

Grand Traverse County Road Commission
(A Component Unit of Grand Traverse County)
Grand Traverse County, Michigan

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023



Vredeveld Haefner LLC
CPAs and Consultants

GRAND TRAVERSE COUNTY ROAD COMMISSION

(A Component Unit of Grand Traverse County)

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INDEPENDENT AUDITORS' REPORT

June 20, 2024

Grand Traverse County Road Commission
Board of Commissioners
Traverse City, Michigan

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the general fund of the Grand Traverse County Road Commission (the Commission), a component unit of Grand Traverse 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 and the general fund of the Grand Traverse 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 31 through 35 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 Grand Traverse 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 June 20, 2024, on our consideration of the Grand Traverse 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 Grand Traverse County Road Commission's internal control over financial reporting and compliance.

David A. Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Grand Traverse 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

- Issued \$11,505,000 of bonds for, and began construction of, the new Kingsley facility.
- Invested approximately \$21.9 million in road, facilities and equipment capital improvements.
- Increased Commission net position by \$7,685,293 to \$125,323,292.

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 fund balance sheet on a single page and the statement of activities and governmental fund 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 Grand Traverse 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 comprehensive annual 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 debt).

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 Grand Traverse County. The Commission does not have any business-type activities.

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

Governmental funds. *Governmental fund* is 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 fund 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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between the *governmental fund* and *governmental activities*.

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

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 employee 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 \$125,323,292 at the close of the most recent fiscal year.

The most significant portion of the Commission's net position reflects its 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 and other assets	\$ 23,958,209	\$ 16,474,695
Noncurrent assets		
Capital assets	119,262,900	106,696,901
Total assets	143,221,109	123,171,596
Deferred outflows	397,037	627,350
Liabilities		
Other liabilities	3,693,813	2,859,862
Long-term liabilities outstanding	14,601,041	3,301,085
Total liabilities	18,294,854	6,160,947
Deferred inflows	-	-
Net position		
Net capital assets	118,692,555	105,929,379
Restricted	6,279,845	10,315,270
Unrestricted	350,892	1,393,350
Total net position	\$125,323,292	\$117,637,999

Net position of the Commission increased by \$7,685,293. 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	\$ 1,753,774	\$ 1,685,522
Operating grants and contributions	15,416,335	14,589,333
Capital grants and contributions	3,171,378	1,231,020
General revenue		
Property tax revenue	4,872,491	4,602,471
Gain on sale of capital assets	131,625	179,375
Salvage sales	5,065	4,926
Interest	746,960	208,850
Total revenue	26,097,628	22,501,497
Program Expenses	18,412,335	18,466,687
Increase (decrease) in net position	7,685,293	4,034,810
Net position, beginning of year	117,637,999	113,603,189
Net position, end of year	\$125,323,292	\$117,637,999

Governmental Activities

During the year the Commission reported approximately 50% of its total expenses for depreciation of capital assets. The remaining 50% 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 \$20,264,215, an increase of \$6,530,611 from the prior year. This increase is primarily a result of issuing \$11,505,000 of bonds for the new Kingsley facility and capital expenditures.

The General fund is the chief operating fund of the Commission. At the end of the current fiscal year, unassigned fund balance of the General fund was \$558,862. 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

- The Road Commission amended its budget during 2023. Additional budgeted property taxes, federal sources, MTF and charges revenue were projected. Additions to heavy maintenance and capital project expenditures were also planned. All anticipated projects were not completed, leaving variances in federal sources and heavy maintenance.

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 \$119,262,900 (net of accumulated depreciation).

Significant capital asset additions during the year include the following:

- Approximately \$2.3 million in construction in progress for new facilities
- Approximately \$2.1 million for equipment improvement and replacement
- Approximately \$17.4 million for road infrastructure improvement and replacement

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

<u>Governmental Activities</u>	
Land and right-of-way	\$ 28,502,801
Construction in progress	2,294,299
Buildings and improvements	3,555,752
Road equipment	3,734,721
Other equipment	1,073,313
Infrastructure	<u>80,102,014</u>
Total	<u>\$119,262,900</u>

Additional information on the Commission's capital assets can be found in Note 5 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>	
Bonds and bond premiums	\$13,002,308
Compensated absences	<u>109,459</u>
Total	<u>\$13,111,767</u>

Additional information on the Commission's long-term debt can be found in Note 6 of this report.

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:

- The Commission expects to receive \$4.97 million from the Grand Traverse County millage that was originally passed in 2020.
- Carry-over projects are part of the 2024 budget.
- Other sources of revenue for 2024 are expected to mirror 2023.
- Completion of the new Kingsley facility.

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 Finance Manager, Grand Traverse County Road Commission, 1881 Lafranier Road, Traverse City, Michigan 49696.

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BASIC FINANCIAL STATEMENTS

GRAND TRAVERSE COUNTY ROAD COMMISSION
(a Component Unit of Grand Traverse County)

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

DECEMBER 31, 2023

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
Assets			
Cash and pooled investments	\$ 6,441,466	\$ -	\$ 6,441,466
Receivable			
State	2,938,834	-	2,938,834
Due from other governments	301,066	-	301,066
Other	14,508	-	14,508
Inventories			
Equipment, materials and parts	453,086	-	453,086
Road materials	1,290,775	-	1,290,775
Prepaid items			
Due from other governments long-term	79,521	-	79,521
Restricted cash and pooled investments	829,837	-	829,837
Capital assets	11,609,116	-	11,609,116
Land, right-of-way and construction in progress	-	30,797,100	30,797,100
Assets being depreciated	<u>-</u>	<u>88,465,800</u>	<u>88,465,800</u>
Total assets	<u>\$ 23,958,209</u>	<u>119,262,900</u>	<u>143,221,109</u>
Deferred outflows of resources			
Deferred pension amounts	<u>-</u>	<u>397,037</u>	<u>397,037</u>
Liabilities			
Accounts payable	\$ 2,738,691	-	2,738,691
Accrued liabilities	95,424	58,570	153,994
Advances payable	30,042	-	30,042
Long-term debt due within one year	-	544,446	544,446
Pension liability due within one year		135,456	135,456
Other post-employment benefit liability due within one year		91,184	91,184
Noncurrent liabilities			
Net pension liability	-	1,465,490	1,465,490
Other post-employment benefit liability	-	568,230	568,230
Long-term debt due in more than one year	<u>-</u>	<u>12,567,321</u>	<u>12,567,321</u>
Total liabilities	<u>2,864,157</u>	<u>15,430,697</u>	<u>18,294,854</u>
Deferred inflows of resources			
Unavailable revenue receivable	829,837	(829,837)	-
Fund balance			
Nonspendable			
Inventory	1,743,861	(1,743,861)	-
Prepaid items	79,521	(79,521)	-
Restricted			
Primary roads	4,489,023	(4,489,023)	-
Building construction	11,602,126	(11,602,126)	-
Assigned			
Subsequent year expenditures	1,790,822	(1,790,822)	-
Unassigned	558,862	(558,862)	-
Total fund balance	<u>20,264,215</u>	<u>(20,264,215)</u>	<u>-</u>
Total liabilities, deferred inflows, and fund balance	<u>\$ 23,958,209</u>		
Net position			
Net investment in capital assets		118,692,555	118,692,555
Restricted for primary and local roads		6,279,845	6,279,845
Unrestricted		350,892	350,892
Total net position	<u>\$ 125,323,292</u>	<u>\$ 125,323,292</u>	

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

GRAND TRAVERSE COUNTY ROAD COMMISSION
(a Component Unit of Grand Traverse County)

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

DECEMBER 31, 2023

Fund balance - governmental fund	\$ 20,264,215
Amounts reported for <i>governmental activities</i> in the statement of net position are different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund.	
Add - capital assets (net)	119,262,900
Certain assets and deferred items reported in the governmental fund are not current financial resources or current liabilities.	
Add - long-term contract receivable	829,837
Add - deferred inflows related to pension	397,037
Certain liabilities, such as debt and employee benefits, are not payable in the current period and therefore are not reported in the funds.	
Deduct - net pension liability	(1,600,946)
Deduct - net other post-employment benefit liability	(659,414)
Deduct - accrued interest	(58,570)
Deduct - long-term debt	(12,334,837)
Deduct - premiums on long-term debt	(667,471)
Deduct - compensated absences payable	<u>(109,459)</u>
Net position of governmental activities	<u>\$ 125,323,292</u>

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

GRAND TRAVERSE COUNTY ROAD COMMISSION
 (a Component Unit of Grand Traverse County)

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses			
Current			
Heavy maintenance	\$ 16,080,901	\$ (16,080,901)	-
Routine maintenance	10,437,832	5,605,285	16,043,117
State trunkline maintenance	1,024,356	-	1,024,356
State trunkline nonmaintenance	134,829	-	134,829
Equipment (net)	(294,465)	-	(294,465)
Administration (net)	1,255,871	(40,432)	1,215,439
Other	39,076	-	39,076
Capital outlay	2,152,645	(2,152,645)	-
Debt service			
Principal	854,988	(854,988)	-
Interest	205,705	44,278	249,983
Total expenditures/expenses	<u>31,891,738</u>	<u>(13,479,403)</u>	<u>18,412,335</u>
Program revenues			
Charges for services			
State trunkline	1,159,189	-	1,159,189
License and permits	183,789	-	183,789
Other charges	410,796	-	410,796
Operating grants and contributions			
State transportation funds	15,416,335	-	15,416,335
Capital grants and contributions			
Federal, state and other sources	3,261,366	(89,988)	3,171,378
Net program revenues			<u>20,341,487</u>
General revenues			
Property taxes	4,872,491	-	4,872,491
Interest earned	746,960	-	746,960
Salvage sales	5,065	-	5,065
Total general revenues			<u>5,624,516</u>
Other financing sources			
Sale of capital assets	193,887	(62,262)	131,625
Bond issue	11,505,000	(11,505,000)	-
Bond premium	667,471	(667,471)	-
Total revenues and other financing sources	<u>38,422,349</u>	<u>(12,324,721)</u>	<u>26,097,628</u>
Change in fund balance/net position	6,530,611	1,154,682	7,685,293
Fund balance/net position, beginning of year	<u>13,733,604</u>	<u>103,904,395</u>	<u>117,637,999</u>
Fund balance/net position, end of year	<u>\$ 20,264,215</u>	<u>\$ 105,059,077</u>	<u>\$ 125,323,292</u>

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

GRAND TRAVERSE COUNTY ROAD COMMISSION
 (a Component Unit of Grand Traverse County)

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

FOR THE YEAR ENDED DECEMBER 31, 2023

Net changes in fund balance - general fund	\$ 6,530,611
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay and infrastructure	21,884,893
Deduct - depreciation expense	(9,256,632)
Deduct - net book value of capital assets disposals	(62,262)

Long-term debt provides current financial resources to the governmental fund in the period issued, but issuance increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental fund and reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term debt	854,988
Deduct - issuance of long-term debt	(11,505,000)
Deduct - premium on long-term debt	(667,470)
Add - amortization of premium on long-term debt	2,522
Deduct - increase in accrued interest payable on long-term debt	(46,801)

Some revenues reported in the statement of activities do not provide current financial resources to the fund and therefore are not reported as revenues in the fund.

Deduct - decrease in long-term contract receivable	(89,988)
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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.

Deduct - increase in compensated absences	(11,070)
Add - decrease in net OPEB liability	105,991
Deduct - decrease in deferred outflows - pension related	(230,313)
Add - decrease in net pension liability	<u>175,824</u>

Change in net position of governmental activities	<u>\$ 7,685,293</u>
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The accompanying notes are an integral part of these financial statements.

GRAND TRAVERSE COUNTY ROAD COMMISSION

(a Component Unit of Grand Traverse County)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Grand Traverse 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 Commission controls the expenditure of revenues from the State distribution of fuel and vehicle registration taxes, reimbursements from the Michigan Department of Transportation for work done by the Commission on State trunklines, Federal Transportation funds, County shared property taxes and contributions from other local units of government for work performed by the Commission.

The Commission is governed by a five-member Board of County Road Commissioners appointed by the Grand Traverse County Board of Commissioners. The Commission is considered a component unit of the County of Grand Traverse, Michigan (the "County") since the County is considered financially accountable for the Commission. The Commission has no component units for which it is financially accountable.

The Commission is required by Public Act 51 of the State of Michigan, to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the 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.

Financial statements are provided for the Commission's governmental fund.

A combined financial statement is provided for the governmental fund 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.

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.

GRAND TRAVERSE COUNTY ROAD COMMISSION

(a Component Unit of Grand Traverse County)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

Measurement Focus and Basis of Accounting

The government-wide 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 contributions, interest and grant revenues which use 180 days. Property taxes levied by the County are recognized as revenue and an asset of the Commission when received. 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, 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. The 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 has established budgetary procedures pursuant to P.A. 621 of 1978, as amended.

The Manager and Finance Manager submit a proposed operating budget to the Board of County Road Commissioners in October. The Board holds a public hearing to consider the budget and, prior to December 31, adopts a budget for the year beginning January 1. During the year, actual expenditures are monitored against the budget at the activity level and the Board adopts amendments as necessary at the activity level. Management has the ability to move budgeted balances between activities within the public works function. The budget is prepared using the modified accrual basis of accounting, amendments were made to the budget during the year and appropriations lapse at year end.

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Cash and Investments

Cash and investments consist of the balance of cash, checking, savings, certificates of deposit, pooled investment and mutual fund accounts. The Commission invests its cash and investment through Michigan financial institutions and the Grand Traverse County Treasurer. Michigan law and County 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.

Receivables

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectible balances at year-end are considered by management to be insignificant.

Inventory and Prepays

Inventory, consisting of various equipment parts, supplies and road material, is valued based on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used (consumption method). Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepays in both government-wide and fund financial statements following the consumption method.

Capital Assets

Capital assets, which include property, equipment and infrastructure (roads, bridges and similar items) are reported in the government-wide statements (statement of net position). Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost. 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 cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements.

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The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the general fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the general fund.

Depreciation is recorded over the estimated useful lives of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

	<u>Years</u>
Buildings and improvements	50
Road equipment	5-8
Shop equipment	4-10
Office equipment	4-10
Engineering equipment	4-10
Yard and storage equipment	10-30
Infrastructure - bridges	Composite 50
Infrastructure - signals	Composite 15
Infrastructure - roads	Composite 5-20

Compensated Absences

Under contracts and employment policy, employees are granted compensated time off in varying amounts with various usage requirements. The balance of compensated time off at year end that is payable upon employee termination is recorded as a liability on the government-wide statement of net position and not in the general fund because the balance is not expected to be liquidated with expendable available financial resources.

Advances

Advances consist of performance deposits and monies provided primarily by townships to provide cash flow to finance township projects and services.

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, bond premiums and discounts, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond 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 expenditures/expenses regardless of fund or activity.

GRAND TRAVERSE COUNTY ROAD COMMISSION

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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 net pension liability that are discussed in note 8.

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 fund balance or 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 governmental funds report unavailable revenues from long-term receivables. These amounts are deferred and recognized as revenue in the fund statements when payment becomes available. The Commission has other items that qualify for reporting in this category related to the net pension liability that are discussed in note 8.

Property Taxes

Grand Traverse County levies a one mill property tax for County road repair and maintenance. This millage is distributed to the City of Traverse City, Village of Fife Lake, Village of Kingsley and the Commission. It is the Commission's policy to recognize revenues and assets from the County tax levy when received and available for the financing of the Commission's operation.

State Trunkline Adjustments

The Commission has a contract with the Michigan Department of Transportation (MDOT) for maintenance of State highways in Grand Traverse County. The Commission is reimbursed for the actual cost of providing the services. MDOT audits contract expenditures annually and adjustments may result that are reflected as increases or decreases in revenue in subsequent periods.

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.

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The Commission has delegated the authority to assign fund balance to the chief administrative officer. Only the Board of Commissioners can commit fund balance. The Board of County Road Commissioners has adopted a minimum fund balance policy in which the unassigned fund balance of the General Fund will be maintained at \$3.3 million. At year end, total unassigned fund balance of the General Fund was less than the minimum requirement.

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.

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 an activity basis.

During the year, the Commission did not incurred expenditures exceeding the amounts appropriated for the public works function.

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3. CASH

Cash and investments reported on the financial statements consist of the following balances at year-end:

	Governmental Activities
Checking and pooled investments	\$ 6,441,466
Restricted cash and pooled investments	<u>11,609,116</u>
 Total	 <u>\$18,050,582</u>

The cash and pooled investments making up the balances are as follows:

Deposits	\$ 1,445,573
Petty cash	250
Investments	<u>16,604,759</u>
Total	<u>\$18,050,582</u>

Restricted cash and cash equivalents represent amounts set aside in accordance with various legal requirements. As of December 31, 2023, the Commission had restricted cash and pooled investments of \$6,990 held for a flexible spending plan and \$11,602,126 of unexpended bond proceeds.

The checking and savings accounts included in this balance are in a financial institution located in Michigan. All accounts are in the name of the Grand Traverse County Treasurer for the Commission and a specific fund or common account. They are recorded in Commission records at fair value.

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. As of year-end the Commission's bank balance was \$1,671,361. Exposure to custodial credit risk can be determined for Grand Traverse County as a whole, but cannot be separately identified for the Commission.

4. INVESTMENTS

The Commission chooses to disclose its investments by specifically identifying each. As of year-end, the Commission had the following investments:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Source</u>
Money Market funds				
MBIA Class	N/A	\$16,604,759	AAAm	S&P

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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 has no investments that are valued using quoted market prices (Level 1 inputs).
- The MBIA Class investment is valued using a pricing model utilizing observable fair value measures of fund/pool investments and other observable inputs to determining the fair value of the securities making up the investment fund/pool (Level 2 inputs).
- The Commission has no investments that report fair value based on significant unobservable inputs (Level 3 inputs).

Credit Risk. State law limits investments to specific government securities, certificates of deposit 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, qualified external investment pools corporate equity and debt securities as identified in the list of authorized investments in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings, where applicable, are summarized above.

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 the County does not have a policy for investment custodial credit risk. Custodial credit risk exposure for investments identified above cannot be determined because the mutual funds do not consist of specifically identifiable securities.

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of December 31, 2023, all of the Commission's investments had no specific maturity date.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the Commission's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The County'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.

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5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<u>Balance</u> <u>January 1,</u> <u>2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31,</u> <u>2023</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 1,036,599	\$ 33,652	\$ -	\$ 1,070,251
Land and right-of-way	27,432,550	- -	- -	27,432,550
Construction in progress	- -	2,294,299	- -	2,294,299
Total capital assets, not being depreciated	28,469,149	2,327,951	- -	30,797,100
Capital assets, being depreciated				
Buildings and improvements	5,426,833	108,032	- -	5,534,865
Road equipment	16,423,459	1,756,493	1,042,525	17,137,427
Shop equipment	454,126	92,890	- -	547,016
Office equipment	532,205	131,502	- -	663,707
Engineering equipment	647,040	40,190	- -	687,230
Yard and storage				
Equipment	1,864,184	- -	- -	1,864,184
Infrastructure				
Bridges	8,665,014	326,221	- -	8,991,235
Roads	121,956,531	17,101,614	7,016,018	132,042,127
Total capital assets, being depreciated	155,969,392	19,556,942	8,058,543	167,467,791
Less accumulated depreciation for:				
Buildings and improvements	1,853,864	125,249	- -	1,979,113
Road Equipment	12,784,725	1,598,244	980,263	13,402,706
Shop equipment	263,565	27,314	- -	290,879
Office equipment	390,216	98,614	- -	488,830
Engineering equipment	265,932	129,540	- -	395,472
Yard and storage				
Equipment	1,489,894	23,749	- -	1,513,643
Infrastructure				
Bridges	1,731,772	250,422	- -	1,982,194
Roads	58,961,672	7,003,500	7,016,018	58,949,154
Total accumulated depreciation	77,741,640	9,256,632	7,996,281	79,001,991
Net capital assets, being depreciated	78,227,752	10,300,310	62,262	88,465,800
Governmental Activities capital assets, net	\$106,696,901	\$12,628,261	\$62,262	\$119,262,900

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6. LONG-TERM DEBT

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

	<u>Balance</u> <u>January 1,</u> <u>2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31,</u> <u>2023</u>	Due Within One Year
Governmental Activities					
\$945,000 Michigan Transportation Fund Bond Payable – Series 2015, principal due in variable annual installments through September 2023, semi-annual interest payments at 0.65% to 3.50%	\$ 570,000	\$ -	\$ 65,000	\$ 505,000	\$ 70,000
\$3,600,000 Michigan Transportation Fund Bond Payable – Series 2018, principal due in variable annual installments through June 2023, semi-annual interest payments at 2.25% to 3.00%	765,000	- -	765,000	- -	- -
\$374,813 2021 Michigan Transportation Fund Series Bond; due in variable annual installments of \$24,987.54 through June 2036; interest rate of 2%	349,825	- -	24,988	324,837	24,987
\$11,505,000 Grand Traverse County General Obligation Limited Tax Bonds – Series 2023, principal due in variable annual installments through November 2043, semi-annual interest payments at 5.00%	- -	11,505,000	- -	11,505,000	340,000
Total Long Term Debt	1,684,825	11,505,000	854,988	12,334,837	434,987
Bond premium	2,522	667,471	2,522	667,471	-
Compensated absences	98,389	109,459	98,389	109,459	109,459
Total Governmental Activities	<u>\$1,785,736</u>	<u>\$12,281,930</u>	<u>\$955,899</u>	<u>\$13,111,767</u>	<u>\$544,446</u>

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All bonds are public offerings. Annual requirements to maturity on bonds payable at December 31, 2023 are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 434,987	\$ 607,068
2025	459,987	578,127
2026	479,987	557,451
2027	499,987	535,638
2028	524,987	512,648
2029-2033	2,729,939	2,185,541
2034-2038	3,204,963	1,487,998
2039-2043	4,000,000	619,250
Total	<u>\$12,334,837</u>	<u>\$7,083,721</u>

7. RISK MANAGEMENT

The Road Commission is exposed to various risks related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission mitigates risk by carrying workers' compensation insurance through the County Road Association Self-Insurance Fund. The Road Commission is also a member of the Michigan County Road Commission Self-Insurance Pool (MCRC SIP). The insurance coverage provided by MCRC SIP includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, trunk line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of MCRC SIP and is based on property values and miles of roads, population and prior claim history. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to MCRC SIP.

8. RETIREMENT PLANS

Defined Benefit Pension Plan

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The plan is closed to new entrants. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple employers, 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 2.25 to 2.50 of final average compensation. Vesting period of 6-10 years. Normal retirement age is 60. Final average compensation is calculated based on a 5 years average.

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Membership of the defined benefit plan consisted of the following at the date of the latest actuarial valuation (December 31, 2023):

Inactive employees or beneficiaries currently receiving benefits	51
Inactive employees entitled but not yet receiving benefits	2
Active plan members	0
 Total	 <hr/>
	53

Contributions

The Commission is required to contribute at an actuarially determined amount. The required contribution for the current year of \$77,616 was made. Participating employees are not required to contribute to the Plan. 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 employer's net pension liability was measured as of December 31, 2023, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

The total pension liability in the December 31, 2023 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

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.

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.

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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.

Changes in the Net Pension Liability

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u> <u>(a)</u>	<u>Plan Fiduciary Net Position</u> <u>(b)</u>	<u>Net Pension Liability</u> <u>(a)-(b)</u>
Balance at January 1, 2023	\$8,529,277	\$6,752,507	\$1,776,770
Changes for the Year:			
Service cost	-	-	-
Interest	585,586	-	585,586
Change in benefits	-	-	-
Differences between expected and actual experience	64,642	-	64,642
Change in assumptions	-	-	-
Contributions: employer	-	77,616	(77,616)
Contributions: employee	-	-	-
Net investment income	-	706,974	(706,974)
Benefit payments, including refunds	(904,476)	(904,476)	-
Administrative expense	-	(15,087)	15,087
Other changes	(56,549)	-	(56,549)
Net changes	(310,797)	(134,973)	(175,824)
Balance at December 31, 2023	<u>\$8,218,480</u>	<u>\$6,617,534</u>	<u>\$1,600,946</u>

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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	\$8,848,527	\$8,218,480	\$7,668,011
Fiduciary net position	6,617,534	6,617,534	6,617,534
Net pension liability	<u>\$2,230,993</u>	<u>\$1,600,946</u>	<u>\$1,050,477</u>

For the year ended December 31, 2023 the employer recognized pension expense of \$132,105. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Excess (deficit) investment returns	\$397,037	\$ -

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

	Deferred Outflows
2024	\$ 69,643
2025	137,204
2026	239,777
2027	<u>(49,587)</u>
Total	<u>\$397,037</u>

Defined Contribution Pension Plan

The Commission maintains a defined contribution plan administered by MERS for those employees who do not participate in the defined benefit pension plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Administrative and Union (as established by agreement) employees are eligible to participate from the date of employment. The Commission contributes 9% of administrative and 8% of union personnel gross earnings, respectively plus match employee contributions in an amount equal to 3% administrative and 2% union. Contributions for each employee (adjusted for gains and losses allocated to the employee's account) are vested 20%, 40%, 60%, 80% and 100% in years two through six, respectively. Plan provisions and contribution requirements are established and may be amended by the Board of County Road Commissioners. During 2023, the Commission contributed \$395,085 (reduced by \$13,270 in forfeitures) and employees contributed \$89,430 towards the defined contribution plan.

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9. OTHER POST-EMPLOYMENT BENEFITS

Defined Benefit OPEB Plan

Plan Description

The Grand Traverse County Road Commission (the Commission) administers a single-employer defined benefit healthcare plans. The plan provides healthcare benefits to eligible retirees, in accordance with the Commission's policy and employment agreements. The Retiree Health Plan does not issue a publicly available financial report. The actuarial valuation was prepared using the alternative method as provided for in Governmental Accounting Standards Board Statement No. 75.

Benefits Provided

Only employees retiring before May 1, 2016 are eligible for the following retiree medical coverage stipend:

- Early retirees – eligible for \$500 monthly stipend until age 65 (no benefits provided subsequent to age 65)
- Past retirees – eligible for \$112/224 monthly stipend until death (retiree and spouse received \$112 each)

Membership of the Plan consisted of the following at the date of the latest valuation (December 31, 2023):

Early retirees		
\$500 monthly stipend – retiree		1
Current retirees		
\$112 monthly stipend		57
 Total		 58

Contributions

The Commission has no obligation to make contributions in advance of when the stipend is paid (in other words, the Plan may be financed on a "pay-as-you-go" basis). Participants do not make contributions to the Plan. There are no long-term contracts for contributions to the Plan. The Plan has no legally required reserves.

Net OPEB Liability

The employer's net OPEB liability was measured as of December 31, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an annual valuation as of that date. The total OPEB liability in the December 31, 2023 annual valuation was determined using the following assumptions, applied to all periods included in the measurement:

Inflation: Not applicable due to a fixed stipend not expected to change over time

Salary increases: Not applicable due to closed plan status with no active participants

Investment rate of return: 3.54% (unfunded status is consistent with Michigan Department of Treasury requirements and generally accepted accounting principles (GAAP))

Healthcare cost trend rates: Not applicable due to a fixed stipend not expected to change over time

GRAND TRAVERSE COUNTY ROAD COMMISSION
 (a Component Unit of Grand Traverse County)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

Mortality rates were based on the 2019 life tables for males or females, as appropriate, from the Centers for Disease Control.

Level dollar method is utilized to amortization of the unfunded actuarial accrued liability.

The assumptions used in valuation were based on the results of the most recent actuarial experience study and State of Michigan requirements.

Discount rate. The discount rate used to measure the total OPEB liability is 3.54% which is less than the (20 year AA/Aa tax exempt municipal bond yield). Because the plan does not have a reasonably funded OPEB trust, there are not assets projected to be sufficient to make projected future benefit payments of current plan members. A discount rate is used of determine the total OPEB liability. The discount rate was changed from 3% in 2022 to 3.54% in 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	\$765,405	\$ -	\$765,405
Changes for the Year:			
Interest	27,095	- -	27,095
Change in benefits	- -	- -	- -
Differences between expected and actual experience	(41,902)	- -	(41,902)
Change in assumptions	- -	- -	- -
Contributions: employer	- -	- -	- -
Contributions: employee	- -	- -	- -
Net investment Income	- -	- -	- -
Benefit payments, including refunds	(91,184)	- -	(91,184)
Administrative expense	- -	- -	- -
Other changes	- -	- -	- -
Net changes	(105,991)	- -	(105,991)
Balance at December 31, 2023	\$659,414	\$ -	\$659,414

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 3.54%, as well as what the employer's net OPEB liability would be using a discount rate that is 1 percentage point lower (2.54%) or higher (4.54%) than the current rate.

	Current		
	1% Decrease	Discount rate	1% Increase
Total OPEB liability	\$697,659	\$659,414	\$624,445

OPEB Expense

For the year ended December 31, 2023 the employer recognized OPEB expense of \$(14,807).

**GRAND TRAVERSE COUNTY ROAD COMMISSION
(a Component Unit of Grand Traverse County)**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

Defined Contribution OPEB Plan

The Commission administers a single-employer defined contribution Retirement Health Savings account (the Retiree Health Savings Plan). The Commission contributes \$80 monthly to a healthcare savings plan (HCSP) for all fulltime employees and employees are required to contribute 1% of coverage wages. The Commission plan contribution requirements were established and may be amended under the authority of the Board of County Road Commissioners. The Plan has no vesting period. During the year the commission contributed \$54,480 and employees contributed \$44,215 to the plan.

10. LITIGATION

In the normal course of its operations, the Commission has become a party in various legal actions. Management of the Commission is of the opinion that the outcome of such actions will not have a material effect on the financial position of the Commission. Any losses related to legal actions have not been included as a liability in the financial statements.

11. COMMITMENTS

At year-end the Commission has outstanding commitments of approximately \$10.8 million for construction of the Kingsley facility, \$3.4 million for road equipment and \$2.5 million for outstanding chip seal projects.

12. SINGLE AUDIT

Governmental and certain other entities, which expend \$750,000 or more of federal funding, are subject to a single audit in accordance with the uniform guidance CFR200. The Commission reported \$1,137,884 federal/state revenue for projects, which were primarily administered by the Michigan Department of Transportation (MDOT) and were audited as a component of the State of Michigan's single audit. Because federal dollars expended directly by the Commission 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

GRAND TRAVERSE COUNTY ROAD COMMISSION
 (a Component Unit of Grand Traverse 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				
Property taxes	\$ 4,694,000	\$ 4,872,491	\$ 4,872,491	\$ -
Federal sources	2,089,082	2,299,684	1,381,706	(917,978)
State				
MTF	14,664,300	15,143,727	15,416,335	272,608
Grants and other	49,668	247,663	1,149,640	901,977
Total State	<u>14,713,968</u>	<u>15,391,390</u>	<u>16,565,975</u>	<u>1,174,585</u>
Contributions	114,812	793,406	730,020	(63,386)
Charges for services and other	1,539,106	2,421,297	2,505,799	84,502
Total revenues	<u>23,150,968</u>	<u>25,778,268</u>	<u>26,055,991</u>	<u>277,723</u>
Expenditures				
Maintenance				
Heavy maintenance	14,164,590	19,003,047	16,080,901	2,922,146
Routine maintenance	8,974,231	11,029,317	10,437,832	591,485
Total maintenance	<u>23,138,821</u>	<u>30,032,364</u>	<u>26,518,733</u>	<u>3,513,631</u>
Equipment (net)	(183,932)	(33,696)	(294,465)	260,769
Administration (net)	1,223,163	1,254,397	1,255,871	(1,474)
Other	40,000	40,000	39,076	924
State trunkline maintenance	1,145,223	1,279,988	1,159,185	120,803
Capital outlay	10,132,692	14,038,678	2,152,645	11,886,033
Debt service	891,787	990,842	1,060,693	(69,851)
Total expenditures	<u>36,387,754</u>	<u>47,602,573</u>	<u>31,891,738</u>	<u>15,710,835</u>
Revenues over (under) expenditures	<u>(13,236,786)</u>	<u>(21,824,305)</u>	<u>(5,835,747)</u>	<u>15,988,558</u>
Other financing sources (uses)				
Sale of capital assets	-	-	193,887	193,887
Bond issue	7,900,000	12,102,621	11,505,000	(597,621)
Bond premium	-	-	667,471	667,471
Total other financing sources (uses)	<u>7,900,000</u>	<u>12,102,621</u>	<u>12,366,358</u>	<u>263,737</u>
Net changes in fund balance	(5,336,786)	(9,721,684)	6,530,611	16,252,295
Fund balance, beginning of year	<u>13,733,604</u>	<u>13,733,604</u>	<u>13,733,604</u>	<u>-</u>
Fund balance, end of year	<u>\$ 8,396,818</u>	<u>\$ 4,011,920</u>	<u>\$ 20,264,215</u>	<u>\$ 16,252,295</u>

GRAND TRAVERSE COUNTY ROAD COMMISSION
(a Component Unit of Grand Traverse County)

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

FOR THE YEAR ENDED DECEMBER 31, 2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total pension liability										
Service cost	\$ 612,516	\$ 18,465	\$ 8,471	\$ 8,085	\$ 8,166	\$ 8,391	\$ 8,111	\$ 4,055	\$ -	\$ -
Interest	3,975,246	728,316	693,212	717,457	684,961	668,922	653,383	621,017	585,607	585,586
Difference between expected and actual experience	-	-	91,234	(207,073)	11,278	31,587	6,519	(11,363)	-	64,642
Changes in assumptions	-	-	430,437	-	-	-	235,516	204,084	63,433	-
Benefit payments including employee refunds	(3,483,066)	(951,391)	(960,311)	(914,379)	(914,065)	(907,119)	(898,941)	(895,750)	(910,096)	(904,476)
Other changes	-	51,136	17,244	(10,481)	8,190	-	-	(9,525)	257,953	(56,549)
Other										
Net change in total pension liability	1,104,696	(153,474)	280,287	(406,391)	(201,470)	(198,219)	4,588	(87,482)	(3,103)	(310,797)
Total pension liability, beginning of year	49,620,077	9,294,541	9,141,067	9,421,354	9,014,963	8,813,493	8,615,274	8,619,862	8,532,380	8,529,277
Total pension liability, end of year	\$ 3,779,295	\$ 9,141,067	\$ 9,421,354	\$ 9,014,963	\$ 8,813,493	\$ 8,615,274	\$ 8,619,862	\$ 8,532,380	\$ 8,529,277	\$ 8,218,480
Plan fiduciary net position										
Contributions-employer	\$ 1,523,257	\$ 618,432	\$ 1,454,636	\$ 1,447,188	\$ 1,208,374	\$ 4,572	\$ -	\$ 121,412	\$ 145,548	\$ 77,616
Contributions-employee	215,174	-	-	-	-	-	-	1,225	-	-
Net investment income	1,926,154	(84,678)	655,362	862,966	(285,143)	1,036,877	917,383	1,097,572	(866,215)	706,974
Benefit payments including employee refunds	(3,483,066)	(951,391)	(960,311)	(914,379)	(914,065)	(907,119)	(898,941)	(895,750)	(910,096)	(904,476)
Administrative expense	(70,364)	(12,553)	(12,834)	(13,667)	(14,787)	(17,830)	(15,526)	(12,590)	(14,895)	(15,087)
Net change in plan fiduciary net position	111,155	(430,190)	1,136,853	1,382,108	(5,621)	116,500	2,916	311,869	(1,645,658)	(134,973)
Plan fiduciary net position, beginning of year	31,098,010	5,883,730	5,453,540	6,590,393	7,972,501	7,966,880	8,083,380	8,086,296	8,398,165	6,752,507
Plan fiduciary net position, end of year	\$ 31,209,165	\$ 5,453,540	\$ 6,590,393	\$ 7,972,501	\$ 7,966,880	\$ 8,083,380	\$ 8,086,296	\$ 8,398,165	\$ 6,752,507	\$ 6,617,534
Employer net pension liability	\$ (27,429,870)	\$ 3,687,527	\$ 2,830,961	\$ 1,042,462	\$ 846,613	\$ 531,894	\$ 533,566	\$ 134,215	\$ 1,776,770	\$ 1,600,946
Plan fiduciary net position as a percentage of the total pension liability	826%	60%	70%	88%	90%	94%	94%	98%	79%	81%
Covered employee payroll	6,099,475	\$ 226,661	\$ 93,103	\$ 88,257	\$ 89,172	\$ 95,867	\$ 98,395	\$ 49,026	\$ -	\$ -
Employer's net pension liability as a percentage of covered employee payroll	-450%	1627%	3041%	1181%	949%	555%	542%	274%	0%	0%

GRAND TRAVERSE COUNTY ROAD COMMISSION
(a Component Unit of Grand Traverse County)

DEFINED BENEFIT PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED DECEMBER 31, 2023

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contribution</u>	<u>Contribution Excess (Deficiency)</u>	<u>Covered Payroll</u>	<u>Percent of Covered Payroll Contributed</u>
2015	\$ 618,432	\$ 618,432	\$ -	\$ 226,661	273%
2016	654,636	1,454,636	800,000	93,103	1562%
2017	715,668	1,447,188	731,520	88,257	1640%
2018	731,520	1,208,374	476,854	89,172	1355%
2019	4,572	4,572	-	95,867	5%
2020	-	-	-	98,395	0%
2021	94,920	121,412	26,492	49,026	248%
2022	145,548	145,548	-	-	0%
2023	77,616	77,616	-	-	0%

Actuarial cost method

Entry Age

Amortization method

Level percentage of payroll, closed

Remaining amortization period

10 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 MP-2019 mortality table

GRAND TRAVERSE COUNTY ROAD COMMISSION
(a Component Unit of Grand Traverse County)

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

FOR THE YEAR ENDED DECEMBER 31, 2023

	2018	2019	2020	2021	2022	2023
Total OPEB liability						
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	34,664	32,249	28,808	25,768	17,110	27,095
Changes in benefit terms	-	-	-	-	-	-
Difference between expected and actual experience	-	-	-	-	-	-
Changes in assumptions	-	-	-	-	-	-
Change in benefits	-	-	-	-	-	-
Difference between expected and actual experience	28,002	(27,230)	(21,310)	7,477	50,381	(41,902)
Change in assumptions	-	-	-	-	-	-
Benefit payments including employee refunds	(143,172)	(119,713)	(108,792)	(100,079)	(94,222)	(91,184)
Other changes	-	-	-	-	-	-
Net change in total pension liability	(80,506)	(114,694)	(101,294)	(66,834)	(26,731)	(105,991)
Total OPEB liability, beginning of year	1,155,464	1,074,958	960,264	858,970	792,136	765,405
Total OPEB liability, end of year	\$ 1,074,958	\$ 960,264	\$ 858,970	\$ 792,136	\$ 765,405	\$ 659,414
 Plan fiduciary net position						
Contributions-employer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions-employee	-	-	-	-	-	-
Net investment income	1,106	-	-	-	-	-
Benefit payments including employee refunds	(106,304)	(2,628)	-	-	-	-
Administrative expense	-	-	-	-	-	-
Net change in plan fiduciary net position	(105,198)	(2,628)	-	-	-	-
Plan fiduciary net position, beginning of year	107,826	2,628	-	-	-	-
Plan fiduciary net position, end of year	\$ 2,628	\$ -				
 Employer net OPEB liability	\$ 1,072,330	\$ 960,264	\$ 858,970	\$ 792,136	\$ 765,405	\$ 659,414
 Plan fiduciary net position as a percentage of the total OPEB liability	0%	0%	0%	0%	0%	0%
 Covered employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
 Employer's net OPEB liability as a percentage of covered employee payroll	0%	0%	0%	0%	0%	0%

GRAND TRAVERSE COUNTY ROAD COMMISSION
(a Component Unit of Grand Traverse County)

DEFINED BENEFIT OPEB PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED DECEMBER 31, 2023

	2018	2019	2020	2021	2022	2023
Actuarially determined contributions	\$ 36,005	\$ 32,870	\$ 29,491	\$ 27,197	\$ 28,960	\$ 26,260
Contributions in relation to the actuarially determined contribution	36,868	117,085	108,792	100,079	94,222	91,184
Contribution (deficiency) excess	<u>\$ 863</u>	<u>\$ 84,215</u>	<u>\$ 79,301</u>	<u>\$ 72,882</u>	<u>\$ 65,262</u>	<u>\$ 64,924</u>
Covered employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered employee payroll	0%	0%	0%	0%	0%	0%
Actuarial cost method	Entry Age					
Amortization method	Level dollar method					
Remaining amortization period	6 years					
Asset valuation method	Market value					
Healthcare cost trend rate	N/A - fixed stipend					
Salary increases	N/A - no active participants					
Investment rate of return	3.54% (3% prior to 2023)					
Retirement age	N/A - no active participants					
Mortality	2019 life tables for males or females, as appropriate, from the Centers for Disease Control					

Money weighted rate of return is immaterial due to the funding status of the plan

Notes to required supplementary information

Budgets and Budgetary Accounting

The Commission adopts an annual budget for the general fund following the GAAP basis of accounting. Unexpended appropriations lapse at year-end.

Pension and OPEB Schedules

The schedules is being accumulated prospectively until ten years of data is presented.

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GENERAL FUND SCHEDULE

GRAND TRAVERSE COUNTY ROAD COMMISSION
 (a Component Unit of Grand Traverse County)

**SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GENERAL FUND**

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	\$ 6,820	\$ 3,180	\$ -	\$ 10,000
Primary road	9,145,271	-	-	9,145,271
Local road	-	4,264,403	-	4,264,403
Primary urban road	1,157,432	-	-	1,157,432
Local urban road	-	504,852	-	504,852
Snow removal	184,749	149,628	-	334,377
Total Michigan Transportation Fund	10,494,272	4,922,063	-	15,416,335
Federal projects	1,137,884	243,822	-	1,381,706
State trunkline maintenance	-	-	1,024,360	1,024,360
State trunkline non-maintenance	-	-	134,829	134,829
Property taxes	4,872,491	-	-	4,872,491
Grants				
State sources	1,099,973	49,667	-	1,149,640
Local sources	-	730,020	-	730,020
License and permits	-	-	183,789	183,789
Salvage sales	-	-	5,065	5,065
Interest	485,438	9,566	251,956	746,960
Other charges	-	350,944	59,852	410,796
Total Revenues	18,090,058	6,306,082	1,659,851	26,055,991
Expenditures				
Current				
Road maintenance				
Heavy maintenance	15,075,707	1,005,194	-	16,080,901
Routine maintenance	5,598,007	4,839,825	-	10,437,832
Total road maintenance	20,673,714	5,845,019	-	26,518,733
State trunkline				
Maintenance	-	-	1,024,356	1,024,356
Nonmaintenance	-	-	134,829	134,829
Total state trunkline	-	-	1,159,185	1,159,185
Equipment (net)	(90,002)	(144,324)	(60,139)	(294,465)
Administration (net)	979,064	276,807	-	1,255,871
Other	-	-	39,076	39,076
Capital outlay (net)	-	-	2,152,645	2,152,645
Debt service				
Principal	765,000	89,988	-	854,988
Interest	11,475	24,824	169,406	205,705
Total expenditures	22,339,251	6,092,314	3,460,173	31,891,738
Revenues over (under) expenditures	(4,249,193)	213,768	(1,800,322)	(5,835,747)
Other financing sources (uses)				
Sale of capital assets	-	-	193,887	193,887
Bond issue	-	-	11,505,000	11,505,000
Bond premium	-	-	667,471	667,471
Total other financing sources (uses)	-	-	12,366,358	12,366,358
Net changes in fund balance	(4,249,193)	213,768	10,566,036	6,530,611
Fund balance, beginning of year	<u>10,115,928</u>	<u>199,342</u>	<u>3,418,334</u>	<u>13,733,604</u>
Fund balance, end of year	<u>\$ 5,866,735</u>	<u>\$ 413,110</u>	<u>\$ 13,984,370</u>	<u>\$ 20,264,215</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

June 20, 2024

Grand Traverse County Road Commission
Board of Road Commissioners
Traverse City, 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 and the major fund of the Grand Traverse County Road Commission (the Commission), Grand Traverse 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 June 20, 2024.

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, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

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

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

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Oradaxeld Haefner LLC