

Emmet County Road Commission

BASIC FINANCIAL STATEMENTS

December 31, 2023

EMMET COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

Wade Williams
Vice Chairman

Frank Zulski, Jr.
Chairman

Mark W. Hoffman
Member

Robert B. Shank, P.E.
Engineer - Manager

Lisa Kleeman
Finance Director/Clerk

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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MEMBER AICPA DIVISION FOR
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INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Emmet County Road Commission
2265 E. Hathaway Road
Harbor Springs, Michigan 49740

Report on the Audit of the Financial Statements

Opinions

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

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

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 Emmet County Road Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgement 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 Emmet County Road Commission’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Emmet County Road Commission’s ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, employee retirement and benefit systems, and budgetary comparison information on pages 4 through 9, pages 30 through 31 and pages 32 through 33 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquires, 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 Emmet County Road Commission's basic financial statements. The analysis schedules 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 analysis schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2024, on our consideration of the Emmet 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Emmet County Road Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Emmet County Road Commission's internal control over financial reporting and compliance.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

March 15, 2024

Management's Discussion and Analysis

Using This Annual Report

The Emmet County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The statement of net position and the statement of activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question of whether the Road Commission as a whole is better off or worse off as a result of the year's activities. These statements include all assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net position and the changes in them. The reader can think of the Road Commission's net position (the difference between assets, deferred outflows, liabilities, and deferred inflows) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net position is one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the Road Commission's major fund begins on page 12. The fund financial statements begin on page 34 and provide detailed information about the major fund. The Road Commission currently has only one fund, the general operations fund, in which all of the Road Commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission’s net position increased approximately 9% from \$64,905,113 to \$70,748,099 for the year ended December 31, 2023. The net position and change in net position are summarized below.

Unrestricted net position, those items restricted mainly for Act 51 purposes, improved by \$1,525,555. The primary reason for this increase is the current year decrease of trunkline maintenance and other expenses. Also, it is important for the reader to realize that the increase in capital assets is largely a result of Road Commission infrastructure assets.

Net position as of the years ended December 31, 2023 and 2022 are as follows:

	Governmental Activities	
	2023	2022
Current and Other Assets	\$ 5,011,214	\$ 4,796,295
Capital Assets	72,207,280	68,427,895
Total Assets	77,218,494	73,224,190
Deferred Outflows of Resources	637,228	1,118,772
Current Liabilities	1,187,769	1,838,840
Other Liabilities	5,792,455	7,535,310
Total Liabilities	6,980,224	9,374,150
Deferred Inflows of Resources	127,399	63,699
Net Position:		
Net Investment in Capital Assets	69,986,046	65,668,615
Unrestricted (Deficit) for County Road	762,053	(763,502)
Total Net Position	\$ 70,748,099	\$ 64,905,113

A summary of changes in net position for the years ended December 31, 2023 and 2022 are as follows:

	Governmental Activities	
	2023	2022
Program Revenues:		
Charges for Services	\$ 4,143,427	\$ 5,011,070
Operating Grants and Contributions	8,052,005	7,698,929
Capital Grants and Contributions	3,681,653	4,593,366
Interest Earnings	7,699	2,319
General Revenues:		
Gain (Loss) on Equipment Disposal	46,576	165,780
Total Revenues	<u>15,931,360</u>	<u>17,471,464</u>
Program Expenses:		
Primary Road Maintenance	2,183,713	2,021,767
Local Road Maintenance	2,359,005	2,352,399
State Trunkline Maintenance	1,743,278	2,365,470
Net Equipment Expense	674,581	300,527
Net Administrative Expense	662,882	768,275
Other	2,400,419	2,941,340
Interest	64,496	76,044
Total Expenses	<u>10,088,374</u>	<u>10,825,822</u>
Changes in Net Position	5,842,986	6,645,642
Beginning, Net Position	<u>64,905,113</u>	<u>58,259,471</u>
Ending, Net Position	<u>\$ 70,748,099</u>	<u>\$ 64,905,113</u>

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County which are earmarked by law for road and highway purposes.

For the year ended December 31, 2023, the fund balance as listed on page 14 of the general operating fund increased \$584,095 as compared to an increase of \$975,209 in the fund balance for the year ended December 31, 2022.

Total revenues were \$15,931,360, a decrease of \$2,160,045 as compared to last year. This change in revenues resulted primarily from a decrease in federal funding and charges for services.

Total expenditures were \$15,347,265, a decrease of \$1,768,931 as compared to last year. This change in expenditures is primarily due to a decrease in primary road preservation and improvements as well as trunkline maintenance.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget were compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final revenue budget for 2023 was lower than the actual receipts by \$36,426. This was due, in part, to the projection of other revenues.

Road Commission final expenditures were projected at \$15,667,306 while actual expenditures were \$15,347,265. This resulted in total expenditures under budget by \$320,041. The largest share of the variance was from equipment expense.

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2023, and 2022 the Road Commission had invested in capital assets as follows:

	<u>2023</u>	<u>2022</u>
Capital Assets Not Being Depreciated		
Construction in Progress	\$ 129,084	\$ 82,922
Land and Infrastructure Improvements	<u>19,707,772</u>	<u>19,465,411</u>
Total Capital Assets Not Being Depreciated	<u>19,836,856</u>	<u>19,548,333</u>
Capital Assets Being Depreciated		
Buildings and Improvements	6,394,628	6,394,628
Road Equipment	11,889,793	11,286,565
Other Equipment and Assets	889,500	874,746
Infrastructure	<u>68,962,128</u>	<u>63,114,228</u>
Total Capital Assets Being Depreciated	<u>88,136,049</u>	<u>81,670,167</u>
Total Accumulated Depreciation	<u>(35,765,625)</u>	<u>(32,790,605)</u>
Total Net Capital Assets	<u>\$ 72,207,280</u>	<u>\$ 68,427,895</u>
Prior and current year’s major additions included the following:		
Improvements and Construction in Progress	<u>\$ 309,297</u>	<u>\$ 619,087</u>
Various Resurfacing Projects	<u>\$ 6,470,982</u>	<u>\$ 7,893,067</u>
Trucks/Equipment/Buildings	<u>\$ 1,229,477</u>	<u>\$ 1,078,959</u>

Debt Administration

The Road Commission has total long-term debt obligations in the amount of \$2,662,124. The Road Commission has a net pension liability in the amount of \$3,451,565. Debt payments are indicated in Note 9 of the “Notes to Financial Statements” section.

Economic Factors and Next Year’s Budget

The Board of County Road Commissioner’s considered many factors when setting the fiscal year 2024 budget. One of the factors is the economy. The Road Commission derives approximately 50% of its revenues from the fuel tax collected. The economic changes have resulted in stable consumption of fuel and consequently stable Michigan Transportation Funds to be distributed.

The Board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Emmet County’s transportation system. Therefore, the board attempts to spend the public’s money wisely and equitably and in the best interest of the motoring public and the citizens of Emmet County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties with a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Emmet County Road Commission administrative offices at 2265 E. Hathaway Road, Harbor Springs, Michigan.

Basic Financial Statements

Emmet County Road Commission

Statement of Net Position December 31, 2023

ASSETS

Cash and Equivalents	\$	2,324,318
Accounts Receivable:		
Michigan Transportation Fund		1,452,405
State Trunkline Maintenance		141,109
State Transportation - Other		7,417
Sundry Accounts		90,379
Inventories:		
Road Materials		496,795
Equipment, Parts and Materials		372,177
Prepaid Items		126,614
Capital Assets (Not Depreciated)		19,836,856
Capital Assets (Net of Accumulated Depreciation)		52,370,424
Total Assets		<u>77,218,494</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension investment earnings		<u>637,228</u>
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LIABILITIES

Accounts Payable		266,702
Accrued Liabilities		106,519
Advances		483,682
Interest Payable		9,632
Notes & Bonds Payable - Due within one year		321,234
Notes & Bonds Payable - Due in more than one year		1,900,000
Vested Employee Benefits - Due in more than one year		440,890
Net Pension Liability - Due in more than one year		3,451,565
Total Liabilities		<u>6,980,224</u>

DEFERRED INFLOWS OF RESOURCES

Other Grants		<u>127,399</u>
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NET POSITION

Net Investment in Capital Assets		69,986,046
Unrestricted		762,053
Total Net Position	\$	<u><u>70,748,099</u></u>

Emmet County Road Commission

Statement of Activities For the Year Ended December 31, 2023

Program Expenses:	
Primary Road Maintenance and Preventive Maintenance	\$ 2,183,713
Local Road Maintenance and Preventive Maintenance	2,359,005
State Trunkline	1,743,278
Net Equipment Expense	674,581
Net Administrative Expense	662,882
Depreciation - Unallocated	3,340,495
Interest Expense	64,496
Other	(940,076)
Total Program Expenses	<u>10,088,374</u>
Program Revenues:	
Charges for Services:	
Licenses and Permits	81,250
Charges for Services	4,062,177
Operating Grants and Contributions:	
State Grants	7,981,162
Contributions from Local Units	70,843
Interest Earnings	7,699
Capital Grants and Contributions:	
Federal Grants	789,008
Contributions from Local Units	2,892,645
Total Program Revenues	<u>15,884,784</u>
Net Program Revenues (Expenses)	
General Revenues:	
Gain (Loss) on Disposal	<u>46,576</u>
Total General Revenues	<u>46,576</u>
Change in Net Position	5,842,986
Net Position - Beginning Balance	<u>64,905,113</u>
Net Position - Ending Balance	<u>\$ 70,748,099</u>

Emmet County Road Commission

Balance Sheet December 31, 2023

	Governmental Fund Type
	General Operating Fund
ASSETS	
Cash and Equivalents	\$ 2,324,318
Accounts Receivable:	
Michigan Transportation Fund	1,452,405
State Trunkline Maintenance	141,109
State Transportation - Other	7,417
Sundry Accounts	90,379
Inventories:	
Road Materials	496,795
Equipment, Parts and Materials	372,177
Prepaid Items	126,614
Total Assets	<u>\$ 5,011,214</u>
LIABILITIES	
Accounts Payable	\$ 266,702
Accrued Liabilities	106,519
Advances	483,682
Total Liabilities	<u>856,903</u>
DEFERRED INFLOWS OF RESOURCES	
Other Grants	<u>127,399</u>
FUND BALANCE	
Nonspendable	995,586
Unassigned	3,031,326
Total Fund Balance	<u>\$ 4,026,912</u>

Emmet County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Position For the Year Ended December 31, 2023

Total Governmental Fund Balance	\$ 4,026,912
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	72,207,280
Net pension liability requirement.	(3,451,565)
Deferred outflows resulting from investment earnings.	637,228
Interest accrued but not due until the following year.	(9,632)
Other long-term liabilities are not available to pay in the current period and therefore are not reported in the funds.	<u>(2,662,124)</u>
Net Position of Governmental Activities	<u><u>\$ 70,748,099</u></u>

Emmet County Road Commission

Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended December 31, 2023

	Governmental Fund Type
	General Operating Fund
Revenues	
Licenses and Permits	\$ 81,250
Federal Sources	789,008
State Sources	7,981,162
Contributions from Local Units	2,963,488
Charges for Services	1,930,471
Interest Earnings and Rent	7,699
Other Revenue	2,178,282
Total Revenues	<u>15,931,360</u>
Expenditures	
Public Works	14,382,964
Capital Outlay	360,376
Debt Service	603,925
Total Expenditures	<u>15,347,265</u>
Excess of Revenues Over (Under) Expenditures	584,095
Fund Balance - Beginning of Year	<u>3,442,817</u>
Fund Balance - End of Year	<u><u>\$ 4,026,912</u></u>

Emmet County Road Commission

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities For the Year Ended December 31, 2023

Net Change in Fund Balance - Total Governmental Funds \$ 584,095

Amounts reported for governmental activities in the statements are different because:

Governmental funds report capital outlays and infrastructure costs as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. 3,779,385

Repayment of notes payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net position. Proceeds provide current financial resources to governmental funds, but entering into loan agreements increases long-term liabilities in the statement of net position. 538,046

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 governmental funds. 941,460

Net Change in Net Position of Governmental Activities \$ 5,842,986

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Emmet County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Emmet County Road Commission.

A. Reporting Entity

The Emmet County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3-member Board of County Road Commissioners appointed by the County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board No. 61, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Emmet County Road Commission as a discretely presented component unit of Emmet County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

B. 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 activities of the Emmet County Road Commission. There is only one governmental activity reported in the government-wide financial statements.

The statement of net position presents the Road Commission's assets, deferred outflows, liabilities and deferred inflows with the difference being reported as either invested in capital assets or unrestricted net position.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements. The Road Commission has one major fund, the general operating fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government. Under the terms of grant agreements, the Road Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Road Commission's policy to first apply restricted grant resources to such programs, and then general revenues.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund BalanceCash and Equivalents

Cash and equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. All deposits are stated at cost.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid item in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by the Emmet County Road Commission as assets with an initial individual cost of more than \$3,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Land Improvements	5 to 30 years
Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Yard and Storage	4 to 10 years
Engineers' Equipment	4 to 10 years
Office Equipment	4 to 10 years
Depletable Assets	10 to 50 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net position.

Vested Employee Benefits (Vacation and Sick Leave)

In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. Employees are compensated 100% of their vested vacation leave upon death, retirement or resignation. Sick leave vests upon death or retirement. 65% of accumulated unused sick leave will be converted to vacation leave and paid in a lump sum up to a maximum of 520 hours.

Deferred Outflows of Resources

In addition to assets, the statement of net 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 Road Commission has pension items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and governmental funds balance sheet 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 Road Commission has grants that qualify for reporting in this category.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Road Commission is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Road Commission has classified Inventories and Prepaid Items as being Nonspendable as these items are not expected to be converted to cash within the next year.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Road Commission. These amounts cannot be used for any other purpose unless the Road Commission removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the Road Commission's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Road Commission through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Road Commission would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

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 Pension Plan and additions to/deductions from the 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, outflows, liabilities and inflows and affect the disclosure of contingent assets, outflows, liabilities and inflows at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund.

The Road Commission’s Chief Administrative Officer (manager) and Clerk prepare and submit a proposed operating budget to the Board of County Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The Board has authorized the Clerk to amend the Road Commission budget, when necessary, without increasing the overall budget, by transferring up to 25 percent from one-line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements. All budgets lapse at fiscal year end.

NOTE 3 - CASH AND EQUIVALENTS

The cash and equivalents are classified into the following categories:

Petty Cash	\$ 100
Bank Deposits (Checking and Savings Accounts)	<u>2,324,218</u>
Total Cash and Equivalents	<u>\$ 2,324,318</u>

Cash is designated in the amount of \$419,851 for future building and land improvements. The Board also designated \$373,274 for future equipment purchases.

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker’s acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County’s investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

NOTE 3 - CASH AND EQUIVALENTS (Continued)

Interest rate risk. The Road Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Road Commission has no investment policy that would further limit its investment choices.

Custodial investment credit risk. Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Road Commission invests with the County of Emmet and would receive its proportional share of holdings.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. As of year end, \$2,082,246 of the Road Commission's bank balance of \$2,332,246 was exposed to credit risk because it was uninsured and uncollateralized.

Fair value measurement. The Road Commission categorizes its fair value measurements 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. Investments that are measured at fair value using the net asset value per share (or equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Road Commission's assessment of the significance of particular inputs to these fair value measurements required judgment and considers factors specific to each asset or liability.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Emmet County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Emmet County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Emmet County Road Commission's financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Emmet County Road Commission for the current year was as follows:

	Beginning Balances <u>12/31/22</u>	Additions	Adjustments/ Deductions	Ending Balances <u>12/31/23</u>
<i>Capital Assets Not Being Depreciated</i>				
Construction in Progress	\$ 82,922	\$ 66,936	\$ 20,774	\$ 129,084
Land and Improvements	37,094	-	-	37,094
Infrastructure Improvements	<u>19,428,317</u>	<u>242,361</u>	-	<u>19,670,678</u>
Subtotal	<u>19,548,333</u>	<u>309,297</u>	<u>20,774</u>	<u>19,836,856</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	264,252	-	-	264,252
Buildings	6,130,376	-	-	6,130,376
Road Equipment	11,286,565	1,214,723	611,495	11,889,793
Shop Equipment	258,415	-	-	258,415
Office Equipment	94,620	14,754	-	109,374
Engineers' Equipment	53,707	-	-	53,707
Yard and Storage	235,594	-	-	235,594
Depletable Assets	232,410	-	-	232,410
Infrastructure	<u>63,114,228</u>	<u>6,470,982</u>	<u>623,082</u>	<u>68,962,128</u>
Subtotal	<u>81,670,167</u>	<u>7,700,459</u>	<u>1,234,577</u>	<u>88,136,049</u>
<i>Less Accumulated Depreciation</i>				
Land Improvements	159,868	21,180	-	181,048
Buildings	2,578,452	137,895	-	2,716,347
Road Equipment	9,584,347	691,934	611,495	9,664,786
Shop Equipment	223,738	6,419	-	230,157
Office Equipment	90,620	2,246	-	92,866
Engineers' Equipment	53,707	-	-	53,707
Yard and Storage	219,442	9,428	-	228,870
Depletable Assets	86,046	-	-	86,046
Infrastructure	<u>19,794,385</u>	<u>3,340,495</u>	<u>623,082</u>	<u>22,511,798</u>
Subtotal	<u>32,790,605</u>	<u>4,209,597</u>	<u>1,234,577</u>	<u>35,765,625</u>
Net Capital Assets Being Depreciated	<u>48,879,562</u>	<u>3,490,862</u>	-	<u>52,370,424</u>
Capital Assets, Net	<u>\$ 68,427,895</u>	<u>\$ 3,800,159</u>	<u>\$ 20,774</u>	<u>\$ 72,207,280</u>

Depreciation expense was charged to programs of the Emmet County Road Commission as follows:

Equipment Expense	\$ 691,934
Allocated	167,586
Administrative	9,582
Unallocated - Infrastructure	<u>3,340,495</u>
Total Depreciation Expense	<u>\$ 4,209,597</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS

Description of Plan and Plan Assets

The Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees’ Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% or 2.50% times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2022.

General Information about the Pension Plan

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.

General: Closed Division	
	<u>2022 Valuation</u>
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	5 years
Employee Contributions:	2.00%
Act 88:	Yes (Adopted 05/20/1966)
COLA for Future Retirees:	2.50% (non compound)
DC Plan for New Hires	5/15/1998
NonUnion: Closed Division	
	<u>2022 Valuation</u>
Benefit Multiplier:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	3 years
Employee Contributions	2.00%
Act 88:	Yes (Adopted 05/20/1966)
COLA for Future Retirees:	2.50% (non compound)
DC Plan for New Hires:	5/15/1998

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)

Fin Dir/Brd Clrk hrd 7/31/17: Open Division	
	<u>2022 Valuation</u>
Benefit Multiplier:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/30
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	3 years
COLA for Future Retirees:	2.50% (Non-Compound)
Employee Contributions	2%
Act 88:	Yes (Adopted 05/20/1966)

Employees Covered by Benefit Terms

At December 31, 2022, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	40
Inactive employees entitled to but not yet receiving benefits	1
Active employees	<u>6</u>
	47

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission’s competitive bargaining unit and personnel policy, which require employees to contribute to the plan at 2% of wages. The Road Commission is required to contribute at an actuarially determined rate monthly amount of \$95,698.

The monthly contribution rate at January 1, 2023 is as follows:

General	\$32,276
Non Union	\$61,396
Board Clerk	\$2,026

Net Pension Liability

The Road Commission’s net pension liability was measured as of December 31, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2022.

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

Inflation	2.50%
Salary increases	3.00%
Investment rate of return	7.00% net of interest and administrative expense including inflation

Mortality rates used were based on the Pub-2010 General Employees and Healthy Retirees, head count weighted, MP-2019 scale.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of January 1, 2014, through December 31, 2018.

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	60.00%	2.70%
Global Fixed Income	20.00%	.4%
Private Investments	20.00%	1.40%

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

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2022	<u>\$ 17,295,069</u>	<u>\$ 12,395,812</u>	<u>\$ 4,899,257</u>
Service cost	66,904	-	66,904
Interest on total pension liability	1,210,979	-	1,210,979
Changes in benefits	-	-	-
Difference between expected and actual experience	28,686	-	28,686
Changes in assumptions	-	-	-
Employer contributions	-	1,388,126	(1,388,126)
Employee contributions	-	9,069	(9,069)
Net investment income	-	1,377,029	(1,377,029)
Benefit payments, including employee refunds	(1,250,716)	(1,250,716)	-
Administrative expense	-	(29,168)	29,168
Other	(9,205)	-	(9,205)
Net changes	<u>46,648</u>	<u>1,494,340</u>	<u>(1,447,692)</u>
Balances as of December 31, 2023	<u><u>\$ 17,341,717</u></u>	<u><u>\$ 13,890,152</u></u>	<u><u>\$ 3,451,565</u></u>

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the Road Commission, calculated using the discount rate of 7.25%, as well as what the Road Commission’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Change in net pension liability	\$5,149,086	\$3,451,565	\$2,000,284

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued MERS financial report.

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

For the year ended December 31, 2023, the Road Commission recognized pension expense of \$421,978. At December 31, 2023, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	<u>\$ 637,228</u>
Total	<u>\$ 637,228</u>

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

<u>Year Ended December 31,</u>	
2024	\$ 112,399
2025	229,054
2026	390,591
2027	(94,816)

Defined Contribution Pension Plan

The Emmet County Road Commission provides pension benefits to all of its full-time employees hired after May 1998 through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by agreement, the County Road Commission contributes 10% percent of employees’ gross earnings and employee contributions for each employee (plus interest allocated to the employee’s account) are fully vested. Eligible employees are required to contribute 2% of their earnings.

The Emmet County Road Commission’s total payroll during the current year was \$2,689,000. The current year contribution was calculated based on covered payroll of \$2,154,352, resulting in an employer contribution of \$214,232 and employee contributions of \$43,066.

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all Road Commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2023, the federal aid received and expended by the Road Commission was \$789,008 for MDOT contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT’s single audit). Local force account projects are projects where the Road Commission performs the work and would be subject to single audit requirements if they expended \$750,000 or more.

NOTE 8 - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE 9 - LONG-TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

	<u>Beginning Balances 12/31/22</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances 12/31/23</u>	<u>Due Within One Year</u>
Note payable to bank, including interest rate of 2.00%, payable in monthly installments of \$28,249, secured by equipment, maturing in 2024.	\$ 444,280	\$ -	\$ 333,046	\$ 111,234	\$ 111,234
\$3,300,000 Capital Improvement Bonds Payable (Series 2016) to Emmet County, including sliding scale interest rate of 1.1% to 3.05%, maturing in 2032.	<u>2,315,000</u>	<u>-</u>	<u>205,000</u>	<u>2,110,000</u>	<u>210,000</u>
Subtotal	2,759,280	-	538,046	2,221,234	321,234
Vested Employee Benefits	<u>414,819</u>	<u>26,071</u>	<u>-</u>	<u>440,890</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 3,174,099</u>	<u>\$ 26,071</u>	<u>\$ 538,046</u>	<u>\$ 2,662,124</u>	<u>\$ 321,234</u>

During November 2016, the County of Emmet, Michigan issued \$3,300,000 in capital improvement bonds, limited tax general obligation Series 2016. Serial principal payments are remitted annually, and interest is due semi-annually each May and November.

NOTE 9 - LONG-TERM DEBT (Continued)

Annual debt service requirements are as follows:

Year Ending December 31	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2024	\$ 210,000	\$ 55,375	\$ 111,234	\$ 474
2025	215,000	50,326	-	-
2026	220,000	44,887	-	-
2027	230,000	39,035	-	-
2028	235,000	32,757	-	-
2029-2032	<u>1,000,000</u>	<u>60,959</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,110,000</u>	<u>\$ 283,339</u>	<u>\$ 111,234</u>	<u>\$ 474</u>

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, the County Road Commission offers COBRA health care benefits to all retired employees and/or their spouse. The benefit includes the provision that a retiree pays 100% of the cost of the premium. The Road Commission remitted no funds for post-employment benefits during 2023.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants - The Road Commission has received significant financial assistance from state and federal agencies in the form of various grants and maintenance agreements. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Road Commission. In the opinion of management, any such disallowed claims would not have a material effect on any of the financial statements included herein or on the overall financial position of the Road Commission at December 31, 2023.

Risk Management - The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

The Road Commission from time to time is named as a defendant in accident claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. Insurance coverage related to these claims and lawsuits, if any, is categorized under the general liability insurance program. The Commission currently has no pending litigation.

NOTE 12 - IMPLEMENTATION OF GASB STATEMENT NO. 96, SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

In May of 2020, the GASB Statement No. 96, Subscription-Based Information Technology Arrangements, was issued. The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends June 30, 2023. The Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset, or an intangible asset, and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding SBITA. To the extent relevant, the standards for SBITA are based on the standards established in Statement No. 87, Leases, as amended.

The Road Commission implemented GASB Statement No. 96, Subscription-Based Information Technology Arrangements, for the period ending December 31, 2023. There were no subscription-based information technology arrangements held by the Road Commission that meet the definition of recognition under GASB Statement No. 96, therefore, the financial statements have not been affected by such implementation.

Required Supplementary Information

Emmet County Road Commission

**Required Supplementary Information
Employee Retirement and Benefit System
Schedule of Funding Progress
For the Year Ended December 31, 2023**

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total pension liability									
Service cost	\$ 86,656	\$ 77,029	\$ 70,691	\$ 85,429	\$ 77,939	\$ 77,889	\$ 81,825	\$ 72,788	\$ 66,904
Interest	1,070,460	1,090,310	1,128,844	1,102,474	1,107,691	1,090,586	1,153,664	1,158,020	1,210,979
Difference in actual and expected experience	-	(29,666)	(561,974)	(146,445)	374,053	213,314	213,288	125,614	28,686
Changes in assumptions	-	698,065	-	-	-	479,986	477,244	538,937	-
Other adjustments	14,183	(9,644)	(33,736)	20,602	(22,666)	40,640	4,396	46,659	(9,205)
Benefit payments, including refund of member contributions	(907,964)	(943,781)	(912,722)	(968,919)	(1,017,290)	(1,049,329)	(1,099,510)	(1,166,483)	(1,250,716)
Net change in total pension liability	263,335	882,313	(308,897)	93,141	519,727	853,086	830,907	775,535	46,648
Total pension liability - beginning	13,385,922	13,649,257	14,531,570	14,222,673	14,315,814	14,835,541	15,688,627	16,519,534	17,295,069
Total pension liability - ending	<u>\$ 13,649,257</u>	<u>\$ 14,531,570</u>	<u>\$ 14,222,673</u>	<u>\$ 14,315,814</u>	<u>\$ 14,835,541</u>	<u>\$ 15,688,627</u>	<u>\$ 16,519,534</u>	<u>\$ 17,295,069</u>	<u>\$ 17,341,717</u>
Plan fiduciary net position									
Contributions - employer	\$ 925,752	\$ 568,932	\$ 645,673	\$ 818,883	\$ 954,575	\$ 1,010,087	\$ 1,302,856	\$ 1,289,632	\$ 1,388,126
Contributions - employee	14,460	12,619	12,329	12,939	12,280	11,869	11,829	10,485	9,069
Net investment income (loss)	(130,421)	941,856	1,175,824	(385,174)	1,268,413	1,355,363	1,684,816	(1,428,677)	1,377,029
Benefit payments, including refunds of member contributions	(907,964)	(943,781)	(912,722)	(968,919)	(1,017,290)	(1,049,329)	(1,099,510)	(1,166,483)	(1,250,716)
Other adjustments	-	-	-	-	-	-	-	(2)	-
Administrative expense	(18,790)	(18,600)	(18,627)	(19,056)	(21,860)	(21,219)	(19,332)	(25,579)	(29,168)
Net change in plan fiduciary net position	(116,963)	561,026	902,477	(541,327)	1,196,118	1,306,771	1,880,659	(1,320,624)	1,494,340
Plan fiduciary net position - beginning	8,527,675	8,410,712	8,971,738	9,874,215	9,332,888	10,529,006	11,835,777	13,716,436	12,395,812
Plan fiduciary net position - ending	<u>\$ 8,410,712</u>	<u>\$ 8,971,738</u>	<u>\$ 9,874,215</u>	<u>\$ 9,332,888</u>	<u>\$ 10,529,006</u>	<u>\$ 11,835,777</u>	<u>\$ 13,716,436</u>	<u>\$ 12,395,812</u>	<u>\$ 13,890,152</u>
Net pension liability - ending	<u>\$ 5,238,545</u>	<u>\$ 5,559,832</u>	<u>\$ 4,348,458</u>	<u>\$ 4,982,926</u>	<u>\$ 4,306,535</u>	<u>\$ 3,852,850</u>	<u>\$ 2,803,098</u>	<u>\$ 4,899,257</u>	<u>\$ 3,451,565</u>
Plan fiduciary net position as a percentage of the total pension liability	62%	62%	69%	65%	71%	75%	83%	72%	80%
Covered - employee payroll	\$ 733,633	\$ 655,521	\$ 597,089	\$ 650,370	\$ 554,731	\$ 556,837	\$ 593,450	\$ 547,023	\$ 436,132
Net pension liability as a percentage of covered-employee payroll	714%	848%	728%	766%	776%	692%	472%	896%	791%

Emmet County Road Commission

**Required Supplementary Information
Employee Retirement and Benefit System
Schedule of Funding Progress
For the Year Ended December 31, 2023**

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Actuarially determined contribution	\$ 925,752	\$ 568,932	\$ 645,673	\$ 643,656	\$ 713,616	\$ 868,788	\$ 1,062,856	\$ 1,006,860	\$ 1,169,632
Contributions in relation to the actuarially determined contribution	<u>(925,752)</u>	<u>(568,932)</u>	<u>(645,673)</u>	<u>(818,883)</u>	<u>(954,575)</u>	<u>(1,010,087)</u>	<u>(1,302,856)</u>	<u>(1,289,632)</u>	<u>(1,388,126)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (175,227)</u>	<u>\$ (240,959)</u>	<u>\$ (141,299)</u>	<u>\$ (240,000)</u>	<u>\$ (282,772)</u>	<u>\$ (218,494)</u>
Covered - employee payroll	\$ 721,914	\$ 733,633	\$ 655,521	\$ 597,089	\$ 650,370	\$ 554,731	\$ 556,837	\$ 547,023	\$ 436,132
Contributions as a percentage of covered-employee payroll	128%	78%	98%	137%	147%	182%	234%	236%	318%

Notes to Schedule:

Actuarially determined contribution rates are calculated as of December 31st, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	18 years
Asset valuation method	10-years smoothed market
Inflation	2.50%
Discount rate	7.25%
Salary increases	3.00%, average, including inflation
Investment rate of return	7.00%
Retirement age	In the 2020 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience.
Mortality	Assumptions were based on the Pub-2010 General Employees and Healthy Retirees, head count weighted, MP-2019 scale.

Emmet County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues - Budget and Actual For the Year Ended December 31, 2023

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits	\$ 82,000	\$ 85,000	\$ 81,250	\$ (3,750)
Federal Sources				
Surface Transportation Program	-	184,124	351,225	167,101
Other	375,000	375,000	437,783	62,783
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Allocation	6,961,970	7,362,297	7,406,106	43,809
Snow Removal	256,760	269,226	269,226	-
Urban Road	290,082	296,833	295,830	(1,003)
Other	86,255	-	-	-
Contributions from Local Units				
Townships	1,905,900	2,969,768	2,892,645	(77,123)
Other	837,480	754,000	70,843	(683,157)
Charges for Services				
Trunkline Maintenance	1,703,694	1,565,738	1,538,347	(27,391)
Trunkline Nonmaintenance	271,250	372,495	372,577	82
Salvage Sales	7,500	12,950	14,197	1,247
Other	-	-	5,350	5,350
Interest Earnings and Rent	3,000	7,500	7,699	199
Other Revenue				
Gain (Loss) on Equipment Disposal	-	46,550	46,576	26
Other	2,130,000	1,656,305	2,131,706	475,401
Total Revenues	<u>\$ 14,920,891</u>	<u>\$ 15,967,786</u>	<u>\$ 15,931,360</u>	<u>\$ (36,426)</u>

Emmet County Road Commission

Required Supplementary Information
Budgetary Comparison Schedule
Statement of Expenditures - Budget and Actual
For the Year Ended December 31, 2023

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation / Structural Improvements	\$ 3,017,706	\$ 2,745,547	\$ 2,730,801	\$ 14,746
Maintenance	2,129,951	2,257,121	2,172,866	84,255
Local Road				
Preservation / Structural Improvements	3,615,413	4,090,363	4,087,637	2,726
Maintenance	2,334,185	2,395,917	2,310,919	84,998
Trunkline Maintenance	1,653,694	1,398,092	1,370,701	27,391
Trunkline Nonmaintenance	271,250	372,495	372,577	(82)
Administrative Expense - Net	715,098	711,455	662,882	48,573
Equipment Expense - Net	513,131	776,808	674,581	102,227
Capital Outlay - Net	697,107	315,583	360,376	(44,793)
Debt Service				
Principal	538,046	538,046	538,046	-
Interest	65,161	65,879	65,879	-
Total Expenditures	15,550,742	15,667,306	<u>\$ 15,347,265</u>	<u>\$ 320,041</u>
Fund Balance - January 1, 2023	<u>3,442,817</u>	<u>3,442,817</u>		
Total Budget	<u>\$ 18,993,559</u>	<u>\$ 19,110,123</u>		

Supplementary Information

Emmet County Road Commission

Supplementary Information Analysis of Changes in Fund Balance For the Year Ended December 31, 2023

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 8,105,198	\$ 5,615,238	\$ 2,210,924	\$ 15,931,360
Total Expenditures	5,723,897	7,055,723	2,567,645	15,347,265
Excess of Revenues Over (Under) Expenditures	2,381,301	(1,440,485)	(356,721)	584,095
Optional Transfers	(1,440,485)	1,440,485	-	-
Fund Balance - January 1, 2023	3,042,920	-	399,897	3,442,817
Fund Balance - December 31, 2023	<u>\$ 3,983,736</u>	<u>\$ -</u>	<u>\$ 43,176</u>	<u>\$ 4,026,912</u>

Emmet County Road Commission

Supplementary Information Analysis of Revenues For the Year Ended December 31, 2023

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ 14,200	\$ 28,100	\$ 38,950	\$ 81,250
Federal Sources				
Surface Transportation Program	351,225	-	-	351,225
Other	-	253,659	184,124	437,783
State Sources				
Michigan Transportation Fund				
Engineering	6,643	3,357	-	10,000
Allocation	4,920,123	2,485,983	-	7,406,106
Snow Removal	180,381	88,845	-	269,226
Urban Road	217,836	77,994	-	295,830
Contributions from Local Units				
Townships	305,006	2,587,639	-	2,892,645
Other	-	70,843	-	70,843
Charges for Services				
Trunkline Maintenance	-	-	1,538,347	1,538,347
Trunkline Nonmaintenance	-	-	372,577	372,577
Salvage Sales	-	-	14,197	14,197
Other	-	-	5,350	5,350
Interest and Rents				
Interest Earnings	6,775	-	924	7,699
Other Revenue				
Gain (Loss) on Equipment	311	-	46,265	46,576
Other	2,102,698	18,818	10,190	2,131,706
Total Revenues	<u>\$ 8,105,198</u>	<u>\$ 5,615,238</u>	<u>\$ 2,210,924</u>	<u>\$ 15,931,360</u>

Emmet County Road Commission

Supplementary Information Analysis of Expenditures For the Year Ended December 31, 2023

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation / Structural Improvements	\$ 2,730,801	\$ -	\$ -	\$ 2,730,801
Maintenance	2,172,866	-	-	2,172,866
Local Road				
Preservation / Structural Improvements	-	4,087,637	-	4,087,637
Maintenance	-	2,310,919	-	2,310,919
Trunkline Maintenance	-	-	1,370,701	1,370,701
Trunkline Nonmaintenance	-	-	372,577	372,577
Administrative Expense - Net	287,603	375,279	-	662,882
Equipment Expense - Net	215,496	281,888	177,197	674,581
Capital Outlay - Net	317,131	-	43,245	360,376
Debt Service				
Debt Principal Payments	-	-	538,046	538,046
Interest Expense	-	-	65,879	65,879
Total Expenditures	<u>\$ 5,723,897</u>	<u>\$ 7,055,723</u>	<u>\$ 2,567,645</u>	<u>\$ 15,347,265</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

KENNETH A. TALSMA, CPA, PRINCIPAL
AMBER N. MACK, CPA, PRINCIPAL

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MEMBER AICPA DIVISION FOR
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MEMBER MACPA
OFFICES IN MICHIGAN

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

Board of County Road Commissioners
Emmet County Road Commission
2265 E. Hathaway Road
Harbor Springs, Michigan 49740

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and major fund of the Emmet County Road Commission (a component unit of Emmet County, Michigan), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Emmet County Road Commission's basic financial statements and have issued our report thereon dated March 15, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Emmet County Road 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 Emmet County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Emmet County Road Commission's internal control.

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

Board of County Road Commissioners
Emmet County Road Commission

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Emmet County Road 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 statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

March 15, 2024



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of County Road Commissioners
Emmet County Road Commission
2265 E. Hathaway Road
Harbor Springs, Michigan 49740

We have audited the financial statements of the governmental activities and major fund of the Emmet County Road Commission (a component unit of the County of Emmet, Michigan) for the year ended December 31, 2023, and have issued our reports thereon dated March 15, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 26, 2024. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Emmet County Road Commission are described in Note 1 to the financial statements. As described in Note 12 to the financial statements, Emmet County Road Commission changed accounting policies related to subscription-based IT agreements by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 96, *Subscription-Based IT Arrangements* in 2023. The application of existing policies was not changed during fiscal year 2023. We noted no transactions entered into by the Road Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

- Vested Employee Benefits are based on current rates which may differ from rates used at time of distribution.
- Management's estimate of the Annual Pension Contribution, Net Pension Liability and Net Value of Assets were based on actuarial assumptions and estimates.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management had no misstatements. In addition, there were no misstatements detected as a result of audit procedures and corrected by management that were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 15, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves the application of an accounting principle to Emmet County Road Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Emmet County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Comments and Recommendations

Excess Expenditures Over Appropriations (Prior Year)

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit of government shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Road Commission's actual expenditures were in excess of amounts appropriated for certain line items as indicated on the Statement of Expenditures – Budget and Actual.

Status: Corrected

Upcoming Accounting Standards

The GASB has issued the following statements and implementation guides:

1. Statement No. 99, "Omnibus 2023." The requirements related to leases, PPPs, and SBITAs will take effect for financial statements starting with the fiscal year that ends June 30, 2023. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 will take effect for financial statements starting with the fiscal year that ends June 30, 2024.
2. Statement No. 100, "Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends June 30, 2024.
3. Statement No. 101, "Compensated Absences." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends December 31, 2024.

Earlier application of these statements is encouraged. For the original pronouncements and the implementation guides, please visit the GASB's website, www.gasb.org.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, schedule of funding progress, and budgetary comparison schedules, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the analysis schedules which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquires of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of the Emmet County Road Commission, the cognizant audit agencies and other federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

March 15, 2024