>

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INTERNAL CONTROL AND COMPLIANCE



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

April 8, 2024

Otsego County Road Commission
Board of Commissioners
Gaylord, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the general fund and the aggregate remaining funds of the Otsego County Road Commission (the Commission), a component unit of Otsego County, Michigan, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated April 8, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Oredevold Haefner LLC