

# **Mecosta County Road Commission**

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## **REPORT ON FINANCIAL STATEMENTS**

(with required supplementary information)

Year ended December 31, 2022

# Mecosta County Road Commission

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## Board of County Road Commissioners

Chairman..... John Currie  
Vice Chairman..... Van Johnson  
Member..... Michael Wernette

### Officials

Superintendent/Manager..... Tim Nestle  
Finance Director..... Amy Kailing

# Mecosta County Road Commission

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## **INDEPENDENT AUDITORS' REPORT**

May 15, 2023

Board of County Road Commissioners  
Mecosta County Road Commission  
120 North DeKrafft Avenue  
Big Rapids, Michigan

### ***Opinions***

We have audited the accompanying financial statements of the governmental activities and the General Fund of Mecosta County Road Commission as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Mecosta County Road Commission's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Mecosta County Road Commission, as of December 31, 2022, 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 Mecosta 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 Mecosta County Road Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute

assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mecosta 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 Mecosta 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 system schedules, and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2023 on our consideration of Mecosta 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 Mecosta 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 Mecosta County Road Commission's internal control over financial reporting and compliance.

*Lake Michigan CPA Services, PLLC*

Ludington, Michigan  
May 15, 2023

# Mecosta County Road Commission

Mecosta County, Michigan

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## Management's Discussion and Analysis

### Using this Annual Report

As management of Mecosta County Road Commission, we offer readers of Mecosta County Road Commission's financial statements, this narrative overview and analysis of financial activities for the year ended December 31, 2022.

### Financial Highlights

The assets and deferred inflows of resources of Mecosta County Road Commission exceeded its liabilities and deferred outflows of resources at the close of the December 31, 2022 fiscal year by \$46,462,982 (net position). The net position increased \$4,906,130, during 2022. The increase in net position can be attributed to several factors, state grants and local contributions, which were used to improve infrastructure within the County.

### Overview of the Financial Statements

The Management's Discussion and Analysis introduces the Road Commission's basic financial statements. The basic financial statements include 1) the government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The Road Commission also includes in this report additional information to supplement the basic financial statements.

#### *Government-Wide Financial Statements*

The government-wide financial statements are designed to give a view of the entity as a whole. These statements provide both long-term and short-term information about the Road Commission's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities and charges.

The Statement of Net Position is the government-wide statement of financial position presenting information that includes all of the Road Commission's assets and liabilities, with the difference reported as net position. Over time, changes in net position may serve as a useful indicator of the financial health of the Road Commission and whether the financial condition is improving or deteriorating.

The Statement of Activities reports how the Road Commission's net position changed during the current fiscal year. All current year revenues and expenses are included when the event giving rise to the change occurs, regardless of the timing of when cash is received or paid. The Statement of Activities is designed to help show the financial reliance of the Road Commission's distinct activities or functions on revenues provided by the Road Commission's taxpayers and intergovernmental revenues.

# Mecosta County Road Commission

Mecosta County, Michigan

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## Management's Discussion and Analysis

### *Fund Financial Statements.*

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Road Commission uses funds to ensure and demonstrate compliance with related laws and regulations. Within the basic financial statements, the fund financial statements focus on the Road Commission's most significant funds, rather than the Road Commission as whole. Major funds are separately reported while all others are combined into an aggregated presentation. Mecosta County Road Commission has one governmental fund, the General Fund, but no business-type funds.

*Fiduciary funds* are reported in the fiduciary fund financial statements, but are excluded from the government-wide financial reporting, as they are used to account for resources held for the benefit of parties other than the Road Commission. Fiduciary fund financial statements report resources that are not available to fund Road Commission programs. Fiduciary fund financial statements report similarly to proprietary funds.

### *Notes to the Financial Statements.*

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

## **Government-wide Financial Analysis**

The net position of the Road Commission may be used as an indicator of a government's overall financial position. As of December 31, 2022, the Road Commission's net position from governmental activities totaled \$46,462,982 which was an increase over the net position of \$41,556,852 at December 31, 2021. The net position of the Road Commission includes assets which are invested in capital assets (i.e., buildings, land, equipment, etc.). These assets are used to provide services to the Road Commission's residents, and they are not available to pay salaries, operational expenses or fund capital projects. Net position invested in capital assets, net of related debt, totaled \$45,124,447 at December 31, 2022. The unrestricted net position at December 31, 2022 depicted a balance of \$1,338,535. The unrestricted balance represents the amount of discretionary resources that can be used for general governmental operations.



## Mecosta County Road Commission

Mecosta County, Michigan

### Management's Discussion and Analysis

The following table presents a summary comparison of the government-wide statement of net position for the last 2 fiscal years:

	December 31, 2022	December 31, 2021	Increase/ (Decrease)
Current assets	\$ 3,371,065	\$ 3,058,944	\$ 312,121
Noncurrent assets	45,285,383	41,927,110	3,358,273
Total Assets	<u>\$ 48,656,448</u>	<u>\$ 44,986,054</u>	<u>\$ 3,670,394</u>
Deferred outflows of resources	\$ 432,756	\$ 519,110	\$ (86,354)
Current liabilities	\$ 627,202	\$ 563,216	\$ 63,986
Noncurrent liabilities	1,608,679	3,002,427	
Total Liabilities	<u>\$ 2,235,881</u>	<u>\$ 3,565,643</u>	<u>\$ (1,329,762)</u>
Deferred inflows of resources	\$ 390,341	\$ 382,669	\$ 7,672
Net Position			
Invested in Capital Assets	45,124,447	41,295,137	3,829,310
Unrestricted	1,338,535	261,715	1,076,820
Total Net Position	<u>\$ 46,462,982</u>	<u>\$ 41,556,852</u>	<u>\$ 4,906,130</u>

#### Capital Assets

The Road Commission's total investment in capital assets as of December 31, 2022 was \$45,272,435. The investment in capital assets includes land, land improvements buildings and equipment, and infrastructure. The following table depicts the composition of capital assets of the Road Commission as of December 31, 2022 and 2021:

	<u>12/31/22</u>	<u>12/31/21</u>
Nondepreciable		
Land	11,607,472	10,182,038
Depreciable		
Buildings and improvements	2,507,592	2,486,780
Road equipment	13,004,729	12,528,245
Other equipment	456,068	443,124
Infrastructure	<u>51,926,251</u>	<u>49,025,515</u>
Total capital assets	67,894,640	64,483,664
Less: Accumulated Depreciation	<u>(34,229,677)</u>	<u>(32,738,592)</u>
Capital assets, net of accumulated depreciation	<u>\$ 45,272,435</u>	<u>\$ 41,927,110</u>

# Mecosta County Road Commission

Mecosta County, Michigan

## Management's Discussion and Analysis

### Long-term debt

The Road Commission has long-term debt consisting of bonds payable totaling \$11,306, which will be paid off in the next fiscal year and notes payable totaling \$136,682.

The change in governmental activities' net position showed an increase of \$4,853,933 during the 2022 fiscal year. The increase was due state and local grant increases and positive pension and other post-employment benefit experience and earnings. The summary of the statement of activities for the years ended December 31, 2022 and 2021 is as follows:

<b>Revenues</b>	<u>12/31/22</u>	<u>12/31/21</u>
Program Revenues		
Charges for services	\$ 57,114	\$ 1,663,745
Operating grants and contributions	1,028,326	7,928,747
Capital grants and contributions	12,862,527	1,883,171
Pension and OPEB experience	931,206	-
Interest and rents	12,147	3,394
Other	52,197	66,642
Total Revenue	<u>14,943,517</u>	<u>11,545,699</u>
<b>Expenses</b>		
Primary roads	1,945,062	2,048,722
Local roads	4,243,167	4,036,507
State trunkline	1,411,998	1,604,344
Net Equipment Expense (Revenue)	(274,745)	(375,723)
Administrative	433,238	254,835
Depreciation - unallocated	2,258,121	2,285,623
Other	-	31,434
Interest	20,546	23,959
Total Expenses	<u>10,037,387</u>	<u>9,909,701</u>
Increase in Net Position	4,906,130	1,635,998
Net Position, January 1	<u>41,556,852</u>	<u>39,920,855</u>
Net Position December 31	<u>\$ 46,462,982</u>	<u>\$ 41,556,853</u>

# Mecosta County Road Commission

Mecosta County, Michigan

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## Management's Discussion and Analysis

### Fund Financial Analysis

The General Fund reported an ending fund balance of \$2,792,616, of which \$1,953,520 was unassigned for continuing Road Commission service requirements and \$839,096 was nonspendable in form, The fund balance of the General Fund increased \$142,280 over the prior year, due partially to state grants.

### General Fund Budgetary Highlights

The Road Commission's originally adopted General Fund budget for the December 31, 2022 fiscal reflected planned revenues of \$10,650,700 and spending of \$10,660,700. The Road Commission made several budget amendments throughout the year, which brought the final revenue budget to \$13,833,391 and expenditures to \$13,897,891. The Road Commission experienced a positive budget variance of \$142,280 in its General Fund.

### Economic Factors and Next Year's Budget

The Board of County Road Commissioner's considered many factors when setting the fiscal year 2023 budget. One of the factors is the economy. The Road Commission derives approximately 60% 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. As an increase in funding occurs, road projects will be increased. The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Mecosta 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 the County.

### Requests for Information

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 Mecosta County Road Commission administrative offices at 120 North DeKrafft Avenue, Big Rapids, Michigan 49307.

# Mecosta County Road Commission

Statement of Net Position  
December 31, 2022

## ASSETS

### CURRENT ASSETS

Cash and cash equivalents	\$	336,463
Investments		504,852
Receivables		
Michigan Transportation Fund		1,470,082
State Trunkline Maintenance		163,852
State other		5,684
Local government contracts		7,560
Other accounts receivable		43,476
Inventory		
Road maintenance		126,745
Parts and materials		712,351
Total current assets		<u>3,371,065</u>

### NONCURRENT ASSETS

Land contract		12,948
Capital assets, not depreciable		11,607,472
Capital assets, net of accumulated depreciation		<u>33,664,963</u>
Total noncurrent assets		<u>45,285,383</u>
Total assets		<u>48,656,448</u>

### DEFERRED OUTFLOWS OF RESOURCES

Pension items		<u>432,756</u>
Total assets and deferred inflows of resources	\$	<u>49,089,204</u>

## LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

### CURRENT LIABILITIES

Accounts payable	\$	266,447
Due to State of Michigan		2,973
Accrued liabilities		43,088
Advances		265,941
Notes payable, due within one year		37,447
Bonds payable, due within one year		11,306
Total current liabilities		<u>627,202</u>

### NONCURRENT LIABILITIES

Notes payable, less current portion		99,235
Vested employee benefits		241,869
Other post employment benefits		649,415
Net pension liability		618,160
Total noncurrent liabilities		<u>1,608,679</u>
Total liabilities		2,235,881

### DEFERRED INFLOWS OF RESOURCES

Pension items		390,341
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### NET POSITION

Net investment in capital assets		45,124,447
Unrestricted		1,338,535
Total net position	\$	<u>46,462,982</u>

The accompanying notes are an integral part of this statement.

# Mecosta County Road Commission

Statement of Activities

For the year ended December 31, 2022

## PROGRAM EXPENSES

Primary Road Maintenance and Preventative Maintenance	1,945,062
Local Road Maintenance and Preventative Maintenance	4,243,167
State Trunkline	1,411,998
Net Equipment Expense	(274,745)
Net Administrative Expense	433,238
Depreciation - Unallocated	2,258,121
Interest Expense	<u>20,546</u>
Total Program Expenses	<u>10,037,387</u>

## PROGRAM REVENUES

Charges for Services	
Licenses and Permits	7,450
Charges for Services	49,664
Operating Grants and Contributions	
State Grants	351,807
Contributions from Local Units	676,519
Capital Grants and Contributions	
State Grants	9,521,358
Contributions from Local Units	3,341,169
Pension experience	416,179
Other post employment benefits experience	515,027
Interest and Rents	<u>12,147</u>
Total Program Revenues	<u>14,891,320</u>

Net Program Revenues (Expenses) 4,853,933

## GENERAL REVENUES

Gain (loss) on Equipment Disposals	<u>52,197</u>
Change in net position	4,906,130
Net position at January 1, 2022	<u>41,556,852</u>
Net position at December 31, 2022	<u>\$ 46,462,982</u>

The accompanying notes are an integral part of this statement.

# Mecosta County Road Commission

Balance Sheet - General Fund  
December 31, 2022

## ASSETS

### ASSETS

Cash and cash equivalents	\$	336,463
Investments		504,852
Receivables		
Michigan Transportation Fund		1,470,082
State Trunkline Maintenance		163,852
State other		5,684
Local government contracts		7,560
Other receivables		43,476
Inventory		
Road maintenance		126,745
Parts and materials		712,351
Land contract		12,948
Total assets	\$	<u>3,384,013</u>

## LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE

### CURRENT LIABILITIES

Accounts payable	\$	266,447
Due to State of Michigan		2,973
Accrued liabilities		43,088
Advances		265,941
Total liabilities		<u>578,449</u>

### DEFERRED INFLOWS OF RESOURCES

Unearned revenue		12,948
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### FUND BALANCE

Nonspendable		839,096
Unassigned		1,953,520
Total fund balance		<u>2,792,616</u>

Total liabilities, deferred inflows of resources and fund balance	\$	<u>3,384,013</u>
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The accompanying notes are an integral part of this statement.

## **Mecosta County Road Commission**

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Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Position  
December 31, 2022

Total fund balance—governmental fund \$ 2,792,616

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 governmental funds. 45,272,435

Net pension liability requirement (618,160)

Other post employment benefits net liability (649,415)

Deferred outflows/inflows resulting from pension experience,  
investments and assumptions 42,415

Long term contracts that are not reported as revenue in the fund 12,948

Long-term liabilities, including notes and bonds payable,  
are not due and payable in the current period  
therefore are not reported and payable in the current  
period and not reported in the governmental funds.

Notes payable (136,682)

Bonds payable (11,306)

Vested employee benefits (241,869)

Net position of governmental activities in the  
Statement of Net Position \$ 46,462,982

The accompanying notes are an integral part of this statement.

# Mecosta County Road Commission

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the year ended December 31, 2022

	General Fund
<b>REVENUES</b>	
Licenses and permits	\$ 7,450
State sources	9,873,165
Contributions from local units	4,017,688
Charges for services	49,664
Investment earnings and rent	12,147
Other revenue	5,111
Total revenues	<u>13,965,225</u>
<b>EXPENDITURES</b>	
Public works	6,835,608
Capital outlay	6,575,604
Debt service	504,531
Total expenditures	<u>13,915,743</u>
Excess of revenues over expenditures	<u>49,482</u>
<b>OTHER FINANCING SOURCES</b>	
Proceeds from sale of assets	<u>92,798</u>
Net change in fund balances	142,280
Fund balance at January 1, 2022	<u>2,650,336</u>
Fund balance at December 31, 2022	<u>\$ 2,792,616</u>

The accompanying notes are an integral part of this statement.



## **Mecosta County Road Commission**

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Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances  
of the governmental funds to the Statement of Activities  
For the year ended December 31, 2022

Net changes in fund balances - governmental fund \$ 142,280

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	6,575,604
Depreciation expense	(3,189,678)

Governmental funds report the proceeds on disposition of assets as current financial resources. However, in the Statement of Activities, a gain or loss on the disposition of assets is recorded as the difference in sale price over the depreciated value of the asset.

Proceeds from sale of fixed assets	(92,798)
Gain on disposition of assets	52,197

Revenues earned but not available as current resources are not reported in the governmental fund (5,111)

Repayment of principal on long-term debt is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position 483,985

Compensated absences are reported in the Statement of Activities on an accrual basis, but are reported in the governmental funds as expenditures when used. (19,436)

Pension experience is not recorded in governmental funds 515,027  
Other post employment benefits experience is not recorded in governmental funds 538,086

Changed to deferred outflows and inflows related to pensions do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (94,026)

Change in net position of governmental activities \$ 4,906,130

The accompanying notes are an integral part of this statement.

# Mecosta County Road Commission

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Statement of Net Position  
Fiduciary Funds  
For the year ended December 31, 2022

	Pension Trust	OPEB Trust	Healthcare Savings	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ <u>306,063</u>	\$ <u>184,073</u>	\$ <u>111,551</u>	\$ <u>601,687</u>
<b>LIABILITIES</b>				
Due to others	\$ <u>306,063</u>	\$ <u>184,073</u>	\$ <u>111,551</u>	\$ <u>601,687</u>

The accompanying notes are an integral part of this statement.

# Mecosta County Road Commission

Statement of Changes in Net Position  
Fiduciary Funds  
For the year ended December 31, 2022

	Pension Trust	OPEB Trust	Healthcare Savings	Total
<b>ADDITIONS</b>				
<b>Investment Earnings</b>				
Contributions - Employer	\$ 63,697	\$ 45,364	\$ 35,400	\$ 144,461
Contributions - Employee	47,163	-	-	47,163
Net Increase (Decrease) in Fair Value of Investments	(44,090)	(17,604)	(15,528)	(77,222)
Total Additions	66,770	27,760	19,872	114,402
<b>DEDUCTIONS</b>				
Benefit payments, including refunds of member contributions	1,655	-	-	1,655
Administrative Fees	15	303	38	356
Total Deductions	1,670	303	38	2,011
Changes in Net Position	65,100	27,457	19,834	112,391
Net Position Restricted for Retiree Benefits				
Beginning of year	240,963	156,616	91,717	489,296
End of Year	\$ 306,063	\$ 184,073	\$ 111,551	\$ 601,687

The accompanying notes are an integral part of this statement.

# **Mecosta County Road Commission**

Notes to the Financial Statements

December 31, 2022

## **I. Summary of significant accounting policies**

The accounting policies of Mecosta County Road Commission have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by Mecosta County Road Commission.

### **A. Reporting entity**

The Mecosta County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), operates under an elected board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. An alternating Road Commissioner is elected biannually to serve a six-year term.

The criteria established by the Governmental Accounting Standards Board 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 Mecosta County Road Commission, a discretely presented component unit of Mecosta 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 nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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

# **Mecosta County Road Commission**

## Notes to the Financial Statements

December 31, 2022

requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for General Fund and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The General 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 General Fund is the only major fund of the Road Commission.

Trust and agency funds are used to account for assets held in a trustee capacity on behalf of retirees for various benefits and reported on the full accrual basis of accounting.

### **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, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. 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. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible 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 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 Commission's policy

# **Mecosta County Road Commission**

## Notes to the Financial Statements

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to first apply cost reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

### **D. Assets, liabilities and net position or equity**

#### ***1. Deposits and investments***

The Road Commission's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The Road Commission has adopted an investment policy in compliance with State of Michigan statutes. Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have office in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. All investments are reported at fair value.

#### ***2. 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.

#### ***3. 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 Mecosta County Road Commission as assets with an initial individual cost of more than \$1,000 and/or an estimated useful life in excess of two 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.

# **Mecosta County Road Commission**

## Notes to the Financial Statements

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Property, plant and equipment of the Road Commission are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	30-50
Road Equipment	5-8
Shop Equipment	10
Engineers' Equipment	3-10
Office Equipment	4-10
Infrastructure – Roads	8-10
Infrastructure - Bridges	12-50

#### ***4. Deferred Outflows of Resources***

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

#### ***5. 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 pension and unearned revenue items that qualify for reporting in this category.

#### ***6. Pensions and Other Post Employment Benefits***

For purposes of measuring the net pension and OPEB liability, deferred outflows of resources and deferred inflows of resources and fringe expense, information about the fiduciary net position of the Plans and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the actuary. 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.

#### ***7. 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.

# **Mecosta County Road Commission**

Notes to the Financial Statements

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## ***8. Vested Employee Benefits***

Beginning with fiscal year 2019, the provisions previously governing sick leave, vacation eligibility, and personal banks were eliminated and replaced with "Paid Leave Time." All previously accrued and earned sick leave banks were frozen. Previously accrued unused time over four hundred (400) hours may be paid out at \$15 per hour to an eligible employee on his/her anniversary date. Paid leave time, in lieu of sick time, will be earned at the rate of seven (7) hours per month of service. Personal leave time cannot be banked. Up to eighty (80) hours can be carried over from one year to the next or annually deposited at the current rate into the deferred compensation plan. Accrued unused personal leave time will be paid at separation from employment except if the employee is terminated for cause. Up to four hundred (400) hours of unused time in the frozen bank will be paid at retirement at the employee's regular straight rate of pay. As of December 31, 2022, the vested employee benefit payable related to personal leave time and the frozen sick banks is \$241,869

## ***9. Net Position Flow Assumption***

Sometimes the Road Commission will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which resources are considered to be applied.

It is the Road Commission's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

## ***10. Fund Balance***

Sometimes the government will fund outlays from both unrestricted and restricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Road Commission's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for a specific purpose.



# **Mecosta County Road Commission**

Notes to the Financial Statements

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In the fund financial statements, governmental funds report fund balance in one of the following categories:

*Nonspendable* fund balances are not spendable in form and are required to be maintained intact.

*Restricted* fund balances are amounts that are constrained to a specific purpose through enabling legislation

*Committed* fund balances are constrained to a specific purpose by the Road Commission through an act of its highest decision-making authority, the Road Commission Board.

*Assigned* fund balances represent amounts that the Road Commission intends to use for a specific purpose.

*Unassigned* fund balances are amounts that are available for any purpose.

## **11. Use of Estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **II. Stewardship, compliance and accountability**

### **Budgetary information**

Budgetary procedures are established pursuant to PA 2 of 1968, as amended, which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Manager prepares a budget in accordance with the Act which is adopted by the Board at a public hearing each December. All budgets lapse at fiscal year end.

# **Mecosta County Road Commission**

Notes to the Financial Statements

December 31, 2022

## **III. Detailed notes on all funds**

### **A. Deposits and investments**

#### ***Interest Rate Risk***

The Road Commission has adopted an investment policy, which is in accordance with the provisions of Public Act 196 of 1997. The policy 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 and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). The Road Commission's investment policy does not further limit its investment options.

#### ***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the magnitude of the Road Commission investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The Road Commission does not have a concentration of credit risk policy.

#### ***Custodial Credit Risk***

Custodial credit risk in the case of deposits is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. State law does not require, and the Road Commission does not have, a deposit policy for custodial credit risk. As of December 31, 2022, \$500,000 of the Road Commission's bank balances were covered by federal depository insurance and \$341,215 was exposed to custodial credit risk because it was uninsured and uncollateralized.

#### ***Foreign currency risk***

The Road Commission is not authorized to invest in securities which have this type of risk.

## Mecosta County Road Commission

Notes to the Financial Statements

December 31, 2022

### B. Capital assets

Capital asset activity for the year ended December 31, 2022 was as follows:

	Balance January 1, 2022	Additions	Dispositions	Balance December 31, 2022
Capital assets, not depreciated:				
Land	\$ 511,588	\$ -	\$ -	\$ 511,588
Land Improvements - Infrastructure	9,670,450	1,425,434	-	11,095,884
Total capital assets, not depreciated	<u>10,182,038</u>	<u>1,425,434</u>	<u>-</u>	<u>11,607,472</u>
Capital assets, being depreciated:				
Buildings	2,486,780	20,812	-	2,507,592
Road Equipment	12,528,245	797,608	321,124	13,004,729
Shop Equipment	236,292	20,336	2,329	254,299
Office Equipment	90,794	1,124	-	91,918
Engineers' Equipment	34,024	-	6,187	27,837
Yard and Storage Equipment	82,014	-	-	82,014
Infrastructure - Bridges	8,758,514	-	495,415	8,263,099
Infrastructure - Roads	40,267,001	4,805,704	1,409,553	43,663,152
Total capital assets, being depreciated	<u>64,483,664</u>	<u>5,645,584</u>	<u>2,234,608</u>	<u>67,894,640</u>
Less accumulated depreciation				
Buildings	1,911,109	41,978	-	1,953,087
Road Equipment	10,246,490	856,854	280,551	10,822,793
Shop Equipment	89,751	20,899	2,329	108,321
Office Equipment	77,394	3,848	-	81,242
Engineers' Equipment	32,099	1,182	6,187	27,094
Yard and Storage Equipment	25,320	6,797	-	32,117
Infrastructure - Bridges	3,519,077	202,220	-	3,721,297
Infrastructure - Roads	16,837,352	2,055,900	1,409,526	17,483,726
Total accumulated depreciation	<u>32,738,592</u>	<u>3,189,678</u>	<u>1,698,593</u>	<u>34,229,677</u>
Net capital assets, being depreciated	<u>31,745,072</u>	<u>2,455,906</u>	<u>536,015</u>	<u>33,664,963</u>
Total governmental capital, net	<u>\$ 41,927,110</u>	<u>\$ 3,881,340</u>	<u>\$ 536,015</u>	<u>\$ 45,272,435</u>

Depreciation expense was charged to the following governmental programs:

Infrastructure – unallocated	\$2,258,121
Equipment expense	927,709
Administrative expense	<u>3,848</u>
Total	<u>\$3,189,678</u>

# **Mecosta County Road Commission**

Notes to the Financial Statements

December 31, 2022

## **B. 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 2.50% times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2021. The valuation date and measurement date are the same.

### 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](http://www.mersofmich.com).

The 2021 Valuation Benefit Provisions are provided as follows:

#### **12 – EEs un, Supv & admin: Closed to new hires**

Benefit Multiplier: 2.00% Multiplier (No 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: 4.70%

Act 88: Yes (Adopted 12/8/1970)

### Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	64
Inactive employees entitled to but not yet receiving benefits	18
Active employees	<u>27</u>
	<u>109</u>

# **Mecosta County Road Commission**

Notes to the Financial Statements

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## 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. The Road Commission is required to contribute at an actuarially determined blended amount for 2022 of \$19,622 per month.

## 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 that date.

## Actuarial Assumptions.

The total pension liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of January 1, 2014, through December 31, 2018. The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Rate of Return</u>
Global Equity	60.00%	5.25%
Global Fixed Income	20.00%	1.25%
Private Investment	20.00%	7.25%

## Mecosta County Road Commission

Notes to the Financial Statements

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### Discount Rate

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

### Changes in the Net Pension Liability:

	<b>Increases (Decreases)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
Balances at December 31, 2020	\$ 11,541,695	\$ 10,385,449	\$ 1,156,246
Service cost	118,765	-	118,765
Interest on total pension liability	847,442	-	847,442
Changes in benefits	-	-	-
Difference between expected and actual experience	(148,795)	-	(148,795)
Changes in assumptions	390,367	-	390,367
Employer contributions	-	260,899	(260,899)
Employee contributions	-	66,672	(66,672)
Net investment income	-	1,418,294	(1,418,294)
Benefit payments, including employee refunds	(901,054)	(901,054)	-
Net Changes	306,725	844,811	(538,086)
Balances as of December 31, 2021	\$ <u>11,848,420</u>	\$ <u>11,230,260</u>	\$ <u>618,160</u>

### Sensitivity of the net pension liability to changes in the discount rate

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

	<u>1% Increase</u>	<u>Current</u>	<u>1% Decrease</u>
Change in Net Pension Liability as of 12/31/2021:	\$ 1,255,391	\$ 0	\$ (1,054,999)

## **Mecosta County Road Commission**

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### 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, the Road Commission recognized pension expense of \$256,106. The Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 148,795	\$ -
Changes in benefits	-	-
Changes in assumptions	-	390,341
Net difference between projected and actual earnings on pension plan investments	-	-
Contributions subsequent to the measurement date	283,961	-
Total	<u>\$ 432,756</u>	<u>\$ 390,341</u>

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

Year ended  
December 31:

2023	\$ 53,347
2024	(342,154)
2025	(235,342)

### Defined Contribution Pension Plan

The Mecosta County Road Commission provides pension benefits to all of its full-time employees hired after December 2018 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 5% percent of employees' gross earnings and employee contributions for each employee (plus interest allocated to the employee's account) are fully vested. The current year contribution resulted in employer contributions of \$63,697 and employee contributions of \$41,163.

# **Mecosta County Road Commission**

Notes to the Financial Statements

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## **C. Other Post Employment Benefits**

The Mecosta County Road Commission provides hospitalization and medical coverage for eligible retirees and their spouses through the Road Commission's group health insurance plan, which covers both active and retired members. The following Governmental Accounting Standards Board Statement 74 and 75 required disclosures have been implemented prospectively by the Road Commission.

For employees hired prior to July 1, 2016, the Road Commission contributes 100% of the premium payments for medical benefits for retired employees, between age 60 and 65. When a retiree attains the age of 65 years, the employer contribution ceases. Employees that retire between the ages of 55 and 60 years may remain in the health insurance benefit group if they reimburse the commission for the cost of medical insurance coverage.

The plan does not issue a separate stand-alone financial statement.

Funding Policy - Contribution requirements also are negotiated between the Commission and employees. The Commission contributes 100% of the cost for eligible plan members.

### Employees Covered by Benefit Terms

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

Active employees	17
Retirees and beneficiaries	<u>10</u>
Total	27

Actuarial assumptions and other inputs - The total OPEB liability was determined by an actuarial valuation as of December 31, 2022 and the following actuarial assumptions, applies to all periods included in the measurement:

Inflation	2.50%
Salary Increases	3.00%
Investment rate of return	3.00%



## Mecosta County Road Commission

Notes to the Financial Statements

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The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return (expected returns, net of retirement plan investment expense 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 rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the retirement plan's target asset allocation are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
MERS Divers Bond Portfolio	100.00%	0.50%

*Discount Rate* - The discount rate used to measure the total OPEB liability was 3.00%. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits based on the 20-year AA/Aa tax-exempt bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated.

	<b>Total OPEB Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net OPEB Liability</b>
Balances at December 31, 2021	\$ 1,321,058	\$ 156,616	\$ 1,164,442
Service cost	56,260	-	56,260
Interest	40,310	-	40,310
Change in benefits	-	-	-
Experience (gains)/losses	(922,333)	-	(922,333)
Change in actuarial assumptions	405,555		405,555
Employer contributions	-	112,725	(112,725)
Net investment income	-	(17,603)	17,603
Benefit payments, including employee refunds	(67,362)	(67,362)	-
Administrative expense	-	(303)	303
Net Changes	(487,570)	27,457	(515,027)
Balances as of December 31, 2022	\$ 833,488	\$ 184,073	\$ 649,415

### Net OPEB Liability – Discount and Trend Rate Sensitivities

The following presents the net OPEB Liability (NOL) of the Road Commission, calculated using discount rates 1% higher and lower than base assumptions:

	<u>1% Increase</u>	<u>Current</u>	<u>1% Decrease</u>
Change in Net Pension Liability as of 12/31/2021:	\$718,197	\$649,415	\$589,389

## Mecosta County Road Commission

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The Road Commission also administers a healthcare savings plan (HCSP.) The HCSP is an employer sponsored savings account which is designed to set aside funds to assist with post employment healthcare costs. Contributions are remitted by active employees and the employer. Once employees leave employment, reimbursement of health care related costs can be requested. For employees hired after July 1, 2016, the Road Commission deposits \$1,200 annually each December for eligible employees to their individual account. For the year ended December 31, 2022, \$35,400 was contributed by the employer to this account.

### **D. Advances**

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. The State also advances amounts for routine maintenance as part of the agreement.

### **E. Long-term debt**

The long-term debt of the Road Commission is summarized as follows:

	<u>Balance</u> <u>01/01/22</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/22</u>	<u>Due within</u> <u>one year</u>
Michigan Transportation Bonds Payable - 2016 Series, serial annual maturity of \$348,000 plus interest at 2.19%, due July 2024	\$ 459,306	\$ -	\$ 448,000	\$ 11,306	\$ 11,306
Installment payable secured by equipment, payable in monthly installments of \$3,158 including interest of 3.99%, due 2023.	<u>172,667</u>	<u>-</u>	<u>35,985</u>	<u>136,682</u>	<u>37,447</u>
Subtotal	631,973	-	483,985	147,988	48,753
Vested Employee Benefits	222,433	19,436	-	241,869	
Total long-term debt	<u><u>854,406</u></u>	<u><u>19,436</u></u>	<u><u>483,985</u></u>	<u><u>389,857</u></u>	<u><u>48,753</u></u>

### **F. Commitments and contingencies**

#### ***1. Risk management***

# **Mecosta County Road Commission**

## Notes to the Financial Statements

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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 (\$2,000 for errors and omissions) for each insured event. The maximum limit of liability for each occurrence is \$10,500,000.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

The Road Commission from time to time is named as a defendant in accident claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. Insurance coverage related to these claims and lawsuits, if any, is categorized under the general liability insurance program. 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.

### ***2. Contingent liabilities***

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

### **G. Date of management review**

In preparing the financial statements, the Road Commission has evaluated events and transactions for potential recognition or disclosure through May 15, 2023, the date the financial statements were available to be issued.

**Required supplementary information**

## Mecosta County Road Commission

Schedule of Changes in Pension Liability  
For the year ended December 31, 2022

	2014	2015	2016	2017	2018	2019	2020	2021
Total pension liability								
Service cost	\$ 136,438	\$ 144,642	\$ 153,526	\$ 169,813	\$ 160,119	\$ 148,089	\$ 128,799	\$ 118,765
Interest on total pension liability	737,684	753,043	785,748	793,484	817,116	836,117	828,740	847,442
Changes in benefits	-	-	-	-	-	(5,413)	-	-
Difference between expected and actual experience	-	(9,411)	(151,218)	101,559	94,224	33,215	(52,264)	(148,795)
Changes in assumptions	-	478,810	-	-	-	314,375	230,130	390,367
Benefit payments, including refunds of member contributions	(694,954)	(689,170)	(665,765)	(733,231)	(795,951)	(859,917)	(867,557)	(901,054)
Net change in total pension liability	179,168	677,918	122,291	331,625	275,508	466,466	267,848	306,725
Total pension liability - beginning	9,220,875	9,400,043	10,077,961	10,200,252	10,531,877	10,807,385	11,273,851	11,541,699
Total pension liability - ending	<u>\$ 9,400,043</u>	<u>\$ 10,077,961</u>	<u>\$ 10,200,252</u>	<u>\$ 10,531,877</u>	<u>\$ 10,807,385</u>	<u>\$ 11,273,851</u>	<u>\$ 11,541,699</u>	<u>\$ 11,848,424</u>
Plan fiduciary net position								
Contributions - employer	\$ 238,323	\$ 273,695	\$ 627,851	\$ 847,632	\$ 571,762	\$ 534,581	\$ 539,926	\$ 260,899
Contributions - employee	71,877	73,111	159,528	86,800	89,117	90,714	76,709	66,672
Net investment income	457,362	(108,012)	788,392	1,054,545	(357,655)	1,153,988	1,194,172	1,434,881
Benefit payments, including refunds of member contributions	(694,954)	(689,170)	(665,765)	(733,231)	(795,951)	(859,917)	(867,557)	(901,054)
Administrative expense	(16,722)	(15,940)	(15,599)	(16,649)	(17,655)	(19,878)	(18,926)	(16,587)
Net change in fiduciary plan net position	55,886	(466,316)	894,407	1,239,097	(510,382)	899,488	924,324	844,811
Plan fiduciary net position - beginning	7,348,945	7,404,831	6,938,515	7,832,922	9,072,019	8,561,637	9,461,125	10,385,449
Plan fiduciary net position - ending	<u>\$ 7,404,831</u>	<u>\$ 6,938,515</u>	<u>\$ 7,832,922</u>	<u>\$ 9,072,019</u>	<u>\$ 8,561,637</u>	<u>\$ 9,461,125</u>	<u>\$ 10,385,449</u>	<u>\$ 11,230,260</u>
Net pension liability - ending	<u>\$ 1,995,212</u>	<u>\$ 3,139,446</u>	<u>\$ 2,367,330</u>	<u>\$ 1,459,858</u>	<u>\$ 2,245,748</u>	<u>\$ 1,812,726</u>	<u>\$ 1,156,250</u>	<u>\$ 618,164</u>
Plan fiduciary net position as a percentage of the total pension liability	79%	69%	77%	86%	79%	84%	90%	95%
Covered - employee payroll	\$ 1,514,566	\$ 1,599,931	\$ 1,680,540	\$ 1,862,152	\$ 1,741,100	\$ 1,704,126	\$ 1,392,422	\$ 1,290,922
Covered - employee payroll percentage of covered-employee payroll	132%	196%	141%	78%	129%	106%	83%	48%

## Mecosta County Road Commission

Schedule of Employer Contributions  
For the year ended December 31, 2022

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Actuarial determined contribution	\$ 130,498	\$ 166,322	\$ 188,432	\$ 207,374	\$ 206,465	\$ 202,359	\$ 213,396	\$ 235,462
Contributions in relation to the actuarially determined contribution	<u>(202,498)</u>	<u>(234,322)</u>	<u>(273,695)</u>	<u>(778,583)</u>	<u>(571,762)</u>	<u>(534,581)</u>	<u>(539,926)</u>	<u>(260,899)</u>
Contribution deficiency (excess)	<u>\$ (72,000)</u>	<u>\$ (68,000)</u>	<u>\$ (85,263)</u>	<u>\$ (571,209)</u>	<u>\$ (365,297)</u>	<u>\$ (332,222)</u>	<u>\$ (326,530)</u>	<u>\$ (25,437)</u>
Covered - employee payroll	\$ 1,514,566	\$ 1,599,931	\$ 1,680,540	\$ 1,862,152	\$ 1,741,100	\$ 1,704,126	\$ 1,392,422	\$ 1,290,922
Contributions as a percentage of covered payroll	13%	15%	16%	42%	33%	31%	39%	20%

**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	0.025
Salary increases	0.03
Investment rate of return	7.67%, net of interest and administrative expense including inflation
Mortality	Assumptions were based on the Pub-2010 General Employees and Healthy Retirees, head-count weighted, MP-2019 scale

## Mecosta County Road Commission

Schedule of Changes in OPEB Liability and Related Ratios  
For the year ended December 31, 2022

	2018	2019	2020	2021	2022
<b>Total OPEB Liability - Beginning of Year</b>	\$ 1,317,223	\$ 1,313,165	\$ 1,390,057	\$ 1,270,820	\$ 1,321,058
Changes in benefits	32,871	126,355	(61,289)	106,348	-
Changes in actuarial assumptions	-	-	-	-	405,555
Service cost and interest	-	-	-	-	96,570
Experience (gains)/losses	-	-	-	-	(922,333)
Benefit payments	(36,929)	(49,463)	(57,948)	(56,110)	(67,362)
<b>Total OPEB Liability - End of Year</b>	<u>1,313,165</u>	<u>1,390,057</u>	<u>1,270,820</u>	<u>1,321,058</u>	<u>833,488</u>
<b>Plan fiduciary net position</b>					
Employer contributions	36,929	77,375	115,896	112,057	112,725
Net investment income	-	1,424	8,534	5,204	(17,603)
Benefits payments, including refunds of member contributions	(36,929)	(49,463)	(57,948)	(56,110)	(67,362)
Administrative expense	-	(21)	(103)	(229)	(303)
<b>Net change in plan fiduciary net position</b>	-	29,315	66,379	60,922	27,457
<b>Plan fiduciary net position - Beginning of Year</b>	-	-	29,315	95,694	156,616
<b>Plan fiduciary net position - End of Year</b>	<u>-</u>	<u>29,315</u>	<u>95,694</u>	<u>156,616</u>	<u>184,073</u>
<b>Net OPEB liability - End of Year</b>	<u>\$ 1,313,165</u>	<u>\$ 1,360,742</u>	<u>\$ 1,175,126</u>	<u>\$ 1,164,442</u>	<u>\$ 649,415</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	2.11%	7.53%	11.86%	22.08%
Covered Payroll	\$ 1,548,532	\$ 1,447,140	\$ 1,206,315	\$ 1,041,074	\$ 1,072,038
Net OPEB liability as a percentage of covered payroll	84.80%	94.03%	97.41%	111.85%	60.58%
<b>Schedule of Employer Contributions:</b>					
Actuarially determined contribution (ADC)	36,929	46,335	57,948	57,948	57,948
Employer contribution	(36,929)	(77,375)	(115,896)	(112,057)	(112,725)
Contribution Deficiency/(Excess)	<u>-</u>	<u>(31,040)</u>	<u>(57,948)</u>	<u>(54,109)</u>	<u>(54,777)</u>
ADC as percentage of covered payroll	2.38%	3.20%	4.80%	5.57%	5.41%
Contribution as percentage of covered payroll	2.38%	5.35%	9.61%	10.76%	10.52%

**Notes to Schedule:**

Actuarially determined contribution rates are calculated as of December 31, 2022

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal (level percentage of compensation)	
Asset valuation method	Market Value	
Discount rate		3.00%
Salary increases		3.00%
Investment rate of return		3.00%
Mortality	2010 Public General Employees and Healthy Retirees	

# Mecosta County Road Commission

Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
For the year ended December 31, 2022

REVENUES	Budgeted Amounts		Actual	Variance with final budget- positive/ (negative)
	Original	Final		
Licenses and permits	\$ -	-	\$ 7,450	\$ 7,450
Federal sources	-	-	736,284	736,284
State sources	8,898,000	9,745,607	9,873,165	127,558
Contributions from local units	1,703,000	4,019,034	3,281,404	(737,630)
Charges for services	11,000	25,000	49,664	24,664
Investment earnings and rent	3,700	7,500	12,147	4,647
Other revenue	35,000	36,250	5,111	(31,139)
Total revenues	10,650,700	13,833,391	13,965,225	131,834
<b>EXPENDITURES</b>				
Public works				
Maintenance primary roads	1,838,600	1,900,000	1,893,570	6,430
Maintenance local roads	3,546,700	4,300,000	4,243,167	56,833
Trunkline maintenance	1,100,000	1,425,000	1,411,998	13,002
Trunkline nonmaintenance	25,000	51,492	51,492	-
Equipment, net of equipment rent	(1,505,500)	(1,370,850)	(1,206,303)	(164,547)
Administration	449,900	430,000	441,684	(11,684)
Capital outlay				
Equipment and buildings	1,200,000	991,999	839,881	152,118
Infrastructure heavy maintenance	3,246,000	5,655,000	5,735,723	(80,723)
Debt service				
Principal	700,000	494,500	483,985	10,515
Interest	60,000	20,750	20,546	204
Other - Contingency	80,000	-	-	-
Total expenditures	10,660,700	13,897,891	13,915,743	(17,852)
Excess of revenues over expenditures	(10,000)	(64,500)	49,482	113,982
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	10,000	64,500	92,798	28,298
Net other financing sources (uses)	10,000	64,500	92,798	28,298
Net change in fund balance	\$ -	\$ -	142,280	\$ 142,280
Fund balance at January 1, 2022			2,650,336	
Fund balance at December 31, 2022			\$ 2,792,616	



**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**

May 15, 2023

Board of Trustees  
Mecosta County Road Commission  
Big Rapids, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of Mecosta County Road Commission, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Mecosta County Road Commission's basic financial statements, and have issued our report thereon dated May 15, 2023.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Berrien Conservation District's internal control over financial reporting (internal control) to determine the 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 Mecosta County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Mecosta 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Report on Compliance and Other Matters

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

### Purpose of this Report

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

A handwritten signature in cursive script that reads "Lake Michigan CPA Services, PLLC".

Ludington, Michigan  
May 15, 2023