

Emmet County Road Commission

BASIC FINANCIAL STATEMENTS

December 31, 2021

EMMET COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

Wade Williams
Vice - Chairman

Frank Zulski, Jr.
Chairman

Mark W. Hoffman
Member

Brian A. Gutowski, P.E.
Engineer - Manager

Lisa Kleeman
Finance Director/Clerk

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor’s Report	1
Management’s Discussion and Analysis	4
Basic Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Balance Sheet.....	12
Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balance	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	15
Notes to Financial Statements	16
Required Supplementary Information:	
Employee Retirement and Benefit System: Schedules of Funding Progress.....	30
Budgetary Comparison Schedule: Statement of Revenues	32
Statement of Expenditures.....	33
Other Information:	
Analysis of Changes in Fund Balances	34
Analysis of Revenues	35
Analysis of Expenditures.....	36
Report on Compliance:	
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 <i>Government Auditing Standards</i>	37
Schedule of Findings and Responses.....	39



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

PHILLIP J. WOLF, CPA
LESLIE A. BOHN, CPA
TORI N. KRUISE, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

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, major fund and the aggregate remaining fund information of the Emmet County Road Commission (a component unit of Emmet County, Michigan) as of and for the year ended December 31, 2021, 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, major fund and the aggregate remaining fund information of the Emmet County Road Commission, as of December 31, 2021, 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 arise 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 procedure 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 standard 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 17, 2022 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 17, 2022

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 13% from \$51,777,178 to \$58,259,471 for the year ended December 31, 2021. The net position and change in net position are summarized below.

Unrestricted net position (deficit), those items restricted mainly for Act 51 purposes, improved by \$1,193,358. The primary reason was an increase in other sources. 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, 2021 and 2020 are as follows:

	Governmental Activities	
	2021	2020
Current and Other Assets	\$ 3,801,284	\$ 3,156,100
Capital Assets	<u>62,743,506</u>	<u>57,749,235</u>
Total Assets	<u>66,544,790</u>	<u>60,905,335</u>
Current Liabilities	1,096,435	1,300,064
Other Liabilities	<u>5,612,715</u>	<u>6,881,072</u>
Total Liabilities	<u>6,709,150</u>	<u>8,181,136</u>
Deferred Inflows of Resources	<u>1,576,169</u>	<u>947,021</u>
Net Position:		
Net Investment in Capital Assets	60,072,801	54,783,866
Unrestricted (Deficit) for County Road	<u>(1,813,330)</u>	<u>(3,006,688)</u>
Total Net Position	<u>\$ 58,259,471</u>	<u>\$ 51,777,178</u>

A summary of changes in net position for the years ended December 31, 2021 and 2020 are as follows:

	Governmental Activities	
	2021	2020
Program Revenues:		
Charges for Services	\$ 5,437,517	\$ 4,342,120
Operating Grants and Contributions	6,134,815	3,494,921
Capital Grants and Contributions	5,157,656	5,456,315
Interest Earned	279	1,528
General Revenues:		
Gain (Loss) on Equipment Disposal	141,266	-
Total Revenues	16,871,533	13,294,884
Program Expenses:		
Primary Road Maintenance	1,951,726	1,282,759
Local Road Maintenance	2,213,536	2,920,140
State Trunkline Maintenance	3,198,073	2,141,584
Net Equipment Expense	370,591	373,802
Net Administrative Expense	581,958	566,044
Other	2,477,568	2,333,445
Interest	(404,212)	68,896
Total Expenses	10,389,240	9,686,670
Changes in Net Position	6,482,293	3,608,214
Beginning, Net Position	51,777,178	48,168,964
Ending, Net Position	\$ 58,259,471	\$ 51,777,178

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, 2021, the fund balance as listed on page 14 of the general operations fund increased \$693,809 as compared to an increase of \$559,930 in the fund balance for the year ended December 31, 2020.

Total revenues were \$17,235,313, an increase of \$3,940,429 as compared to last year. This change in revenues resulted primarily from an increase in local unit funding.

Total expenditures were \$16,541,504, an increase of \$3,806,550 as compared to last year. This change in expenditures is primarily a decrease in capital outlay and local road costs in the current year.

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 2021 was lower than the actual receipts by \$271,623. This was due, in part, to the projection of other revenues.

Road Commission final expenditures were projected at \$16,653,034 while actual expenditures were \$16,541,504. This resulted in total expenditures under budget by \$111,530. The largest share of the variance was from capital outlays.

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2021, and 2020 the Road Commission had invested in capital assets as follows:

	<u>2021</u>	<u>2020</u>
Capital Assets Not Being Depreciated		
Construction in Progress	\$ 258,246	\$ 496,510
Land and Improvements	<u>18,908,472</u>	<u>18,080,696</u>
Total Capital Assets Not Being Depreciated	<u>19,166,718</u>	<u>18,577,206</u>
Capital Assets Being Depreciated		
Buildings and Improvements	6,388,560	6,388,560
Road Equipment	10,366,580	10,228,020
Other Equipment and Assets	874,746	857,244
Infrastructure	<u>55,927,231</u>	<u>49,207,725</u>
Total Capital Assets Being Depreciated	<u>73,557,117</u>	<u>66,681,549</u>
Total Accumulated Depreciation	<u>(29,980,329)</u>	<u>(27,509,520)</u>
Total Net Capital Assets	<u>\$ 62,743,506</u>	<u>\$ 57,749,235</u>
Prior and current year’s major additions included the following:		
Improvements and Construction in Progress	<u>\$ 1,000,466</u>	<u>\$ 479,927</u>
Various Resurfacing Projects	<u>\$ 7,258,050</u>	<u>\$ 5,747,968</u>
Trucks/Equipment/Buildings	<u>\$ 517,430</u>	<u>\$ 288,900</u>

Debt Administration

The Road Commission has total long-term debt obligations in the amount of \$3,165,322. The Road Commission has a net pension liability in the amount of \$2,803,098. 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 2022 budget. One of the factors is the economy. The Road Commission derives approximately 42% 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 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, 2021

ASSETS

Cash and Equivalents	\$	1,356,533
Accounts Receivable:		
Michigan Transportation Fund		1,277,571
State Trunkline Maintenance		247,728
Due on County Road Agreements		6,052
State Transportation - Other		4,629
Sundry Accounts		18,593
Inventories:		
Road Materials		420,479
Equipment, Parts and Materials		358,415
Prepaid Items		111,284
Capital Assets (Not Depreciated)		19,166,718
Capital Assets (Net of Accumulated Depreciation)		43,576,788
Total Assets		<u>66,544,790</u>

LIABILITIES

Accounts Payable		203,617
Due to State		475
Accrued Liabilities		101,995
Advances		423,628
Interest Payable		11,015
Notes & Bonds Payable - Due within one year		355,705
Notes & Bonds Payable - Due in more than one year		2,315,000
Vested Employee Benefits - Due in more than one year		494,617
Net Pension Liability - Due in more than one year		2,803,098
Total Liabilities		<u>6,709,150</u>

DEFERRED INFLOWS OF RESOURCES

Other Grants		603,961
Pension investment earnings		972,208
Total Deferred Inflows of Resources		<u>1,576,169</u>

NET POSITION

Net Investment in Capital Assets		60,072,801
Unrestricted (Deficit)		<u>(1,813,330)</u>
Total Net Position	\$	<u><u>58,259,471</u></u>

Emmet County Road Commission

Statement of Activities For the Year Ended December 31, 2021

Program Expenses:	
Primary Road Maintenance and Preventive Maintenance	\$ 1,951,726
Local Road Maintenance and Preventive Maintenance	2,213,536
State Trunkline	3,198,073
Net Equipment Expense	370,591
Net Administrative Expense	581,958
Depreciation - Unallocated	2,477,568
Interest Expense	81,086
Other	(485,298)
Total Program Expenses	<u>10,389,240</u>
Program Revenues:	
Charges for Services:	
Licenses and Permits	70,850
Charges for Services	5,366,667
Operating Grants and Contributions:	
State Grants	6,068,353
Contributions from Local Units	66,462
Interest Earnings	279
Capital Grants and Contributions:	
Federal Grants	171,245
State Grants	1,215,876
Contributions from Local Units	3,770,535
Total Program Revenues	<u>16,730,267</u>
Net Program Revenues (Expenses)	
General Revenues:	
Gain (Loss) on Disposal	<u>141,266</u>
Total General Revenues	<u>141,266</u>
Change in Net Position	6,482,293
Net Position - Beginning Balance	<u>51,777,178</u>
Net Position - Ending Balance	<u>\$ 58,259,471</u>

Emmet County Road Commission

Balance Sheet December 31, 2021

	Governmental Fund Type
	General Operating Fund
ASSETS	
Cash and Equivalents	\$ 1,356,533
Accounts Receivable:	
Michigan Transportation Fund	1,277,571
State Trunkline Maintenance	247,728
State Transportation - Other	4,629
Due on County Road Agreements	6,052
Sundry Accounts	18,593
Inventories:	
Road Materials	420,479
Equipment, Parts and Materials	358,415
Prepaid Items	111,284
Total Assets	<u>\$ 3,801,284</u>
LIABILITIES	
Accounts Payable	\$ 203,617
Due to State	475
Accrued Liabilities	101,995
Advances	423,628
Total Liabilities	<u>729,715</u>
DEFERRED INFLOWS OF RESOURCES	
Other Grants	<u>603,961</u>
FUND BALANCE	
Nonspendable	890,178
Unassigned	1,577,430
Total Fund Balance	<u>\$ 2,467,608</u>

Emmet County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Position For the Year Ended December 31, 2021

Total Governmental Fund Balance	\$ 2,467,608
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.	62,743,506
Net pension liability requirement.	(2,803,098)
Deferred inflows resulting from investment earnings.	(972,208)
Interest accrued but not due until the following year.	(11,015)
Other long-term liabilities are not available to pay in the current period and therefore are not reported in the funds.	<u>(3,165,322)</u>
Net Position of Governmental Activities	<u><u>\$ 58,259,471</u></u>

Emmet County Road Commission

Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended December 31, 2021

	Governmental Fund Type
	General Operating Fund
Revenues	
Licenses and Permits	\$ 70,850
Federal Sources	171,245
State Sources	7,284,229
Contributions from Local Units	3,836,997
Charges for Services	3,266,273
Interest Earnings and Rent	279
Other Revenue	2,241,660
Other Financing Sources	363,780
Total Revenues	<u>17,235,313</u>
Expenditures	
Public Works	16,176,972
Capital Outlay	(375,723)
Debt Service	740,255
Total Expenditures	<u>16,541,504</u>
Excess of Revenues Over (Under) Expenditures	693,809
Fund Balance - Beginning of Year	<u>1,773,799</u>
Fund Balance - End of Year	<u><u>\$ 2,467,608</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, 2021

Net Change in Fund Balance - Total Governmental Funds \$ 693,809

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. 4,994,271

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. 294,664

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. 499,549

Net Change in Net Position of Governmental Activities \$ 6,482,293

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 no 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 grant and pension items 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, 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 Commission violated provisions of the Act for line items as indicated on page 33.

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	\$	300
Bank Deposits (Checking and Savings Accounts)		<u>1,356,233</u>
Total Cash and Equivalents	\$	<u><u>1,356,533</u></u>

Cash is designated in the amount of \$189,844 for future building and land improvements. The Board also designated \$260,756 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, \$1,125,455 of the Road Commission's bank balance of \$1,625,640 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>12/31/20</u>	Additions	Adjustments/ Deductions	Ending Balances <u>12/31/21</u>
<i>Capital Assets Not Being Depreciated</i>				
Construction in Progress	\$ 496,510	\$ 172,690	\$ 410,954	\$ 258,246
Land and Improvements	37,094	-	-	37,094
Infrastructure Improvements	<u>18,043,602</u>	<u>827,776</u>	-	<u>18,871,378</u>
Subtotal	<u>18,577,206</u>	<u>1,000,466</u>	<u>410,954</u>	<u>19,166,718</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	264,252	-	-	264,252
Buildings	6,124,308	-	-	6,124,308
Road Equipment	10,228,020	499,928	361,368	10,366,580
Shop Equipment	240,913	17,502	-	258,415
Office Equipment	94,620	-	-	94,620
Engineers' Equipment	53,707	-	-	53,707
Yard and Storage	235,594	-	-	235,594
Depletable Assets	232,410	-	-	232,410
Infrastructure	<u>49,207,725</u>	<u>7,258,050</u>	<u>538,544</u>	<u>55,927,231</u>
Subtotal	<u>66,681,549</u>	<u>7,775,480</u>	<u>899,912</u>	<u>73,557,117</u>
<i>Less Accumulated Depreciation</i>				
Land Improvements	117,508	21,180	-	138,688
Buildings	2,301,128	139,429	-	2,440,557
Road Equipment	8,643,675	716,480	361,368	8,998,787
Shop Equipment	212,055	5,175	-	217,230
Office Equipment	86,553	2,067	-	88,620
Engineers' Equipment	53,707	-	-	53,707
Yard and Storage	201,243	8,822	-	210,065
Depletable Assets	86,046	-	-	86,046
Infrastructure	<u>15,807,605</u>	<u>2,477,568</u>	<u>538,544</u>	<u>17,746,629</u>
Subtotal	<u>27,509,520</u>	<u>3,370,721</u>	<u>899,912</u>	<u>29,980,329</u>
Net Capital Assets Being Depreciated	<u>39,172,029</u>	<u>4,404,759</u>	-	<u>43,576,788</u>
Capital Assets, Net	<u>\$ 57,749,235</u>	<u>\$ 5,405,225</u>	<u>\$ 410,954</u>	<u>\$ 62,743,506</u>

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

Equipment Expense	\$ 716,480
Allocated	167,270
Administrative	9,403
Unallocated - Infrastructure	<u>2,477,568</u>
Total Depreciation Expense	<u>\$ 3,370,721</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, 2020.

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	
	2020 Valuation
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%
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	
	2020 Valuation
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%
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>2020 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, 2021, 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>8</u>
	49

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 \$88,423.

The monthly contribution rate at January 1, 2021 is as follows:

General	\$29,961
NonUnion	\$56,917
Board Clerk	\$1,545

Net Pension Liability

The Road Commission’s net pension liability was measured as of December 31, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020.

Actuarial Assumptions. The total pension liability in the December 31, 2020 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	7.35% 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, 2009, through December 31, 2013.

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%	5.25%
Global Fixed Income	20.00%	1.25%
Private Investments	20.00%	7.25%

Discount Rate. The discount rate used to measure the total pension liability was 7.60%. 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, 2020	\$ 15,688,627	\$ 11,835,777	\$ 3,852,850
Service cost	81,825	-	81,825
Interest on total pension liability	1,153,664	-	1,153,664
Changes in benefits	-	-	-
Difference between expected and actual experience	213,288	-	213,288
Changes in assumptions	477,244	-	477,244
Employer contributions	-	1,302,856	(1,302,856)
Employee contributions	-	11,829	(11,829)
Net investment income	-	1,684,816	(1,684,816)
Benefit payments, including employee refunds	(1,099,510)	(1,099,510)	-
Administrative expense	-	(19,332)	19,332
Other	4,396	-	4,396
Net changes	830,907	1,880,659	(1,049,752)
Balances as of December 31, 2021	\$ 16,519,534	\$ 13,716,436	\$ 2,803,098

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 7.60%, 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 (6.60%) or 1-percentage-point higher (8.60%) than the current rate:

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
Change in net pension liability	\$4,439,320	\$2,803,098	\$1,401,996

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, 2021, the Road Commission recognized pension expense of \$817,637. At December 31, 2021, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	<u>\$ 972,208</u>
Total	<u><u>\$ 972,208</u></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>	
2022	\$ (149,352)
2023	(383,127)
2024	(278,192)
2025	(161,537)

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 \$2,554,761. The current year contribution was calculated based on covered payroll of \$1,947,197, resulting in an employer contribution of \$170,616 and employee contributions of \$38,944.

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, 2021, the federal aid received and expended by the Road Commission was \$171,245 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.

	Beginning Balances <u>12/31/20</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balances <u>12/31/21</u>	Due Within <u>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.	\$ -	\$ 363,780	\$ 213,075	\$ 150,705	\$ 150,705
Note payable to bank, including interest rate of 2.00%, payable in monthly installments of \$24,933, secured by equipment, maturing in 2021.	124,226	-	124,226	-	-
\$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.	2,720,000	-	200,000	2,520,000	205,000
\$600,000 State Infrastructure Bank Loan, including interest rate of 2.5%, Payable in annual installments of \$131,013, maturing in 2021.	<u>121,143</u>	<u>-</u>	<u>121,143</u>	<u>-</u>	<u>-</u>
Subtotal	2,965,369	363,780	658,444	2,670,705	355,705
Vested Employee Benefits (1)	<u>508,222</u>	<u>-</u>	<u>13,605</u>	<u>494,617</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 3,473,591</u>	<u>\$ 363,780</u>	<u>\$ 672,049</u>	<u>\$ 3,165,322</u>	<u>\$ 355,705</u>

(1) net decrease

NOTE 9 - LONG-TERM DEBT (Continued)

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.

Annual debt service requirements are as follows:

Year Ending December 31	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2022	\$ 205,000	\$ 64,093	\$ 150,705	\$ 3,014
2023	205,000	59,943	-	-
2024	210,000	55,375	-	-
2025	215,000	50,326	-	-
2026	220,000	44,887	-	-
2027-2031	1,205,000	128,786	-	-
2032	<u>260,000</u>	<u>3,965</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,520,000</u>	<u>\$ 407,375</u>	<u>\$ 150,705</u>	<u>\$ 3,014</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 2021.

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, 2021.

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.

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

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. It is the opinion of management and legal counsel that reasonable estimates of the Road Commission's current liability for these matters, if any, have been recorded.

There are nonaccident liability and condemnation lawsuits currently pending against the Road Commission claiming amounts for damages and relief without stated limitations. It is the opinion of management and legal counsel that reasonable estimates of the Road Commission's current liability for these matters, if any, have been recorded.

NOTE 12 - LEASES

The Road Commission executed a noncancelable operating lease for equipment related to road maintenance operations. Lease terms require a single lease payment of \$127,700 which was remitted on August 11, 2017. Lease expense is amortized monthly through August 2022. Net rental expense was \$25,540.

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, 2021

	2015	2016	2017	2018	2019	2020	2021
Total pension liability							
Service cost	\$ 86,656	\$ 77,029	\$ 70,691	\$ 85,429	\$ 77,939	\$ 77,889	\$ 81,825
Interest	1,070,460	1,090,310	1,128,844	1,102,474	1,107,691	1,090,586	1,153,664
Difference in actual and expected experience	-	(29,666)	(561,974)	(146,445)	374,053	213,314	213,288
Changes in assumptions	-	698,065	-	-	-	479,986	477,244
Other adjustments	14,183	(9,644)	(33,736)	20,602	(22,666)	40,640	4,396
Benefit payments, including refund of member contributions	(907,964)	(943,781)	(912,722)	(968,919)	(1,017,290)	(1,049,329)	(1,099,510)
Net change in total pension liability	263,335	882,313	(308,897)	93,141	519,727	853,086	830,907
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
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>
Plan fiduciary net position							
Contributions - employer	\$ 925,752	\$ 568,932	\$ 645,673	\$ 818,883	\$ 954,575	\$ 1,010,087	\$ 1,302,856
Contributions - employee	14,460	12,619	12,329	12,939	12,280	11,869	11,829
Net investment income (loss)	(130,421)	941,856	1,175,824	(385,174)	1,268,413	1,355,363	1,684,816
Benefit payments, including refunds of member contributions	(907,964)	(943,781)	(912,722)	(968,919)	(1,017,290)	(1,049,329)	(1,099,510)
Administrative expense	(18,790)	(18,600)	(18,627)	(19,056)	(21,860)	(21,219)	(19,332)
Net change in plan fiduciary net position	(116,963)	561,026	902,477	(541,327)	1,196,118	1,306,771	1,880,659
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
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>
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>
Plan fiduciary net position as a percentage of the total pension liability	62%	62%	69%	65%	71%	75%	83%
Covered - employee payroll	\$ 733,633	\$ 655,521	\$ 597,089	\$ 650,370	\$ 554,731	\$ 556,837	\$ 593,450
Net pension liability as a percentage of covered-employee payroll	714%	848%	728%	766%	776%	692%	472%

Emmet County Road Commission

Required Supplementary Information Employee Retirement and Benefit System Schedule of Funding Progress For the Year Ended December 31, 2021

	2015	2016	2017	2018	2019	2020	2021
Actuarially determined contribution	\$ 925,752	\$ 568,932	\$ 645,673	\$ 643,656	\$ 713,616	\$ 868,788	\$ 1,062,856
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>
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>
Covered - employee payroll	\$ 721,914	\$ 733,633	\$ 655,521	\$ 597,089	\$ 650,370	\$ 554,731	\$ 556,837
Contributions as a percentage of covered-employee payroll	128%	78%	98%	137%	147%	182%	234%

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	7.60%
Salary increases	3.00%, average, including inflation
Investment rate of return	7.35%
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, 2021

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits	\$ 60,200	\$ 72,000	\$ 70,850	\$ (1,150)
Federal Sources				
Surface Transportation Program	-	-	5,280	5,280
Other	200,000	164,534	165,965	1,431
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Allocation	6,448,965	6,690,750	6,760,487	69,737
Snow Removal	226,000	237,927	237,927	-
Urban Road	268,707	278,782	274,842	(3,940)
Rural Primary	-	-	973	973
Contributions from Local Units				
City and Village	-	-	80	80
Townships	4,816,589	3,771,562	3,770,535	(1,027)
Other	467,000	467,000	66,382	(400,618)
Charges for Services				
Trunkline Maintenance	1,325,945	1,504,781	1,598,458	93,677
Trunkline Nonmaintenance	39,928	1,655,602	1,653,452	(2,150)
Salvage Sales	2,700	7,800	7,803	3
Other	-	-	6,560	6,560
Interest Earnings and Rent	1,500	250	279	29
Other Revenue				
Gain (Loss) on Equipment Disposal	-	138,273	141,266	2,993
Other	1,534,750	1,600,649	2,100,394	499,745
Other Financing Sources				
Installment Purchases/Leases	1,000,000	363,780	363,780	-
Total Revenues	<u>\$ 16,402,284</u>	<u>\$ 16,963,690</u>	<u>\$ 17,235,313</u>	<u>\$ 271,623</u>

Emmet County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures - Budget and Actual For the Year Ended December 31, 2021

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation / Structural Improvements	\$ 2,571,168	\$ 3,619,509	\$ 3,548,708	\$ 70,801
Maintenance	2,107,962	1,971,632	1,931,665	39,967
Local Road				
Preservation / Structural Improvements	5,467,673	4,344,949	4,347,193	(2,244)
Maintenance	2,488,621	2,218,719	2,185,258	33,461
Trunkline Maintenance	1,275,945	1,516,705	1,544,621	(27,916)
Trunkline Nonmaintenance	39,928	1,655,602	1,653,452	2,150
Administrative Expense - Net	717,067	637,169	581,958	55,211
Equipment Expense - Net	317,492	439,086	370,591	68,495
Capital Outlay - Net	511,700	(490,592)	(375,723)	(114,869)
Debt Service				
Principal	442,260	658,444	658,444	-
Interest	71,470	81,811	81,811	-
Other	-	-	13,526	(13,526)
Total Expenditures	16,011,286	16,653,034	<u>\$ 16,541,504</u>	<u>\$ 111,530</u>
Fund Balance - January 1, 2021	<u>1,773,799</u>	<u>1,773,799</u>		
Total Budget	<u>\$ 17,785,085</u>	<u>\$ 18,426,833</u>		

Other Information

Emmet County Road Commission

Other Information Analysis of Changes in Fund Balance For the Year Ended December 31, 2021

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 7,186,294	\$ 6,166,066	\$ 3,882,953	\$ 17,235,313
Total Expenditures	5,827,307	7,004,157	3,710,040	16,541,504
Excess of Revenues Over (Under) Expenditures	1,358,987	(838,091)	172,913	693,809
Optional Transfers	(838,091)	838,091	-	-
Fund Balance - January 1, 2021	1,667,669	-	106,130	1,773,799
Fund Balance - December 31, 2021	<u>\$ 2,188,565</u>	<u>\$ -</u>	<u>\$ 279,043</u>	<u>\$ 2,467,608</u>

Emmet County Road Commission

Other Information Analysis of Revenues For the Year Ended December 31, 2021

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ 12,075	\$ 28,275	\$ 30,500	\$ 70,850
Federal Sources				
Surface Transportation Program	5,280	-	-	5,280
Other	165,965	-	-	165,965
State Sources				
Michigan Transportation Fund				
Engineering	6,597	3,403	-	10,000
Allocation	4,459,796	2,300,691	-	6,760,487
Snow Removal	157,032	80,895	-	237,927
Urban Road	202,382	72,460	-	274,842
Rural Primary	973	-	-	973
Contributions from Local Units				
City and Village	-	-	80	80
Townships	337,734	3,432,801	-	3,770,535
Other	-	66,382	-	66,382
Charges for Services				
Trunkline Maintenance	-	-	1,598,458	1,598,458
Trunkline Nonmaintenance	-	-	1,653,452	1,653,452
Salvage Sales	-	-	7,803	7,803
Other	-	-	6,560	6,560
Interest and Rents				
Interest Earnings	262	-	17	279
Other Revenue				
Gain (Loss) on Equipment	3,012	-	138,254	141,266
Other	1,835,186	181,159	84,049	2,100,394
Other Financing Sources				
Installment Proceeds	-	-	363,780	363,780
Total Revenues	<u>\$ 7,186,294</u>	<u>\$ 6,166,066</u>	<u>\$ 3,882,953</u>	<u>\$ 17,235,313</u>

Emmet County Road Commission

Other Information Analysis of Expenditures For the Year Ended December 31, 2021

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation / Structural Improvements	\$ 3,548,708	\$ -	\$ -	\$ 3,548,708
Maintenance	1,931,665	-	-	1,931,665
Local Road				
Preservation / Structural Improvements	-	4,347,193	-	4,347,193
Maintenance	-	2,185,258	-	2,185,258
Trunkline Maintenance	-	-	1,544,621	1,544,621
Trunkline Nonmaintenance	-	-	1,653,452	1,653,452
Administrative Expense - Net	265,495	316,463	-	581,958
Equipment Expense - Net	124,418	155,243	90,930	370,591
Capital Outlay - Net	(56,425)	-	(319,298)	(375,723)
Debt Service				
Debt Principal Payments	-	-	658,444	658,444
Interest Expense	-	-	81,811	81,811
Other	13,446	-	80	13,526
Total Expenditures	<u>\$ 5,827,307</u>	<u>\$ 7,004,157</u>	<u>\$ 3,710,040</u>	<u>\$ 16,541,504</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

PHILLIP J. WOLF, CPA
LESLIE A. BOHN, CPA
TORI N. KRUISE, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**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, major fund and aggregate remaining fund information of the Emmet County Road Commission (a component unit of Emmet County, Michigan), as of and for the year ended December 31, 2021, 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 17, 2022.

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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-001 that we consider to be significant deficiencies.

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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2021-001.

Emmet County Road Commission's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Emmet County Road Commission's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Emmet County Road Commission's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 result 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 17, 2022

Significant Deficiencies – Noncompliance with State Statutes

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 2021-001

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

Condition: Our examination of procedures used by the Road Commission to adopt and maintain operating budgets for the Road Commission’s budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budget and Accounting Act.

The Road Commission’s 2021 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2021 expenditures exceeded the board’s approved budget allocations for some general fund activities.

During the fiscal year ended December 31, 2021, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 33 of the financial statements.

Effect: Condition’s may violate State Law.

Cause: Unknown.

Recommendation: We recommend that the Road Commission’s chief administrative officer and personnel responsible for administering the activities of the various funds of the Road Commission, develop budgetary control procedures for the General Fund which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Planned Corrective Action: Amounts will be maintained in the future.

- Contact Person(s) Responsible for Correction:
Brian Gutowski, Manager



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

PHILLIP J. WOLF, CPA
LESLIE A. BOHN, CPA
TORI N. KRUISE, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

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, 2021, and have issued our reports thereon dated March 17, 2022. 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. Professional standards also require that we communicate to you the following information related to our audit.

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

As stated in our engagement letter dated February 22, 2022, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will also perform tests of the Emmet County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis, schedule of funding progress, and budgetary comparison schedules, which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have been engaged to report on the individual schedules which accompany the financial statements but are not RSI. Our responsibility for this other information, as described by professional standards, is to evaluate the presentation of the other information in relation to the financial statements as a whole and to report on whether the other information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our memorandum about planning matters on March 1, 2022.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Emmet County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Road Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the 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 has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreement 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 17, 2022.

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 the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit'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: Some items were under appropriated in fiscal 2021.

Uniform Accounting Procedures Manual for County Road Commissions 2022

In January 2022, the Michigan Department of Treasury, issued a revised "Uniform Accounting Procedures Manual for County Road Commissions." The provisions in the manual are effective for fiscal years ending on September 30, 2023 and thereafter. The manual contains significant changes including implementation of new governmental accounting standards and financial reporting requirements. The board and management should review the provisions included in the revised document and apply those requirements as applicable. The document is available online at treasury's website.

Uniform Chart of Accounts

In April 2017, the State released an updated Uniform Chart of Accounts. On April 20, 2020, the Michigan Department of Treasury issued a memo that established an implementation date for fiscal years ending on October 31, 2022 and thereafter. A final release of the chart of accounts was issued in November 2020 and is available at this link: http://www.michigan.gov/documents/uniformchart_24524_7.pdf. This final version follows statutory changes and reformats the document to make it more user-friendly. Treasury will provide alerts for any guidance and resources, and local units can sign up for alerts at this link:

https://public.govdelivery.com/accounts/MITREAS/subscriber/new?qsp+MITREAS_1.

Upcoming Accounting Standards

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the Road Commission in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the Road Commission. For the complete text of these and other GASB standards, visit www.gasb.org. If you have questions regarding the applicability, timing, or implementation, please contact us.

GASB 87 – Single Approach for Reporting Leases

The Governmental Accounting Standards Board (GASB) issued guidance that establishes a single approach to accounting for and reporting leases by state and local governments. The single approach is based on the principle that leases are financing of the right to use an underlying asset.

GASB Statement No. 87, *Leases*, provides guidance for lease contracts for nonfinancial assets – including vehicles heavy equipment, and buildings – but excludes nonexchange transactions, including donated assets, and leases of intangible assets.

Under the new Statement a lessee government is required to recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. A lessor government is required to recognize (1) a lease receivable and (2) a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements.

A lease also will report the following in its financial statements:

- Amortization expense for using the lease asset (similar to depreciation) over the shorter of the term of the lease or the useful life of the underlying asset.
- Interest expense on the lease liability.
- Note disclosures about the lease, including a general description of the leasing arrangement, the amount of the lease assets recognized, and a schedule of future lease payments to be made.

Limited exceptions to the single-approach guidance are provided for:

- Short-term leases, defined as lasting a maximum of 12 months at inception, including any options to extend.
- Financial purchases
- Certain regulated leases, such as between municipal airports and air carriers.

The full text of Statement 87 is available on the GASB website, www.gasb.org.

GASB Statement No. 96 – Subscription based Information Technology Arrangements

In May 2021, GASB issued Statement No. 96, *Subscription based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) established that a SBITA results in a right-to-use subscription asset – 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 a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2022-2023 fiscal year.

GASB Statement No. 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

This standard had certain aspects impacting defined contribution pension and OPEB plans and other employee benefit plans that were effective immediately. It also clarifies when a 457 plan should be considered a pension plan or another employee benefit plan to assist in the application of GASB Statement No. 84 to these types of plans. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of the statement that relate to 457 plans are effective for the Road Commission's financial statements for the year ending March 31, 2023.

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 our 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 individual schedules which accompany the financial statements but are not RSI. With respect to this other 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