

# **OTSEGO COUNTY ROAD COMMISSION**

**(A Component Unit of Otsego County)**

**Otsego County, Michigan**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**



Vredeveld Haefner LLC  
CPAs and Consultants

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

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

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# Vredeveld Haefner LLC

CPAs and Consultants  
10302 20<sup>th</sup> Avenue  
Grand Rapids, MI 49534  
Fax (616) 828-0307

Douglas J. Vredeveld, CPA  
(616) 446-7474  
Michael J. Vredeveld, CPA  
(616) 648-8447

## INDEPENDENT AUDITORS' REPORT

May 1, 2026

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, 2025, 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, 2025, 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 5 through 9 and required supplementary information on pages 39 through 41 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 Township's basic financial statements. The accompanying general fund schedules and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the general fund schedules and the schedule of expenditures of federal awards 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 May 1, 2026, 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.

*Wrodenfeld Haefner LLC*

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## **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, 2025. 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 approximately \$61.5 million which is an increase of approximately \$3.75 million over the 2024 balance.
- Ice storm expenses caused a decrease in fund balance and resulted in a transfer to Primary Road fund balance.
- Approximately \$2.5 million was received from FEMA for ice storm expense reimbursements.

### 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 \$61,510,519 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.

	<b>Governmental Activities</b>	
	<b><u>2025</u></b>	<b><u>2024</u></b>
<b>Assets</b>		
Current assets	\$16,406,136	\$16,995,350
Noncurrent assets		
Capital assets	50,386,613	46,836,063
<b>Total assets</b>	<u>66,792,749</u>	<u>63,831,413</u>
<b>Deferred outflows</b>	<u>144,727</u>	<u>723,770</u>
<b>Liabilities</b>		
Current liabilities	824,195	1,036,213
Long-term liabilities	2,325,545	4,299,290
<b>Total liabilities</b>	<u>3,149,740</u>	<u>5,335,503</u>
<b>Deferred inflows</b>	<u>2,277,217</u>	<u>1,473,179</u>
<b>Net position</b>		
Net capital assets	50,386,613	46,836,063
Restricted	11,123,906	10,910,438
<b>Total net position</b>	<u>\$61,510,519</u>	<u>\$57,746,501</u>

Net position of the Commission increased by \$3,764,018. 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 and a large decrease in their net pension liability due to an increase in net investment income.

	<b>Governmental Activities</b>	
	<b><u>2025</u></b>	<b><u>2024</u></b>
<b>Revenue</b>		
Program revenue		
Charges for services	\$ 3,281,223	\$ 2,414,222
Operating grants and contributions	10,279,198	7,845,611
Capital grants and contributions	2,918,620	2,946,314
General revenue		
Interest	513,184	581,621
Gain on sale of capital assets	-	-
Other	68,858	157,962
<b>Total revenue</b>	<u>17,061,083</u>	<u>13,945,730</u>
<b>Expenses</b>		
Public works	13,297,065	9,388,139
Debt service	-	-
<b>Total expenses</b>	<u>13,297,065</u>	<u>9,388,139</u>
Increase (decrease) in net position	3,764,018	4,557,591
<b>Net position, beginning of year, as previously presented</b>	57,746,501	52,964,953
Correction of an error	-	223,957
<b>Net position, beginning of year, as restated</b>	<u>57,746,501</u>	<u>53,188,910</u>
<b>Net position, end of year</b>	<u>\$61,510,519</u>	<u>\$57,746,501</u>

## Governmental Activities

During the year the Commission reported approximately 23% of its total expenses for depreciation of capital assets. The remaining 77% 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 \$13,884,053, a decrease of \$642,098 in comparison with the prior year. This decrease is primarily the result of approximately \$3.3 million of ice storm clean up expenses, which was offset by approximately \$2.5 million in federal grants to assist with the clean up.

The General fund is the chief operating fund of the Commission. At the end of the current fiscal year, the general funds largest component of fund balance included unassigned fund balance of \$11,267,096. 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:
  - State trunkline maintenance was less than anticipated
  - Interest income exceeded estimates
- Expenditures:
  - The Commission's expenditures were relatively close to the amounts budgeted

## Capital Asset and Debt Administration

**Capital Assets.** The Commission's investment in capital assets for its governmental activities as of December 31, 2025 amounted to \$50,386,613 (net of accumulated depreciation).

Significant capital asset additions during the year include the following:

- \$3,501,916 million of primary road construction and heavy maintenance
- \$1,858,671 of local road construction and heavy maintenance
- \$1,224,327 of road equipment

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

	<b>Governmental Activities</b>
Land, right-of-way and construction in progress	\$13,523,841
Property and equipment, net	3,469,583
Infrastructure, net	<u>33,393,189</u>
<b>Total</b>	<b><u>\$50,386,613</u></b>

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:

	<b>Governmental Activities</b>
<b>Compensated absences</b>	<b><u>\$265,265</u></b>

### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the Commission's budget for the 2026 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, 2025**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>Assets</b>			
Cash and investments	\$ 9,198,910	\$ -	\$ 9,198,910
Receivables			
State trunkline maintenance	377,860	-	377,860
Due from local units of government	1,513,427	-	1,513,427
Due from federal government	2,526,129	-	2,526,129
Motor vehicle highway funds	1,207,119	-	1,207,119
Other	241,201	-	241,201
Inventories			
Equipment, material, and parts	369,289	-	369,289
Road materials	633,855	-	633,855
Prepaid insurance	141,943	-	141,943
Net OPEB asset	-	196,403	196,403
Capital assets			
Land and improvements, right-of-way and construction in progress	-	13,523,841	13,523,841
Property and equipment, net	-	3,469,583	3,469,583
Infrastructure, net	-	33,393,189	33,393,189
<b>Total assets</b>	<u>16,209,733</u>	<u>50,583,016</u>	<u>66,792,749</u>
Deferred outflow related to pension plan	-	144,727	144,727
<b>Liabilities</b>			
Accounts payable	217,732	-	217,732
Accrued liabilities	189,543	-	189,543
Advances			
State trunkline equipment purchase	332,804	-	332,804
State trunkline maintenance	84,116	-	84,116
Noncurrent liabilities			
Net pension liability	-	2,060,280	2,060,280
Compensated absences	-	265,265	265,265
<b>Total liabilities</b>	<u>824,195</u>	<u>2,325,545</u>	<u>3,149,740</u>
<b>Deferred inflows of resources</b>			
Taxes levied for subsequent period	1,501,485	-	1,501,485
Deferred inflow related to pension plan	-	597,595	597,595
Deferred inflow related to OPEB	-	178,137	178,137
<b>Total deferred inflows of resources</b>	<u>1,501,485</u>	<u>775,732</u>	<u>2,277,217</u>
<b>Fund balance</b>			
Non-spendable			
Inventory	1,003,144	(1,003,144)	-
Prepaid	141,943	(141,943)	-
Restricted			
Local roads	1,471,870	(1,471,870)	-
Unassigned	11,267,096	(11,267,096)	-
<b>Total fund balance</b>	<u>13,884,053</u>	<u>(13,884,053)</u>	<u>-</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 16,209,733</u>		
<b>Net position</b>			
Net investment in capital assets		50,386,613	50,386,613
Restricted for road system		11,123,906	11,123,906
<b>Total net position</b>		<u>\$ 61,510,519</u>	<u>\$ 61,510,519</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, 2025**

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<b>Fund balances - total governmental funds</b>	\$ 13,884,053
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)	50,386,613
Add - deferred outflows related to net pension liability	144,727
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	(265,265)
Deduct - net pension liability	(2,060,280)
Add - other post-employment benefit asset	196,403
Deduct - deferred inflows related to net pension liability	(597,595)
Deduct - deferred inflows related to OPEB	<u>(178,137)</u>
<b>Net position of governmental activities</b>	<u>\$ 61,510,519</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, 2025**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>Expenditures/expenses</b>			
Public works	\$ 12,342,594	\$ 954,471	\$ 13,297,065
Capital outlay	<u>5,360,587</u>	<u>(5,360,587)</u>	<u>-</u>
<b>Total expenditures/expenses</b>	<u>17,703,181</u>	<u>(4,406,116)</u>	<u>13,297,065</u>
<b>Program revenues</b>			
Charges for services			
State trunkline maintenance	1,659,027	-	1,659,027
State trunkline nonmaintenance	1,555,837	-	1,555,837
Other charges	66,359	-	66,359
Operating grants and contributions			
State transportation funds	7,753,069	-	7,753,069
FEMA disaster relief	2,526,129	-	2,526,129
Capital grants and contributions			
Federal and state sources	939,520	-	939,520
Local units of government	522,945	-	522,945
County millage	<u>1,456,155</u>	<u>-</u>	<u>1,456,155</u>
Net program revenue	<u>16,479,041</u>	<u>-</u>	<u>16,479,041</u>
<b>General revenue</b>			
Salvage sales	2,715	-	2,715
Interest	513,184	-	513,184
Other	<u>66,143</u>	<u>-</u>	<u>66,143</u>
Total general revenue	<u>582,042</u>	<u>-</u>	<u>582,042</u>
Total revenues and other financing sources	<u>17,061,083</u>	<u>-</u>	<u>17,061,083</u>
Change in fund balance/net position	(642,098)	4,406,116	3,764,018
<b>Fund balances/net position, beginning of year</b>	<u>14,526,151</u>	<u>43,220,350</u>	<u>57,746,501</u>
<b>Fund balances/net position, end of year</b>	<u>\$ 13,884,053</u>	<u>\$ 47,626,466</u>	<u>\$ 61,510,519</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, 2025**

<b>Net changes in fund balances - general fund</b>	<b>\$ (642,098)</b>
<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	6,588,326
Deduct - depreciation expense	(3,037,776)
<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>	
Deduct - increase in compensated absences	(38,800)
Add - decrease in net OPEB liability	652,373
Deduct - decrease in deferred outflows related to net OPEB liability	(32,845)
Deduct - increase in deferred inflows related to net OPEB liability	(178,137)
Add - decrease in net pension liability	1,556,575
Deduct - decrease in deferred outflows related to net pension liability	(546,198)
Deduct - increase in deferred inflows related to net pension liability	<u>(557,402)</u>
<b>Change in net position of governmental activities</b>	<b>\$ <u>3,764,018</u></b>

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, 2025**

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	<b>Other Post-employment Benefit <u>Trust Fund</u></b>
<b>Assets</b>	
Investments	
Mutual funds	\$ <u>3,174,008</u>
<b>Total assets</b>	<u>3,174,008</u>
<b>Liabilities</b>	
Accounts payable	<u>240,928</u>
<b>Total liabilities</b>	<u>240,928</u>
<b>Net position</b>	
Net position restricted for OPEB	\$ <u><u>2,933,080</u></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, 2025**

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	<b>Other Post-employment Benefit <u>Trust Fund</u></b>
<b>Additions</b>	
Investment earnings	
Interest	\$ 416,672
<b>Total additions</b>	<u>416,672</u>
<b>Deductions</b>	
Benefit payments	240,928
Administrative expense	<u>6,241</u>
<b>Total deductions</b>	<u>247,169</u>
<b>Changes in net position</b>	<u>169,503</u>
<b>Net position, beginning of year</b>	2,763,577
<b>Net position, end of year</b>	<u>\$ 2,933,080</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, 2025**

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**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.

**OTSEGO COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

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Additionally, the Commission reports the following fund type:

The *Other Post-Employment 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.

**OTSEGO COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

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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.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

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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***

The Commission recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled during or upon separation from employment. The liability for compensated absences is recognized in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability for compensated absences includes salary-related benefits, where applicable.

***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 certain employee benefit plans discussed in note 7.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

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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 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.

**OTSEGO COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

**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>
<b>General fund</b>			
Administrative/engineering expenditures, net	\$ 461,928	\$ 462,205	\$ (277)

**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	90,105
Held in the name of Otsego County	
Deposits	540,906
Investments	8,567,399
Fiduciary fund	
Held in the name of the Commission/OPEB trust	
investments	3,174,008
Total	\$12,372,918

**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, \$684,112 of the Commission's bank balance of \$934,112 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.

**OTSEGO COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

**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				
Michigan Class	N/A	\$ 8,567,399	AAAm	S&P
Held in Commission/OPEB trust's name				
MERS total market portfolio	N/A	<u>3,174,008</u>	Unrated	
Total		<u>\$11,741,407</u>		

**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 the MERS 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.

*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.

**OTSEGO COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

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 does not have any investments that report fair value using quoted market prices (Level 1 inputs).
- All investments 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).

**4. 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>2025</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31,</u> <u>2025</u>	<u>Due</u> <u>Within</u> <u>One</u> <u>Year</u>
<b>Governmental Activities</b>					
Compensated absences *	\$226,465	\$38,800	\$ -	\$265,265	\$ -

\* The change in compensated absences is presented as a net change.

**5. 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.

**OTSEGO COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

**6. CAPITAL ASSETS**

Capital asset activity for the year was as follows:

	<b>Balance January 1, <u>2025</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b>Balance December 31, <u>2025</u></b>
<b>Governmental Activities</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 125,501	\$ -	\$ -	\$ 125,501
Land Improvements - Infrastructure	13,398,340	-	-	13,398,340
<b>Total capital assets, not being depreciated</b>	<b>13,523,841</b>	<b>-</b>	<b>-</b>	<b>13,523,841</b>
<b>Capital assets, being depreciated</b>				
Buildings	4,305,731	-	-	4,305,731
Road equipment	10,210,800	1,224,327	-	11,435,127
Shop equipment	97,486	-	-	97,486
Office equipment	46,844	3,412	-	50,256
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	49,591,394	5,360,587	-	54,951,981
<b>Total capital assets, being depreciated</b>	<b>65,759,029</b>	<b>6,588,326</b>	<b>-</b>	<b>72,347,355</b>
Less accumulated depreciation for:				
Buildings	2,568,643	122,760	-	2,691,403
Road Equipment	8,859,485	724,391	-	9,583,876
Shop equipment	95,681	644	-	96,325
Office equipment	46,844	569	-	47,413
Engineers' equipment	8,583	-	-	8,583
Yard and storage equipment	1,800	-	-	1,800
Traffic Signals	47,609	293	-	47,902
Infrastructure				
Bridges	532,077	36,237	-	568,314
Roads	20,286,085	2,152,882	-	22,438,967
<b>Total accumulated depreciation</b>	<b>32,446,807</b>	<b>3,037,776</b>	<b>-</b>	<b>35,484,583</b>
<b>Net capital assets, being depreciated</b>	<b>33,312,222</b>	<b>3,550,550</b>	<b>-</b>	<b>36,862,772</b>
<b>Governmental Activities capital assets, net</b>	<b>\$46,836,063</b>	<b>\$3,550,550</b>	<b>\$ -</b>	<b>\$50,386,613</b>

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

**OTSEGO COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

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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](http://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, 2024):

Inactive employees or beneficiaries currently receiving benefits	53
Inactive employees entitled but not yet receiving benefits	12
Active plan members	23
Total	88

***Contributions***

The Commission is required to contribute at an actuarially determined rate of 0 to 47.92% 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 Commission's net pension liability was measured as of December 31, 2025, and the total pension liability used to calculate the net pension liability at December 31, 2024 was determined by an annual actuarial valuation as of December 31, 2024 (which included roll forward procedures to December 31, 2025).

The total pension liability in the December 31, 2024 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 11% based on age)

Investment rate of return: 6.93%, 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.

**OTSEGO COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

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

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%
MERS dedicated gains policy			(0.07)%
Inflation			2.50%
Administrative fee			0.25%
			<hr/>
Discount rate			7.18%

Discount rate. The discount rate used to measure the total pension liability is 7.18%. 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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**FOR THE YEAR ENDED DECEMBER 31, 2025**

**Changes in the Net Pension Liability**

	Increase (Decrease)		
	Total	Plan	Net Pension
	Pension	Fiduciary Net	
Liability	Position	Liability	
	(a)	(b)	(a)-(b)
Balance at January 1, 2025	\$15,576,618	\$11,959,763	\$ 3,616,855
Changes for the year:			
Service cost	163,445	-	163,445
Interest	1,084,930	-	1,084,930
Change in benefits	-	-	-
Differences between expected and actual experience	(892)	-	(892)
Change in assumptions	(42,168)	-	(42,168)
Contributions: employer	-	827,184	(827,184)
Contributions: employee	-	73,371	(73,371)
Net investment income	-	1,838,790	(1,838,790)
Benefit payments, including refunds	(1,095,784)	(1,095,784)	-
Administrative expense	-	(24,158)	24,158
Other changes	(46,703)	-	(46,703)
Net changes	62,828	1,619,403	(1,556,575)
Balance at December 31, 2025	\$15,639,446	\$13,579,166	\$ 2,060,280

**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 7.18%, as well as what the employer's net pension liability would be using a discount rate that is 1 percentage point lower (6.18%) or higher (8.18%) than the current rate.

	1%	Current	1%
	Decrease	Discount	Increase
		Rate	
Total pension liability	\$17,344,563	\$15,639,446	\$14,201,790
Fiduciary net position	13,579,166	13,579,166	13,579,166
Net pension liability	\$ 3,765,397	\$ 2,060,280	\$ 622,624

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

For the year ended December 31, 2025 the employer recognized pension expense of \$374,209. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>
Differences in experience	\$108,357	\$ 595
Differences in assumptions	36,370	28,112
Excess (deficit) investment returns	-	568,888
Total	\$144,727	\$597,595

**OTSEGO COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

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

2026	\$ 249,347
2027	(299,656)
2028	(204,968)
2029	(197,591)
Thereafter	-
Total	\$(452,868)

**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, 2024):

Inactive employees or beneficiaries currently receiving benefits	32
Active plan members	7
Total	39

***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 Asset***

The employer's net OPEB asset was measured as of December 31, 2025 while using the fair market value of plan assets.

The total OPEB asset in the December 31, 2024 annual actuarial valuation, rolled forward to December 31, 2025, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: included in investment rate of return

Salary Increases: 3.00% (for purpose of allocating liability)

Investment rate of return: 6.93% (including inflation)

20-year Aa Municipal bond rate:4.43% (S&P Municipal Bond 20-Year High Grade Rate Index)

Mortality: Public General 2016 Employee and Healthy Retiree, Headcount weighted

Improvement Scale: MP-2021

**OTSEGO COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

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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	60%	4.50%
Global fixed income	20%	2.16%
Real assets	20%	6.50%

Rate of return. For the year ended December 31, 2025, the annual money-weighted rate of return on investments, net of investment expense, was 6.93%. 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 asset is 6.93%. 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 asset 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 2024 valuation was 6.15%.

**OTSEGO COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

**Changes in the Net OPEB Liability**

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (asset) (a)-(b)
Balance at January 1, 2025	\$3,438,944	\$2,982,974	\$455,970
Changes for the year:			
Service cost	17,284	-	17,284
Interest	205,149	-	205,149
Experience (Gains)/Losses	(338,344)	-	(338,344)
Change in plan terms	-	-	-
Change in assumptions	(104,500)	-	(104,500)
Contributions to OPEB trust	-	-	-
Contributions/benefit paid from general operating funds	-	21,531	(21,531)
Contributions: employee	-	-	-
Net investment Income	-	416,672	(416,672)
Benefit payments, including refunds	(240,928)	(240,928)	-
Administrative expense	-	(6,303)	6,303
Other changes	-	62	(62)
Net changes	(461,339)	191,034	(652,373)
Balance at December 31, 2025	\$2,977,605	\$3,174,008	(\$196,403)

**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 6.93%, as well as what the employer's net OPEB liability would be using a discount rate that is 1 percentage point lower (5.93%) or higher (7.93%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Net OPEB liability (asset)	(\$20,983)	(\$196,403)	(\$353,771)

**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.

	1% Decrease	Current Healthcare Rate	1% Increase
Net OPEB liability (asset)	(\$366,128)	(\$196,403)	(\$8,738)

For the year ended December 31, 2025 the employer recognized OPEB expense of (\$419,860).

**OTSEGO COUNTY ROAD COMMISSION**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

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

For the year ended December 31, 2025 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	-	178,137
<b>Total</b>	<b>\$ -</b>	<b>\$178,137</b>

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

2026	\$ 11,570
2027	(97,192)
2028	(48,971)
2029	(43,544)
2030	-
Thereafter	-
<b>Total</b>	<b>\$(178,137)</b>

**9. 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 \$74,481. 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.

## **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, 2025**

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
<b>Revenues</b>				
State transportation fund	\$ 7,880,058	\$ 7,562,360	\$ 7,753,069	\$ 190,709
Federal and other state sources	804,473	939,520	939,520	-
County millage	1,600,000	1,456,155	1,456,155	-
State trunkline maintenance	1,500,000	1,741,529	1,659,027	(82,502)
State trunkline nonmaintenance	800,000	1,555,837	1,555,837	-
Local units of government	472,025	522,945	522,945	-
Salvage sales	10,000	2,715	2,715	-
Interest	375,000	513,167	513,184	17
Property rentals	20,000	29,906	29,906	-
Licenses and permits	70,000	66,359	66,359	-
FEMA disaster relief	-	-	2,526,129	2,526,129
Other revenues	13,500	36,237	36,237	-
<b>Total revenues</b>	<u>13,545,056</u>	<u>14,426,730</u>	<u>17,061,083</u>	<u>2,634,353</u>
<b>Expenditures</b>				
Primary road				
Construction and heavy maintenance	2,862,613	3,501,916	3,501,916	-
Maintenance	2,890,000	5,431,923	5,431,923	-
Total primary road	<u>5,752,613</u>	<u>8,933,839</u>	<u>8,933,839</u>	<u>-</u>
Local road				
Construction and heavy maintenance	2,151,796	1,858,671	1,858,671	-
Maintenance	2,825,000	3,043,976	3,043,976	-
Total local road	<u>4,976,796</u>	<u>4,902,647</u>	<u>4,902,647</u>	<u>-</u>
State trunkline				
State trunkline maintenance	1,500,000	1,749,575	1,749,575	-
State trunkline non-maintenance	800,000	1,547,337	1,547,337	-
Total state trunkline	<u>2,300,000</u>	<u>3,296,912</u>	<u>3,296,912</u>	<u>-</u>
Other				
County drain assessments	7,500	9,413	9,413	-
Equipment expenditures, net	250,000	(495,301)	(495,301)	-
Administrative/engineering expenditures, net	625,000	461,928	462,205	(277)
Capital outlay, net of depreciation	1,150,000	593,471	593,466	5
Total other	<u>2,032,500</u>	<u>569,511</u>	<u>569,783</u>	<u>(272)</u>
<b>Total expenditures</b>	<u>15,061,909</u>	<u>17,702,909</u>	<u>17,703,181</u>	<u>(272)</u>
Revenues over (under) expenditures	<u>(1,516,853)</u>	<u>(3,276,179)</u>	<u>(642,098)</u>	<u>2,634,081</u>
Net changes in fund balance	(1,516,853)	(3,276,179)	(642,098)	2,634,081
<b>Fund balance, beginning of year</b>	<u>14,526,151</u>	<u>14,526,151</u>	<u>14,526,151</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 13,009,298</u>	<u>\$ 11,249,972</u>	<u>\$ 13,884,053</u>	<u>\$ 2,634,081</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, 2025**

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>Total pension liability</b>										
Service cost	\$ 125,690	\$ 171,132	\$ 185,530	\$ 181,390	\$ 190,564	\$ 205,702	\$ 200,152	\$ 229,192	\$ 180,791	\$ 163,445
Interest	853,243	891,675	953,214	997,328	957,184	1,008,462	1,011,374	1,040,666	1,043,206	1,084,930
Changes in benefit terms	-	-	-	-	-	-	-	-	-	-
Changes in assumptions	-	-	-	-	-	-	-	-	-	-
Change in benefits	(5,403)	(10,166)	(4,710)	-	(19,628)	(13,367)	(11,654)	-	40,713	-
Difference between expected and actual experience	18,096	518,676	255,051	(187,144)	16,447	94,043	(443,420)	(120,577)	325,069	(892)
Change in assumptions	588,192	-	-	-	382,467	278,276	512,119	-	109,112	(42,168)
Benefit payments including employee refunds	(792,294)	(794,192)	(810,376)	(863,330)	(883,983)	(847,422)	(830,351)	(977,538)	(1,029,144)	(1,095,784)
Other changes	(5,518)	(7,172)	1,268	(19,581)	30,806	(50,705)	24,893	53,570	-	-
Other	-	-	-	-	-	-	-	-	(46,637)	(46,703)
<b>Net change in total pension liability</b>	<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>	<u>623,110</u>	<u>62,828</u>
<b>Total pension liability, beginning of year</b>	<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>	<u>15,576,618</u>
<b>Total pension liability, ending of year</b>	<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>	<u>\$ 15,576,618</u>	<u>\$ 15,639,446</u>
<b>Plan Fiduciary Net Position</b>										
Contributions-employer	\$ 508,482	\$ 667,663	\$ 1,065,147	\$ 1,135,488	\$ 1,152,526	\$ 676,103	\$ 717,585	\$ 711,683	\$ 777,420	\$ 827,184
Contributions-employee	39,017	121,913	68,858	87,733	205,038	121,826	154,684	132,192	74,691	73,371
Net investment income	662,026	838,774	(299,600)	1,016,274	1,161,479	1,425,633	(1,186,967)	1,145,037	842,377	1,838,790
Benefit payments including employee refunds	(792,294)	(794,192)	(810,376)	(863,330)	(883,983)	(847,422)	(830,351)	(977,538)	(1,029,144)	(1,095,784)
Administrative expense	(13,077)	(13,256)	(14,274)	(17,601)	(17,891)	(16,377)	(21,304)	(24,298)	(25,077)	(24,158)
<b>Net change in plan fiduciary net position</b>	<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>	<u>640,267</u>	<u>1,619,403</u>
<b>Plan fiduciary net position, beginning of year</b>	<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>	<u>11,959,763</u>
<b>Plan fiduciary net position, ending of year</b>	<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>	<u>\$ 11,959,763</u>	<u>\$ 13,579,166</u>
<b>Employer net pension liability</b>	<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>	<u>\$ 3,616,855</u>	<u>\$ 2,060,280</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	55%	59%	56%	66%	75%	81%	70%	76%	77%	87%
<b>Covered employee payroll</b>	\$ 1,256,307	\$ 1,576,491	\$ 1,668,776	\$ 1,609,345	\$ 1,705,930	\$ 1,782,025	\$ 1,766,136	\$ 1,870,670	\$ 1,472,058	\$ 1,388,507
<b>Employer's net pension liability as a percentage of covered employee payroll</b>	408%	322%	338%	273%	202%	155%	249%	194%	246%	148%

**Notes to schedule:**

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

**OTSEGO COUNTY ROAD COMMISSION**  
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**DEFINED BENEFIT PENSION PLAN**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Actuarially determined contributions	\$ 366,192	\$ 437,460	\$ 470,448	\$ 521,628	\$ 552,744	\$ 582,180	\$ 589,000	\$ 576,480	\$ 608,412	\$ 707,184
Contributions in relation to the actuarially determined contribution	<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>	<u>777,420</u>	<u>827,184</u>
Contribution excess (deficiency)	<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>	<u>\$ 169,008</u>	<u>\$ 120,000</u>
Covered employee payroll	\$ 1,256,307	\$ 1,576,491	\$ 1,576,491	\$ 4,952,025	\$ 4,831,208	\$ 4,831,208	\$ 1,766,136	\$ 1,870,670	\$ 1,472,058	\$ 1,388,507
Contributions as a percentage of covered employee payroll	40%	42%	68%	23%	24%	14%	41%	38%	53%	60%
Actuarial cost method	Entry Age									
Amortization method	Level percentage of payroll, open									
Remaining amortization period	15 years									
Asset valuation method	5 year smoothed									
Inflation	2.50%									
Salary increases	3.00% (3.75% for 2015 through 2019)									
Investment rate of return	6.93% (7.00% for 2022-2024, 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									

**OTSEGO COUNTY ROAD COMMISSION**  
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**DEFINED BENEFIT OPEB PLAN**  
**SCHEDULE OF CHANGES IN EMPLOYERS NET OPEB**  
**LIABILITY AND RELATED RATIOS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

	2018	2019	2020	2021	2022	2023	2024	2025
<b>Total OPEB liability</b>								
Service cost	\$ 84,409	\$ 87,279	\$ 73,071	\$ 64,745	\$ 28,150	\$ 16,850	\$ 13,711	\$ 17,284
Interest	208,495	208,114	250,107	173,392	240,238	239,181	225,294	205,149
Experience (Gains/Losses)	-	(141,420)	(1,440,437)	(69,503)	(167,156)	(132,012)	(64,898)	(338,344)
Changes in benefit terms	-	-	-	-	-	-	-	-
Difference between expected and actual experience	-	-	-	-	-	-	-	-
Changes in assumptions	-	(402,224)	239,912	(969,366)	(88,989)	108,799	169,757	(104,500)
Benefit payments including employee refunds	(344,330)	(269,649)	(256,951)	(201,375)	(220,867)	(223,957)	(219,397)	(240,928)
Other	-	-	-	-	-	-	-	-
<b>Net change in total OPEB liability</b>	(51,426)	(517,900)	(1,134,298)	(1,002,107)	(208,624)	8,861	124,467	(461,339)
<b>Total OPEB liability, beginning of year</b>	6,219,971	6,168,545	5,650,645	4,516,347	3,514,240	3,305,616	3,314,477	3,438,944
<b>Total OPEB liability, end of year</b>	\$ 6,168,545	\$ 5,650,645	\$ 4,516,347	\$ 3,514,240	\$ 3,305,616	\$ 3,314,477	\$ 3,438,944	\$ 2,977,605
<b>Plan Fiduciary Net Position</b>								
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	-	21,531
Net investment income	(29,215)	128,666	242,288	253,378	(346,410)	431,853	223,478	416,672
Benefit payments including employee refunds	(344,330)	(269,649)	(256,951)	(201,375)	(220,867)	(223,957)	(219,397)	(240,928)
Administrative expense	(575)	(1,159)	(7,826)	(12,517)	(12,748)	(13,996)	(6,198)	(6,241)
Other	-	-	-	-	-	-	-	-
<b>Net change in plan fiduciary net position</b>	490,210	627,507	1,034,470	574,201	(159,154)	417,857	(2,117)	191,034
<b>Plan fiduciary net position, beginning of year</b>	-	490,210	1,117,717	2,152,187	2,726,388	2,567,234	2,985,091	2,982,974
<b>Plan fiduciary net position, end of year</b>	\$ 490,210	\$ 1,117,717	\$ 2,152,187	\$ 2,726,388	\$ 2,567,234	\$ 2,985,091	\$ 2,982,974	\$ 3,174,008
<b>Employer net OPEB liability</b>	\$ 5,678,335	\$ 4,532,928	\$ 2,364,160	\$ 787,852	\$ 738,382	\$ 329,386	\$ 455,970	\$ (196,403)
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	7.95%	19.78%	47.65%	77.58%	77.66%	90.06%	86.74%	106.60%
<b>Covered employee payroll</b>	Not available	\$ 840,951	\$ 833,246	\$ 842,000	\$ 894,000	\$ 789,396	\$ 2,120,974	\$ 1,101,754
<b>Employer's net OPEB liability as a percentage of covered employee payroll</b>	Not available	539%	284%	94%	83%	42%	21%	-18%

**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, 2025**

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%
12/31/2024	367,114	-	367,114	2,120,974	0%
12/31/2025	267,572	21,531	246,041	1,101,754	2%

**Notes to schedule**

Actuarial cost method	Entry Age
Amortization method	Level dollar, closed
Remaining amortization period	2 year
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% followed by 5.75% graded down to 4.5% by 0.25% per year
Discount rate	6.93%, (6.15% 2024; 7% 2023; 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 2016 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**

Fiscal Year end	Annual money-weighted rate net of investment expense
12/31/2019	17.38%
12/31/2020	15.96%
12/31/2021	10.93%
12/31/2022	-12.26%
12/31/2023	16.82%
12/31/2024	7.49%
12/31/2025	6.77%

**State of Michigan PA 202 information**

Actuarially recommended contributions	\$ 267,572
Minimum required contribution under PA 202	296,562
Actual contribution	21,531
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, 2025**

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	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
<b>Fund balances, beginning of year</b>	\$ 121,369	\$ 2,830,733	\$ 11,574,049	\$ 14,526,151
Revenues	7,288,852	3,487,128	6,285,103	17,061,083
Expenditures	<u>9,087,219</u>	<u>4,845,991</u>	<u>3,769,971</u>	<u>17,703,181</u>
Revenues over (under) expenditures	<u>(1,798,367)</u>	<u>(1,358,863)</u>	<u>2,515,132</u>	<u>(642,098)</u>
Other financing sources (uses)	<u>1,676,998</u>	<u>-</u>	<u>(1,676,998)</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>(121,369)</u>	<u>(1,358,863)</u>	<u>838,134</u>	<u>(642,098)</u>
<b>Fund balances, end of year</b>	<u>\$ -</u>	<u>\$ 1,471,870</u>	<u>\$ 12,412,183</u>	<u>\$ 13,884,053</u>

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

**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
<b>Revenues</b>				
Michigan Transportation Fund				
Engineering	\$ 6,249	\$ 3,751	\$ -	\$ 10,000
Allocation	4,105,215	2,463,985	-	6,569,200
Urban road	482,427	220,947	-	703,374
Snow removal	295,000	175,495	-	470,495
	<u>4,888,891</u>	<u>2,864,178</u>	<u>-</u>	<u>7,753,069</u>
Total Michigan Transportation Fund				
Federal and other state sources				
Surface transportation program	600,153	-	-	600,153
Forest road	85,110	-	-	85,110
Transportation economic development	254,257	-	-	254,257
FEMA disaster relief	-	-	2,526,129	2,526,129
	<u>939,520</u>	<u>-</u>	<u>2,526,129</u>	<u>3,465,649</u>
Total federal and other state sources				
State trunkline maintenance	-	-	1,659,027	1,659,027
State trunkline nonmaintenance	-	-	1,555,837	1,555,837
Local units of government	-	522,945	-	522,945
County millage	1,456,155	-	-	1,456,155
Salvage sales	-	-	2,715	2,715
Interest	4,286	100,005	408,893	513,184
Property rentals	-	-	29,906	29,906
Licenses and permits	-	-	66,359	66,359
Other revenues	-	-	36,237	36,237
	<u>7,288,852</u>	<u>3,487,128</u>	<u>6,285,103</u>	<u>17,061,083</u>
Total Revenues				
Other financing sources (uses)				
Transfer	1,676,998	-	(1,676,998)	-
	<u>1,676,998</u>	<u>-</u>	<u>(1,676,998)</u>	<u>-</u>
Total revenues and other financing sources	<u>\$ 8,965,850</u>	<u>\$ 3,487,128</u>	<u>\$ 4,608,105</u>	<u>\$ 17,061,083</u>

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

**SCHEDULE OF EXPENDITURES**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
<b>Expenditures</b>				
Primary road				
Construction and heavy maintenance	\$ 3,501,916	\$ -	\$ -	\$ 3,501,916
Maintenance	5,431,923	-	-	5,431,923
Local road				
Construction and heavy maintenance	-	1,858,671	-	1,858,671
Maintenance	-	3,043,976	-	3,043,976
State trunkline maintenance	-	-	1,749,575	1,749,575
State trunkline nonmaintenance	-	-	1,547,337	1,547,337
Other				
County drain assessments	-	-	9,413	9,413
Equipment expenditures, net	(145,053)	(220,428)	(129,820)	(495,301)
Administrative expenditures, net	298,433	163,772	-	462,205
Capital outlay net of depreciation	-	-	593,466	593,466
<b>Total expenditures</b>	<u>\$ 9,087,219</u>	<u>\$ 4,845,991</u>	<u>\$ 3,769,971</u>	<u>\$ 17,703,181</u>

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## **SINGLE AUDIT SECTION**



## Vredeveld Haefner LLC

CPAs and Consultants  
10302 20<sup>th</sup> Avenue  
Grand Rapids, MI 49534  
Fax (616) 828-0307

Douglas J. Vredeveld, CPA  
(616) 446-7474  
Michael J. Vredeveld, CPA  
(616) 648-8447

### **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**

May 1, 2026

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, 2025, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated May 1, 2026.

#### **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.

*Uredaxeld Haefner LLC*



## Vredeveld Haefner LLC

CPAs and Consultants  
10302 20<sup>th</sup> Avenue  
Grand Rapids, MI 49534  
Fax (616) 828-0307

Douglas J. Vredeveld, CPA  
(616) 446-7474  
Michael J. Vredeveld, CPA  
(616) 648-8447

### **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

May 1, 2026

Otsego County Road Commission  
Board of Commissioners  
Gaylord, Michigan

#### **Report on Compliance for Each Major Federal Program**

##### ***Opinion on Each Major Federal Program***

We have audited Otsego County Road Commission, Otsego County, Michigan's (the Commission), compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Commission's major federal programs for the year ended December 31, 2025. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Otsego County Road Commission, Otsego County, Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2025.

##### ***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Commission's compliance with the compliance requirements referred to above.

##### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Commission's federal programs.

##### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Commission's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Commission's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Commission's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Commission's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Commission's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

#### **Report on Internal Control over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Uredaveld Haefner LLC*

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

Federal Grantor/Pass-through Grantor/Program Title	Federal Assistance Listing Number	Pass- through Grantor's Number	Approved Grant Award Amount	Expenditures
U.S. Department of Homeland Security Passed through Michigan Department of State Police Disaster Grants - Public Assistance	97.036	137-U07A8-00	\$ 2,526,129	<u>\$ 2,526,129</u>

See notes to schedule of expenditures of federal awards.

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

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1. The Schedule of Expenditures of Federal Awards is prepared in accordance with the modified accrual basis of accounting.
2. Reconciliation of revenues from federal sources per financial statements and expenditures per the Schedule of Expenditures of Federal Awards:

State and Federal grants reported on Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance:

Operating grants and contributions - State transportation funds	\$ 7,753,069
Operating grants and contributions - FEMA disaster relief	2,526,129
Capital grants and contributions - Federal and state sources	<u>939,520</u>
Total grant funding per financial statements	11,218,718
Less:	
Federal portion of MDOT projects not subject to single audit	600,153
State transportation funds	7,753,069
State grants included in federal and state sources	<u>339,367</u>
Agrees to Schedule of Expenditures of Federal Awards	<u>\$ 2,526,129</u>

3. The Road Commission did not elect to use the 15% de minimis cost rate as covered in Uniform Guidance section 2 CFR 200.414 indirect costs.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED DECEMBER 31, 2025**

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ yes	<u>  X  </u> no
Significant deficiency(ies) identified?	_____ yes	<u>  X  </u> none reported
Noncompliance material to financial statements noted?	_____ yes	<u>  X  </u> no

**Federal Awards**

Internal control over major programs:		
Material weakness(es) identified?	_____ yes	<u>  X  </u> no
Significant deficiency(ies) identified?	_____ yes	<u>  X  </u> none reported
Type of auditors' report issued on compliance for major programs	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a) of the Uniform Guidance?	_____ yes	<u>  X  </u> no

Identification of major programs:

Assistance Listing Number(s)

97.036

Name of Federal Program or Cluster

Disaster Grants - Public Assistance

Dollar threshold used to distinguish between Type A and B programs:

\$1,000,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_ yes        X   no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

None

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

**SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS**

None