

**Benzie County Road Commission**

**BASIC FINANCIAL STATEMENTS**

**September 30, 2020**

**BENZIE COUNTY**

**BOARD OF COUNTY ROAD COMMISSIONERS**

James Bowers  
Vice - Chairman

Robert Rosa  
Chairman

Ted Mick  
Member

Matthew Skeels  
Manager

Joe Nedow  
Financial Manager/Clerk

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**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

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MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

Board of County Road Commissioners  
Benzie County Road Commission  
Honor, Michigan 49640

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, major fund and the aggregate remaining fund information of the Benzie County Road Commission (a component unit of Benzie County, Michigan) as of and for the year ended September 30, 2020, and related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major fund and aggregate fund information of the Benzie County Road Commission, as of September 30, 2020, 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.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, employee retirement and benefits systems and budgetary comparison schedules on pages 4 through 8, pages 34 through 37 and pages 38 through 39 be presented to supplement the basic financial statements. Such information, 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.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Benzie County Road Commission's financial statements. The schedules of analysis are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Board of County Road Commissioners  
Benzie County Road Commission

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2020 on our consideration of the Benzie 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 Benzie 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 Benzie County Road Commission's internal control over financial reporting and compliance.



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

December 15, 2020

## **Management's Discussion and Analysis**

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### Using This Annual Report

The Benzie 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 of 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 11. The fund financial statements begin on page 42 and provide detailed information about the major fund. The Road Commission currently has two funds, the general operations fund, in which all of the Road Commission's activities are accounted and a Fiduciary Fund. 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.
- Fiduciary fund – The Road Commission is trustee, or fiduciary, for its employees' health benefit plan. The Road Commission is responsible for ensuring that the assets reported in the fiduciary funds are used for their intended purposes. All of the Road Commission's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the Road Commission's government-wide financial statements because the Road Commission cannot use these assets to finance its operations.

**The Road Commission as a Whole**

The Road Commission's net position increased 10.96% from \$18,809,543 to \$20,870,486 for the year ended September 30, 2020. The net position and change in net position are summarized below.

Restricted net position, those restricted mainly for Act 51 purposes, decreased \$44,006. The primary reason for this was an increase in OPEB obligations. The investment in capital assets category increased \$2,104,949 due to infrastructure costs.

Net position as of the year ended September 30, 2020 and 2019 is as follows:

|                                  | <u>Governmental<br/>Activities<br/>2020</u> | <u>Governmental<br/>Activities<br/>2019</u> |
|----------------------------------|---|---|
| Current and Other Assets         | \$ 3,843,099                                | \$ 4,086,820                                |
| Capital Assets                   | <u>21,915,351</u>                           | <u>19,944,667</u>                           |
| Total Assets                     | <u>25,758,450</u>                           | <u>24,031,487</u>                           |
| Deferred Outflows of Resources   | <u>921,318</u>                              | <u>920,838</u>                              |
| Current Liabilities              | 805,705                                     | 597,616                                     |
| Other Liabilities                | <u>4,948,004</u>                            | <u>5,518,115</u>                            |
| Total Liabilities                | <u>5,753,709</u>                            | <u>6,115,731</u>                            |
| Deferred Inflows of Resources    | <u>55,573</u>                               | <u>27,051</u>                               |
| Net Position                     |   |   |
| Net Investment in Capital Assets | 21,650,260                                  | 19,545,311                                  |
| Restricted (Deficit)             | <u>(779,774)</u>                            | <u>(735,768)</u>                            |
| Total Net Position               | <u>\$ 20,870,486</u>                        | <u>\$ 18,809,543</u>                        |

A summary of changes in net position for the year ended September 30, 2020 and 2019 is as follows:

|   | <u>Governmental<br/>Activities</u><br><u>2020</u> | <u>Governmental<br/>Activities</u><br><u>2019</u> |
|---|---|---|
| Program Revenues                                      |   |   |
| Charges for Services                                  | \$ 1,212,855                                      | \$ 1,328,542                                      |
| Operating Grants, Capital Grants<br>and Contributions | 5,380,858   | 5,554,803   |
| General Revenues                                      |   |   |
| Taxes   | 1,126,947   | 1,093,605   |
| Interest and Rents                                    | 32,100  | 36,361  |
| Gain (Loss) on Disposal                               | <u>10,250</u>                                     | <u>61,118</u>                                     |
| <b>Total Revenues</b>                                 | <u><u>7,763,010</u></u>                           | <u><u>8,074,429</u></u>                           |
| Program Expenses                                      |   |   |
| Primary Roads   |   |   |
| Maintenance   | 1,481,591   | 1,270,383   |
| Local Roads   |   |   |
| Maintenance   | 1,957,098   | 2,012,159   |
| State Trunkline                                       | 975,241   | 974,945   |
| Equipment   | 229,399   | 276,446   |
| Administrative  | 437,708   | 385,479   |
| Depreciation – Unallocated                            | 1,109,003   | 1,089,682   |
| Interest Expense                                      | 14,698  | 13,217  |
| Other   | <u>(502,671)</u>                                  | <u>(146,578)</u>                                  |
| <b>Total Expenses</b>                                 | <u><u>5,702,067</u></u>                           | <u><u>5,875,733</u></u>                           |
| <b>Changes in Net Position</b>                        | 2,060,943   | 2,198,696   |
| <b>Net Position - Beginning</b>                       | <u>18,809,543</u>                                 | <u>16,610,847</u>                                 |
| <b>Net Position – Ending</b>                          | <u><u>\$ 20,870,486</u></u>                       | <u><u>\$ 18,809,543</u></u>                       |

**The Road Commission’s Fund**

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

For the year ended September 30, 2020, the fund balance of the general operations fund decreased \$546,677 as compared to an increase of \$1,193,431 in the fund balance for the year ended September 30, 2019. Total revenues were \$7,763,010, a decrease of \$359,920 as compared to last year. This change in revenues resulted primarily from a decrease in charges for services.

Total expenditures were \$8,309,687, an increase of \$1,380,188 as compared to last year. This change in expenditures is primarily an increase in preservation activities and capital outlays. The Road Commission experienced an increase in primary and local road expenditures as well.

**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 was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

**Capital Asset and Debt Administration**

Capital Assets

As of September 30, 2020 and 2019, the Road Commission had the following invested in capital assets as follows:

|  | <u>2020</u>          | <u>2019</u>          |
|--|----------------------|----------------------|
| Capital Assets Not Being Depreciated   |                      |                      |
| Land and Improvements                  | \$ 1,699,861         | \$ 1,699,861         |
| Capital Assets Being Depreciated       |                      |                      |
| Buildings and Improvements             | 1,356,346            | 1,170,808            |
| Road Equipment                         | 6,995,848            | 6,218,584            |
| Shop Equipment                         | 166,256              | 166,256              |
| Office Equipment                       | 75,585               | 75,585               |
| Engineer’s Equipment                   | 39,345               | 39,345               |
| Yard and Storage                       | 443,174              | 443,174              |
| Infrastructure                         | <u>25,338,434</u>    | <u>23,025,460</u>    |
| Total Capital Assets Being Depreciated | <u>34,414,988</u>    | <u>31,139,212</u>    |
| Total Accumulated Depreciation         | <u>(14,199,498)</u>  | <u>(12,894,406)</u>  |
| Total Net Capital Assets               | <u>\$ 21,915,351</u> | <u>\$ 19,944,667</u> |

Current year’s major additions included the following:

|                              |              |              |
|------------------------------|--------------|--------------|
| Buildings                    | \$ 185,538   | \$ 8,732     |
| Various Resurfacing Projects | \$ 2,747,460 | \$ 2,208,161 |
| Trucks/Equipment             | \$ 813,260   | \$ 379,396   |

**Debt**

The Road Commission also has long-term debt in the amount of \$4,984,621 which represents notes payable, vested employee benefits payable, other post employment benefits, and net pension liability.

### **Economic Factors and Next Year's Budget**

The Board of County Road Commissioners considered many factors when setting the fiscal year 2021 budget. One of the factors is the economy, another factor is fuel prices. The Road Commission derives approximately 70% of its revenues from the fuel tax collected. The State of Michigan's economic stabilization has resulted in stable consumption of fuel and consequently more 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 Benzie 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 Benzie 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 Benzie County Road Commission administrative offices at 11318 Main Street, P.O. Box 68, Honor, Michigan.

## **Basic Financial Statements**

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# Benzie County Road Commission

## Statement of Net Position September 30, 2020

### ASSETS

|  |                   |
|--|-------------------|
| Cash and Equivalents                             | \$ 2,610,224      |
| Accounts Receivable:                             |                   |
| Michigan Transportation Fund                     | 368,419           |
| State Trunkline Maintenance                      | 81,670            |
| Due on County Road Agreements                    | 209,273           |
| State Transportation - Other                     | 20,668            |
| Sundry Accounts                                  | 19,319            |
| Inventories:                                     |                   |
| Road Materials                                   | 247,745           |
| Equipment, Parts and Materials                   | 187,594           |
| Prepaid Items                                    | 98,187            |
| Capital Assets (Not Depreciated)                 | 1,699,861         |
| Capital Assets (Net of Accumulated Depreciation) | <u>20,215,490</u> |
| Total Assets                                     | <u>25,758,450</u> |

### DEFERRED OUTFLOWS OF RESOURCES

|                      |                |
|----------------------|----------------|
| Pension & OPEB Items | <u>921,318</u> |
|----------------------|----------------|

### LIABILITIES

|  |                  |
|--|------------------|
| Accounts Payable   | 375,076          |
| Accrued Liabilities  | 32,112           |
| Advances   | 361,900          |
| Notes Payable - Due within one year                        | 36,617           |
| Notes Payable - Due in more than one year                  | 228,474          |
| Vested Employee Benefits - Due in more than one year       | 86,103           |
| Other Post Employment Benefits - Due in more than one year | 438,579          |
| Net Pension Liability - Due in more than one year          | <u>4,194,848</u> |
| Total Liabilities  | <u>5,753,709</u> |

### DEFERRED INFLOWS OF RESOURCES

|               |               |
|---------------|---------------|
| Pension Items | <u>55,573</u> |
|---------------|---------------|

### NET POSITION

|                                  |                      |
|----------------------------------|----------------------|
| Net Investment in Capital Assets | 21,650,260           |
| Unrestricted (Deficit)           | <u>(779,774)</u>     |
| Total Net Position               | <u>\$ 20,870,486</u> |

# Benzie County Road Commission

## Statement of Activities For the Year Ended September 30, 2020

|  |                      |
|--|----------------------|
| Program Expenses:                                      |                      |
| Primary Road Maintenance<br>and Preventive Maintenance | \$ 1,481,591         |
| Local Road Maintenance<br>and Preventive Maintenance   | 1,957,098            |
| State Trunkline  | 975,241              |
| Net Equipment Expense                                  | 229,399              |
| Net Administrative Expense                             | 437,708              |
| Depreciation - Unallocated                             | 1,109,003            |
| Interest Expense                                       | 14,698               |
| Other  | (502,671)            |
| Total Program Expenses                                 | <u>5,702,067</u>     |
| Program Revenues:                                      |                      |
| Charges for Services:                                  |                      |
| Licenses and Permits                                   | 30,805               |
| Charges for Services                                   | 1,182,050            |
| Operating Grants and Contributions:                    |                      |
| State Grants   | 2,622,357            |
| Contributions from Local Units                         | 11,041               |
| Interest Earnings                                      | 32,100               |
| Capital Grants and Contributions:                      |                      |
| Federal Grants   | 407,826              |
| State Grants   | 1,817,228            |
| Contributions from Local Units                         | 522,406              |
| Total Program Revenues                                 | <u>6,625,813</u>     |
| Net Program Revenues (Expenses)                        | <u>923,746</u>       |
| General Revenues:                                      |                      |
| Taxes - Real Property                                  | 1,126,947            |
| Gain (Loss) on Disposal                                | 10,250               |
| Total General Revenues                                 | <u>1,137,197</u>     |
| Change in Net Position                                 | 2,060,943            |
| Net Position - Beginning Balance                       | <u>18,809,543</u>    |
| Net Position - Ending Balance                          | <u>\$ 20,870,486</u> |

# Benzie County Road Commission

**Balance Sheet**  
**September 30, 2020**

|                                | <u>Governmental</u><br><u>Fund Type</u><br>General<br><u>Operating Fund</u> |
|--------------------------------|---|
| <b>ASSETS</b>                  |   |
| Cash and Equivalents           | \$ 2,610,224  |
| Accounts Receivable:           |   |
| Michigan Transportation Fund   | 368,419   |
| State Trunkline Maintenance    | 81,670  |
| State Transportation - Other   | 20,668  |
| Due on County Road Agreements  | 209,273   |
| Sundry Accounts                | 19,319  |
| Inventories:                   |   |
| Road Materials                 | 247,745   |
| Equipment, Parts and Materials | 187,594   |
| Prepaid Items                  | 98,187  |
| Total Assets                   | <u><u>\$ 3,843,099</u></u>  |
| <b>LIABILITIES</b>             |   |
| Accounts Payable               | \$ 375,076  |
| Accrued Liabilities            | 32,112  |
| Advances                       | 361,900   |
| Total Liabilities              | <u>769,088</u>  |
| <b>FUND BALANCE</b>            |   |
| Nonspendable                   | 533,526   |
| Unassigned                     | 2,540,485   |
| Total Fund Balance             | <u><u>\$ 3,074,011</u></u>  |

## **Benzie County Road Commission**

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### **Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Position For the Year Ended September 30, 2020**

|  |                             |
|--|-----------------------------|
| <b>Total Governmental Fund Balance</b>   | \$ 3,074,011                |
| Amounts reported for governmental activities in the statement<br>of net position are different because:                    |                             |
| Capital assets used in governmental activities are not financial<br>resources and therefore are not reported in the funds. | 21,915,351                  |
| Net pension liability requirement.   | (4,194,848)                 |
| Deferred outflows and inflows resulting from pension/opeb items.   | 865,745                     |
| Other long-term liabilities are not available to pay in the current<br>period and therefore are not reported in the funds. | <u>(789,773)</u>            |
| <b>Net Position of Governmental Activities</b>   | <u><u>\$ 20,870,486</u></u> |

# **Benzie County Road Commission**

## **Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended September 30, 2020**

|                                       | Governmental<br>Fund Type<br><hr/> General<br>Operating Fund<br><hr/> |
|---------------------------------------|---|
| <b>Revenues</b>                       |   |
| Property Taxes                        | \$ 1,126,947  |
| Licenses and Permits                  | 30,805  |
| Federal Sources                       | 407,826   |
| State Sources                         | 4,439,585   |
| Contributions form Local Units        | 533,447   |
| Charges for Services                  | 1,182,050   |
| Interest Earnings and Rent            | 32,100  |
| Other Revenue                         | 10,250  |
| Total Revenues                        | <hr/> 7,763,010 <hr/>   |
| <b>Expenditures</b>                   |   |
| Public Works                          | 7,828,497   |
| Capital Outlay                        | 332,227   |
| Debt Service                          | 148,963   |
| Total Expenditures                    | <hr/> 8,309,687 <hr/>   |
| <b>NET CHANGE IN FUND BALANCE</b>     | (546,677)   |
| <b>FUND BALANCE BEGINNING OF YEAR</b> | <hr/> 3,620,688 <hr/>   |
| <b>FUND BALANCE END OF YEAR</b>       | <hr/> <b>\$ 3,074,011</b> <hr/> <hr/>                                 |

## **Benzie 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 September 30, 2020**

**Net Change in Fund Balance - Total Governmental Funds** \$ (546,677)

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/retirements in the current period. 1,970,684

Repayment of notes payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net position. Note proceeds provide current financial resources to governmental funds, but entering into loan agreements increases long-term liabilities in the statement of net position. 134,265

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. 502,671

**Net Change in Net Position of Governmental Activities** \$ 2,060,943

# Benzie County Road Commission

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**Statement of Net Position**  
**Fiduciary Fund**  
**September 30, 2020**

|   | <u>OPEB</u><br><u>Trust Fund</u> |
|---|----------------------------------|
| <b>ASSETS</b>                                 |                                  |
| Investments at Fair Market Value              | \$ <u>334,857</u>                |
| <b>NET POSITION</b>                           |                                  |
| Restricted for Other Post Employment Benefits | \$ <u>334,857</u>                |

# Benzie County Road Commission

## Statement of Changes in Net Position Fiduciary Fund For the Year Ended September 30, 2020

|  | <u>OPEB<br/>Trust Fund</u> |
|--|----------------------------|
| <b>ADDITIONS:</b>  |                            |
| Contributions - Employer                                   | \$ 30,903                  |
| Investment Earnings:                                       |                            |
| Net Increase (Decrease) in Fair Value of Investments       | <u>22,617</u>              |
| Total Additions  | <u>53,520</u>              |
| <b>DEDUCTIONS:</b>   |                            |
| Benefit Payments   | 30,903                     |
| Administrative Fees and Other                              | <u>653</u>                 |
| Total Deductions   | <u>31,556</u>              |
| Change in Net Position                                     | 21,964                     |
| Net Position Restricted for Other Post Employment Benefits |                            |
| Beginning of Year  | <u>312,893</u>             |
| End of Year  | <u><u>\$ 334,857</u></u>   |

## **Notes to Financial Statements**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Benzie 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 Benzie County Road Commission.

**A. Reporting Entity**

The Benzie County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a three member Board of County Road Commissioners elected by the registered voters of Benzie County. 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 (GASB) Statement No. 14 and as amended by (GASB) Statement 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 Benzie County Road Commission, a discretely presented component unit of Benzie 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 Benzie County Road Commission. There is only one major fund reported in the fund financial statements.

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 net investments 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 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 general operating fund is the only major fund of the Road Commission.

**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 Balance**Cash, Equivalents and Investments

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

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 items in both the government-wide and fund financial statements.

Property Taxes

The property tax is levied each December 1<sup>st</sup> on the taxable valuation of property located in the County as of the preceding December 31<sup>st</sup>. The 2019 taxable valuation of \$1,311,442,055 for Road Millage amounted to \$1,300,155 less \$173,208 for cities and villages, (on which ad valorem taxes of .9986 mills were levied) for road maintenance purposes resulted in net total of \$1,126,947. In the government-wide financial statements the tax is recorded as revenue when the tax is levied in the current year.

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

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 Benzie County Road Commission as assets with an initial individual cost of more than \$10,000 and 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.

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:

|                          |                |
|--------------------------|----------------|
| Buildings                | 30 to 50 years |
| Road Equipment           | 5 to 8 years   |
| Shop Equipment           | 10 years       |
| Engineer's Equipment     | 4 to 10 years  |
| Yard and Storage         | 7 to 15 years  |
| Office Equipment         | 3 to 10 years  |
| Infrastructure – Roads   | 8 to 20 years  |
| Infrastructure – Bridges | 12 to 30 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.

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 government has pension and OPEB 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 government has pension and OPEB items that qualify for reporting in this category.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Pension and OPEB

For purposes of measuring the net pension liability, OPEB, deferred outflows of resources and deferred inflows of resources and related 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. 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.

Vested Employee Benefits (Vacation and Sick Leave)

The maximum accumulation of vacation hours according to the union agreement is 176 hours. Any unused vacation is lost at calendar year end. Employees accrue hours on January 1<sup>st</sup> each year. Sick leave is payable up to 288 hours at current wages upon retirement only, to a maximum of \$3,000 per union employee and \$5,000 for administration personnel.

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.

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

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.

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, deferred outflows, liabilities, and deferred inflows and affect the disclosure of contingent assets and liabilities 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 Clerk and Manager prepare a budget in accordance with the Act which is adopted by the Board at a public hearing each August. All budgets lapse at fiscal year end.

**NOTE 3 - CASH AND EQUIVALENTS**

The cash and equivalents are classified in the following categories:

|   |                     |
|---|---------------------|
| Imprest Cash  | \$ 500              |
| Bank Deposits (Checking Accounts, Savings Accounts, and<br>Certificates of Deposit) | 1,435,607           |
| Investments   | <u>1,174,117</u>    |
| Total Cash and Equivalents  | <u>\$ 2,610,224</u> |

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.

*Interest rate risk.* The 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.

**NOTE 3 - CASH AND EQUIVALENTS (Continued)**

*Custodial deposit credit risk.* Custodial deposit credit risk is the risk that in the event of a bank failure, the Commission’s deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. As of year end, \$978,102 of the Road Commission’s bank balance of \$1,508,579 was exposed to credit risk because it was uninsured and uncollateralized.

*Credit risk.* State law limits investments in commercial paper 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. As of September 30, 2020, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

| <u>Investment Type</u>         | <u>Carrying Value</u> | <u>S &amp; P Rating</u> |
|--------------------------------|-----------------------|-------------------------|
| <b>General Fund:</b>           |                       |                         |
| Michigan CLASS investment pool | <u>\$ 1,174,117</u>   | AAAm                    |
| <b>Fiduciary Funds:</b>        |                       |                         |
| Money Market                   | \$ 316,972            | N/A                     |
| Bonds                          | 11,983                | N/A                     |
| Stocks                         | <u>5,902</u>          | N/A                     |
| <br>Total Fiduciary Funds      | <br><u>\$ 334,857</u> |                         |

*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. Investments for the fiduciary fund are categorized as Level 2.

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.

The Michigan CLASS investment pool invests in U.S. Treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper (rated “A1” or better), collateralized bank deposits, repurchase agreements (collateralized at 102 percent by treasuries and agencies), and approved money market funds. The program is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statutes and are available for investment by Michigan Road Commissions.

# Benzie County Road Commission

Notes to Financial Statements  
September 30, 2020

## NOTE 4 - CAPITAL ASSETS

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

|  | Beginning<br>Balances<br>10/01/19 | Additions           | Adjustments/<br>Deductions | Ending<br>Balances<br>09/30/20 |
|--|-----------------------------------|---------------------|----------------------------|--------------------------------|
| <i>Capital Assets Not Being Depreciated:</i> |                                   |                     |                            |                                |
| Land   | \$ 12,708                         | \$ -                | \$ -                       | \$ 12,708                      |
| Land Improvements                            | <u>1,687,153</u>                  | <u>-</u>            | <u>-</u>                   | <u>1,687,153</u>               |
| Subtotal                                     | <u>1,699,861</u>                  | <u>-</u>            | <u>-</u>                   | <u>1,699,861</u>               |
| <i>Capital Assets Being Depreciated:</i>     |                                   |                     |                            |                                |
| Buildings                                    | 1,170,808                         | 185,538             | -                          | 1,356,346                      |
| Road Equipment                               | 6,218,584                         | 813,260             | 35,996                     | 6,995,848                      |
| Shop Equipment                               | 166,256                           | -                   | -                          | 166,256                        |
| Office Equipment                             | 75,585                            | -                   | -                          | 75,585                         |
| Engineer's Equipment                         | 39,345                            | -                   | -                          | 39,345                         |
| Yard and Storage                             | 443,174                           | -                   | -                          | 443,174                        |
| Infrastructure                               | <u>23,025,460</u>                 | <u>2,747,460</u>    | <u>434,486</u>             | <u>25,338,434</u>              |
| Subtotal                                     | <u>31,139,212</u>                 | <u>3,746,258</u>    | <u>470,482</u>             | <u>34,414,988</u>              |
| <i>Less Accumulated Depreciation:</i>        |                                   |                     |                            |                                |
| Buildings                                    | 1,086,458                         | 13,611              | -                          | 1,100,069                      |
| Road Equipment                               | 4,909,259                         | 621,028             | 28,246                     | 5,502,041                      |
| Shop Equipment                               | 148,129                           | 3,277               | -                          | 151,406                        |
| Office Equipment                             | 49,359                            | 3,291               | -                          | 52,650                         |
| Engineer's Equipment                         | 39,345                            | -                   | -                          | 39,345                         |
| Yard and Storage                             | 242,192                           | 17,614              | -                          | 259,806                        |
| Infrastructure                               | <u>6,419,664</u>                  | <u>1,109,003</u>    | <u>434,486</u>             | <u>7,094,181</u>               |
| Subtotal                                     | <u>12,894,406</u>                 | <u>1,767,824</u>    | <u>462,732</u>             | <u>14,199,498</u>              |
| Net Capital Assets Being Depreciated         | <u>18,244,806</u>                 | <u>1,978,434</u>    | <u>(7,750)</u>             | <u>20,215,490</u>              |
| Total Net Capital Assets                     | <u>\$ 19,944,667</u>              | <u>\$ 1,978,434</u> | <u>\$ (7,750)</u>          | <u>\$ 21,915,351</u>           |

Depreciation expense was charged to operations as follows:

|                |                     |
|----------------|---------------------|
| Unallocated    | \$ 1,109,003        |
| Equipment      | 621,028             |
| Administration | 4,404               |
| Other          | <u>33,389</u>       |
| Total          | <u>\$ 1,767,824</u> |

**NOTE 5 - DEFERRED COMPENSATION PLAN**

The Benzie 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 plans 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 (Benzie 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 Benzie County Road Commission’s financial statements.

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT**

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 multiplies by the sum of 2.0% or 1.0% times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2019.

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 by accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

|  |                              |
|--|------------------------------|
| <b>01 – Gnrl Emp: Closed to new hires, linked to Division HA</b> |                              |
|  | <u><b>2019 Valuation</b></u> |
| <b>Benefit Multiplier:</b>                                       | 2.00% Multiplier (no max)    |
| <b>Normal Retirement Age:</b>                                    | 60                           |
| <b>Vesting:</b>  | 10 Years                     |
| <b>Early Retirement (Unreduced):</b>                             | 55/25                        |
| <b>Early Retirement (Reduced):</b>                               | 50/25                        |
|  | 55/15                        |
| <b>Final Average Compensation:</b>                               | 5 years                      |
| <b>Employee Contributions:</b>                                   | 0%                           |
| <b>Act 88:</b>   | No                           |

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)**

|  |                                |
|--|--------------------------------|
| <b>11 – Commissioners: Closed to new hires, linked to Division HA</b>              |                                |
|  | <u><b>2019 Valuation</b></u>   |
| <b>Benefit Multiplier:</b>   | 1.50% Multiplier (no max)      |
| <b>Normal Retirement Age:</b>  | 60                             |
| <b>Vesting:</b>  | 10 Years                       |
| <b>Early Retirement (Unreduced):</b>   | -                              |
| <b>Early Retirement (Reduced):</b>   | 50/25<br>55/15                 |
| <b>Final Average Compensation:</b>   | 5 years                        |
| <b>Employee Contributions</b>  | 2.82%                          |
| <b>Act 88:</b>   | No                             |
| <br>   |                                |
| <b>12 – Admin: Closed to new hires, linked to Division HA</b>                      |                                |
|  | <u><b>2019 Valuation</b></u>   |
| <b>Benefit Multiplier:</b>   | 2.00% Multiplier (no max)      |
| <b>Normal Retirement Age:</b>  | 60                             |
| <b>Vesting:</b>  | 10 Years                       |
| <b>Early Retirement (Unreduced):</b>   | 55/25                          |
| <b>Early Retirement (Reduced):</b>   | 50/25<br>55/15                 |
| <b>Final Average Compensation:</b>   | 3 years                        |
| <b>Employee Contributions</b>  | 0%                             |
| <b>Act 88:</b>   | No                             |
| <br>   |                                |
| <b>HA – New hires after 7/1/2011: Open Division, linked to Division 01, 11, 12</b> |                                |
|  | <u><b>2019 Valuation</b></u>   |
| <b>Benefit Multiplier:</b>   | Hybrid Plan - 1.00% Multiplier |
| <b>Normal Retirement Age:</b>  | 60                             |
| <b>Vesting:</b>  | 6 Years                        |
| <b>Early Retirement (Unreduced):</b>   | -                              |
| <b>Early Retirement (Reduced):</b>   | -                              |
| <b>Final Average Compensation:</b>   | 3 years                        |
| <b>Employee Contributions</b>  | 0%                             |
| <b>Act 88:</b>   | No                             |

Employees Covered by Benefit Terms

At December 31, 2019, the following employees were covered by the benefit terms:

|  |           |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefits | 49        |
| Inactive employees entitled to but not yet receiving benefits    | 9         |
| Active employees   | <u>32</u> |
|  | 90        |

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)**

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 rate.

The contribution rate as a fixed dollar amount at September 30, 2020 is as follows:

|               |                      |
|---------------|----------------------|
| General       | \$ 23,242            |
| Commissioners | 103                  |
| Management    | 7,150                |
| New Hires     | <u>4,379</u>         |
| <br>Total     | <br><u>\$ 34,874</u> |

Net Pension Liability

The Road Commission’s net pension liability was measured as of December 31, 2019, 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, 2019 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 RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

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.

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       | 60.0%             | 6.15%                                  |
| Global Fixed Income | 20.0%             | 1.26%                                  |
| Private Investments | 20.0%             | 6.56%                                  |

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)**

*Discount Rate.* The discount rate used to measure the total pension liability is 7.60% for 2019. 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> |
| <b>Balances at December 31, 2018</b>              | \$ 7,672,565                   | \$ 2,907,689                       | \$ 4,764,876                 |
| Service cost                                      | 75,296                         | -                                  | 75,296                       |
| Interest on total pension liability               | 589,384                        | -                                  | 589,384                      |
| Changes in benefits                               | -                              | -                                  | -                            |
| Difference between expected and actual experience | (55,032)                       | -                                  | (55,032)                     |
| Changes in assumptions                            | 223,429                        | -                                  | 223,429                      |
| Employer contributions                            | -                              | 1,010,568                          | (1,010,568)                  |
| Employee contributions                            | -                              | 152                                | (152)                        |
| Net investment income                             | -                              | 399,280                            | (399,280)                    |
| Benefit payments, including employee refunds      | (685,816)                      | (685,816)                          | -                            |
| Administrative expense                            | -                              | (6,895)                            | 6,895                        |
| <b>Net changes</b>                                | <b>147,261</b>                 | <b>717,289</b>                     | <b>(570,028)</b>             |
| <b>Balances as of December 31, 2019</b>           | <b>\$ 7,819,826</b>            | <b>\$ 3,624,978</b>                | <b>\$ 4,194,848</b>          |

*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:

|   | <b>1% Decrease<br/>(6.60%)</b> | <b>Current Discount Rate<br/>(7.60%)</b> | <b>1% Increase<br/>(8.60%)</b> |
|---|--------------------------------|--|--------------------------------|
| Road Commission’s net pension liability | \$4,899,816                    | \$4,194,848                              | \$3,586,763                    |

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

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)**

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

For the year ended September 30, 2020, the Road Commission recognized pension expense of \$584,843. At September 30, 2020, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
|---|---|--|
| Difference between expected and actual experience                                   | \$ -  | \$ 8,013                                     |
| Changes in assumptions  | 148,953                                       | -  |
| Net difference between projected and actual earnings<br>on pension plan investments | 8,396   | -  |
| Contributions subsequent to the measurement date                                    | 696,780                                       | -  |
| <b>Total</b>  | <b>\$ 854,129</b>                             | <b>\$ 8,013</b>                              |

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 September 30:

|      |           |
|------|-----------|
| 2021 | \$ 79,044 |
| 2022 | 66,802    |
| 2023 | 38,265    |
| 2024 | (34,775)  |

**Annual Pension Costs** – For fiscal year ended 2020, the Benzie County Road Commission’s annual pension cost of \$1,010,568 for the plan was greater than the required contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2018, using the entry age normal cost method. Significant actuarial assumptions used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level dollar amount of payroll on a closed basis. The remaining amortization period is 21 years.

**NOTE 7 - 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 8 - LONG-TERM DEBT**

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

|  | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending<br/>Balance</u> | <u>Due<br/>Within<br/>One Year</u> |
|--|------------------------------|------------------|-------------------|---------------------------|------------------------------------|
| Installment payable to Finance Company, 3.49% interest rate, payable in monthly installments of \$2,875, secured by equipment. | \$ 237,005                   | \$ -             | \$ 29,182         | \$ 207,823                | \$ 27,803                          |
| Installment payable to Finance Company, 2.69% interest rate, payable in monthly installments of \$848, secured by equipment.   | 96,521                       | -                | 96,521            | -                         | -                                  |
| Installment payable to Finance Company, 4.84% interest rate, payable in monthly installments of \$943, secured by equipment.   | 65,830                       | -                | 8,562             | 57,268                    | 8,814                              |
| Vested Employee Benefits - net   | <u>69,072</u>                | <u>17,031</u>    | <u>-</u>          | <u>86,103</u>             | <u>-</u>                           |
| <b>TOTAL</b>   | <u>\$ 468,428</u>            | <u>\$ 17,031</u> | <u>\$ 134,265</u> | <u>\$ 351,194</u>         | <u>\$ 36,617</u>                   |

Maturities on long-term obligations are as follows:

|       | <u>Principal</u>  | <u>Interest</u>  | <u>Total</u>      |
|-------|-------------------|------------------|-------------------|
| 2021  | \$ 36,617         | \$ 9,199         | \$ 45,816         |
| 2022  | 37,846            | 7,970            | 45,816            |
| 2023  | 160,963           | 5,770            | 166,733           |
| 2024  | <u>29,665</u>     | <u>565</u>       | <u>30,230</u>     |
| Total | <u>\$ 265,091</u> | <u>\$ 23,504</u> | <u>\$ 288,595</u> |

**NOTE 9 - OTHER POST EMPLOYMENT BENEFITS**

*Plan Description* - The employer provides health insurance for retirees who retire under provisions of the Employer's MERS plan who are employed full time and age 55 with 25 years of service. Coverage is for a period of five years or until the retiree reaches age 65, whichever event occurs first. The retiree is then responsible for the cost of health insurance for his/her spouse and/or children. The Road Commission administers a single-employer defined benefit healthcare plan. Benefit provisions are established and may be amended by the Board of County Road Commissioners. The Plan does not issue a publicly available report.

**NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (Continued)**

*Funding Policy* - Contribution requirements also are negotiated between the Commission and employees. The Commission contributes 100% of the cost for eligible plan members. For fiscal year 2020, the Commission contributed \$30,903 to the plan.

*Employees Covered by Benefit Terms*

As of September 30, 2020, the following employees were covered by the benefit terms:

|  |           |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefit payments | 4         |
| Inactive employees entitled to but not yet receiving benefits            | -         |
| Active employees   | <u>27</u> |
| Total participants covered by OPEB Plan                                  | <u>31</u> |

*Total OPEB Liability and Trust Assets* - The Road Commission’s total OPEB liability of \$773,436 was measured as of September 30, 2020, and was determined by an actuarial valuation as of that date.

As of September 30, 2020, there was \$334,857 in assets in the Road Commission’s OPEB trust.

*Actuarial assumptions and other inputs* - The total OPEB liability was determined by an actuarial valuation as of September 30, 2020 and the following actuarial assumptions, applies to all periods included in the measurement:

|                                |  |
|--------------------------------|--|
| Inflation                      | 2.50%  |
| Salary Increases               | 3.50%  |
| Investment rate of return      | 7.35%  |
| 20-year Aa Municipal bond rate | 2.14%  |
| Mortality                      | 2010 Public General Employees and Healthy Retirees,<br>Headcount-weighted, MP–2020 scale |

The long-term expected rate of return on retirement 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 as of September 30, 2020 are summarized in the following table:

| <u>Asset Class</u>  | <u>Target Allocation</u> | <u>Long-Term Expected Rate of Return</u> |
|---------------------|--------------------------|--|
| Global Equity       | 60.0%                    | 7.75%                                    |
| Global Fixed Income | 20.0%                    | 3.75%                                    |
| Private Assets      | 20.0%                    | 9.75%                                    |

The sum of each target allocation times its long-term expected real rate including inflation is 7.35%.

**NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (Continued)**

*Discount Rate* - The discount rate used to measure the total OPEB liability was 2.60%. Because the plan sponsor has not committed to make contributions according to any specific plan or pattern, the projection of cash flows used to determine the discount rate assumed that the Road Commission will first use assets to pay benefits and then pay benefits on a pay-as-you-go basis. Based on this assumption, the retirement plan’s fiduciary net position was projected to be sufficient to make projected future benefit payments of current plan members through 2025 – the cross over point. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the “depletion date”), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the total OPEB liability.

|   | <b>Total OPEB<br/>Liability</b> | <b>Plan Fiduciary<br/>Net Position</b> | <b>Net OPEB<br/>Liability</b> |
|---|---------------------------------|--|-------------------------------|
| Balances at September 30, 2019                    | \$ 729,189                      | \$ 312,893                             | \$ 416,296                    |
| Service cost                                      | 61,674                          | -                                      | 61,674                        |
| Interest  | 30,706                          | -                                      | 30,706                        |
| Difference between expected and actual experience | (32,822)                        | -                                      | (32,822)                      |
| Change in plan terms                              | (43,787)                        | -                                      | (43,787)                      |
| Change in assumptions                             | 59,379                          | -                                      | 59,379                        |
| Contributions - Employer                          | -                               | 30,903                                 | (30,903)                      |
| Net investment income                             | -                               | 22,617                                 | (22,617)                      |
| Benefit payments                                  | (30,903)                        | (30,903)                               | -                             |
| Administrative expense                            | -                               | (634)                                  | 634                           |
| Other changes                                     | -                               | (19)                                   | 19                            |
| Net changes                                       | 44,247                          | 21,964                                 | 22,283                        |
| Balances as September 30, 2020                    | <u>\$ 773,436</u>               | <u>\$ 334,857</u>                      | <u>\$ 438,579</u>             |

*Net OPEB Liability – Discount and Trend Rate Sensitivities* – The following presents the net OPEB liability (NOL) of the Road Commission, calculated using trend and discount rates 1% higher and lower than base assumptions:

Discount:

|                             | <u>1% Decrease</u> | <u>Current Rate</u> | <u>1% Increase</u> |
|-----------------------------|--------------------|---------------------|--------------------|
| Total OPEB Liability        | \$ 813,608         | \$ 773,436          | \$ 736,037         |
| Plan Fiduciary Net Position | <u>334,857</u>     | <u>334,857</u>      | <u>334,857</u>     |
| Net OPEB Liability          | <u>\$ 478,751</u>  | <u>\$ 438,579</u>   | <u>\$ 401,180</u>  |

**NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (Continued)**

Trend:

|                             | <u>1% Decrease</u> | <u>Current Rate</u> | <u>1% Increase</u> |
|-----------------------------|--------------------|---------------------|--------------------|
| Total OPEB Liability        | \$ 727,234         | \$ 773,436          | \$ 823,015         |
| Plan Fiduciary Net Position | 334,857            | 334,857             | 334,857            |
| Net OPEB Liability          | <u>\$ 392,377</u>  | <u>\$ 438,579</u>   | <u>\$ 488,158</u>  |

*OPEB Expense*

Components of Road Commission’s OPEB Expense for the fiscal year ending September 30, 2020 are as follows:

|   |                  |
|---|------------------|
| Service Cost                                | \$ 61,674        |
| Interest on Total OPEB Liability            | 30,706           |
| Experience (Gains)/Losses                   | (12,313)         |
| Changes of Assumptions                      | 12,785           |
| Changes in Plan Terms                       | (43,787)         |
| Projected Earnings on OPEB Plan Investments | (24,224)         |
| Investment Earnings (Gains)/Losses          | 4,868            |
| Administrative Expenses                     | 634              |
| Other Changes                               | <u>19</u>        |
| Total OPEB Expense                          | <u>\$ 30,362</u> |

Deferred Outflows and Inflows of Resources Related to OPEB Plan

|                                    | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|------------------------------------|---|--|
| Experience (Gains)/Losses          | \$ -                                      | \$ 47,560                                |
| Changes of Assumptions             | 53,582                                    | -  |
| Investment Earnings (Gains)/Losses | 13,607                                    | -  |
| Total                              | <u>\$ 67,189</u>                          | <u>\$ 47,560</u>                         |

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

| <u>Year Ended September 30:</u> |          |
|---------------------------------|----------|
| 2021                            | \$ 5,340 |
| 2022                            | 5,342    |
| 2023                            | 4,018    |
| 2024                            | 3,427    |
| 2025                            | 1,502    |

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

Grants - The Road Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant 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 may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at September 30, 2020.

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

The Road Commission from time to time is named as a defendant in accident claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. Insurance coverage related to these claims and lawsuits, if any, is categorized under the general liability insurance program. 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 11 - ENVIRONMENTAL REMEDIATION**

The Commission incurs ongoing costs for monitoring and maintenance of a contaminated site located at its main garage. Future estimated environmental remediation costs are not determinable at this time.

**NOTE 12 - 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 September 30, 2020, the federal aid received and expended by the Road Commission was \$407,826 for 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 Commissions perform the work and would be subject to single audit requirements if they expended \$750,000 or more.

## **Required Supplementary Information**

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# Benzie County Road Commission

## Required Supplementary Information Employee Retirement and Benefit Systems Schedule of Changes in Pension Liability For the Year Ended September 30, 2020

|   | 2015                | 2016                | 2017                | 2018                | 2019                | 2020                |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Total pension liability</b>  |                     |                     |                     |                     |                     |                     |
| Service cost  | \$ 69,280           | \$ 65,231           | \$ 70,256           | \$ 69,238           | \$ 73,667           | \$ 75,296           |
| Interest  | 564,756             | 568,313             | 575,677             | 580,384             | 583,650             | 589,384             |
| Difference between expected<br>and actual experience                                  | -                   | (83,145)            | 17,052              | 22,698              | 86,027              | (55,032)            |
| Changes in assumptions  | -                   | 349,601             | -                   | -                   | -                   | 223,429             |
| Benefit payments, including<br>refund of member contributions                         | (586,554)           | (591,233)           | (599,144)           | (608,146)           | (659,206)           | (685,816)           |
| <b>Net change in total pension liability</b>  | 47,482              | 308,767             | 63,841              | 64,174              | 84,138              | 147,261             |
| <b>Total pension liability - beginning</b>  | 7,104,163           | 7,151,645           | 7,460,412           | 7,524,253           | 7,588,427           | 7,672,565           |
| <b>Total pension liability - ending</b>   | <u>\$ 7,151,645</u> | <u>\$ 7,460,412</u> | <u>\$ 7,524,253</u> | <u>\$ 7,588,427</u> | <u>\$ 7,672,565</u> | <u>\$ 7,819,826</u> |
| <b>Plan fiduciary net position</b>  |                     |                     |                     |                     |                     |                     |
| Contributions - employer  | \$ 351,926          | \$ 475,529          | \$ 476,657          | \$ 628,464          | \$ 561,970          | \$ 1,010,568        |
| Contributions - employee  | 289                 | 289                 | 291                 | 152                 | 152                 | 152                 |
| Net investment income   | 172,573             | (38,482)            | 284,956             | 359,036             | (118,951)           | 399,280             |
| Benefit payments, including<br>refunds of member contributions                        | (586,554)           | (591,233)           | (599,144)           | (608,146)           | (659,206)           | (685,816)           |
| Administrative expense  | (6,286)             | (5,803)             | (5,641)             | (5,684)             | (5,972)             | (6,895)             |
| <b>Net change in plan fiduciary net position</b>                                      | (68,052)            | (159,700)           | 157,119             | 373,822             | (222,007)           | 717,289             |
| <b>Plan fiduciary net position - beginning</b>  | 2,826,507           | 2,758,455           | 2,598,755           | 2,755,874           | 3,129,696           | 2,907,689           |
| <b>Plan fiduciary net position - ending</b>   | <u>\$ 2,758,455</u> | <u>\$ 2,598,755</u> | <u>\$ 2,755,874</u> | <u>\$ 3,129,696</u> | <u>\$ 2,907,689</u> | <u>\$ 3,624,978</u> |
| <b>Net pension liability - ending</b>   | <u>\$ 4,393,190</u> | <u>\$ 4,861,657</u> | <u>\$ 4,768,379</u> | <u>\$ 4,458,731</u> | <u>\$ 4,764,876</u> | <u>\$ 4,194,848</u> |
| <b>Plan fiduciary net position as a<br/>percentage of the total pension liability</b> | 39%                 | 35%                 | 37%                 | 41%                 | 38%                 | 46%                 |
| <b>Covered - employee payroll</b>   | \$ 1,015,311        | \$ 1,010,029        | \$ 1,113,805        | \$ 1,155,849        | \$ 1,210,112        | \$ 1,312,909        |
| <b>Net pension liability as a percentage<br/>of covered-employee payroll</b>          | 433%                | 481%                | 428%                | 386%                | 394%                | 320%                |

## Benzie County Road Commission

### Required Supplementary Information Employee Retirement and Benefit Systems Schedule of Employer Contributions For the Year Ended September 30, 2020

|   | 2015               | 2016                | 2017                | 2018                | 2019                | 2020                |
|---|--------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Actuarially determined contribution                                     | \$ 311,930         | \$ 337,417          | \$ 359,497          | \$ 361,817          | \$ 378,970          | \$ 391,442          |
| Contributions in relation to the<br>actuarially determined contribution | <u>(372,547)</u>   | <u>(532,797)</u>    | <u>(476,657)</u>    | <u>(532,797)</u>    | <u>(561,970)</u>    | <u>(1,010,568)</u>  |
| Contribution deficiency (excess)  | <u>\$ (60,617)</u> | <u>\$ (195,380)</u> | <u>\$ (117,160)</u> | <u>\$ (170,980)</u> | <u>\$ (183,000)</u> | <u>\$ (619,126)</u> |
| Covered - employee payroll  | \$ 982,094         | \$ 1,015,311        | \$ 1,010,029        | \$ 1,113,805        | \$ 1,155,849        | \$ 1,210,112        |
| Contributions as a percentage<br>of covered-employee payroll            | 38%                | 52%                 | 47%                 | 48%                 | 49%                 | 84%                 |

#### 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 | 21 years   |
| Asset valuation method        | 5-years smoothed market  |
| Inflation                     | 2.50%  |
| Salary increases              | 3.00%, average, including inflation  |
| Investment rate of return     | 7.35%  |
| Retirement age                | In the 2019 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience |
| Mortality                     | Assumptions were based on the RP-2014 Table Blended 50% Male / 50% Female  |

#### Significant changes from previous actuarial valuation:

- Investment rate of return from 7.75% to 7.35%
- Salary increases from 3.75% to 3.00%

# Benzie County Road Commission

## Required Supplementary Information Employee Retirement and Benefit Systems Schedule of Changes in the OPEB Liability For the Year Ended September 30, 2020

|  | 2018         | 2019         | 2020         |
|--|--------------|--------------|--------------|
| <b>Total OPEB Liability - Beginning of Year</b>                                | \$ 596,977   | \$ 675,609   | \$ 729,189   |
| Service cost   | 64,804       | 67,487       | 61,674       |
| Interest   | 27,123       | 30,360       | 30,706       |
| Difference between expected and actual experience                              | -            | (33,171)     | (32,822)     |
| Change in assumptions  | -            | 8,569        | 59,379       |
| Change in benefit terms  | -            | -            | (43,787)     |
| Benefit payments   | (13,295)     | (19,665)     | (30,903)     |
| <b>Total OPEB Liability - End of Year</b>                                      | \$ 675,609   | \$ 729,189   | \$ 773,436   |
| <b>Plan fiduciary net position</b>   |              |              |              |
| Contributions - employer   | \$ 13,295    | \$ 19,665    | \$ 30,903    |
| Net investment income  | 15,889       | 7,571        | 22,617       |
| Benefits payments, including refunds of member contributions                   | (13,295)     | (19,665)     | (30,903)     |
| Administrative expense   | (765)        | (657)        | (634)        |
| Other changes  | -            | -            | (19)         |
| <b>Net change in plan fiduciary net position</b>                               | 15,124       | 6,914        | 21,964       |
| <b>Plan fiduciary net position - Beginning of Year</b>                         | 290,855      | 305,979      | 312,893      |
| <b>Plan fiduciary net position - End of Year</b>                               | \$ 305,979   | \$ 312,893   | \$ 334,857   |
| <b>Net OPEB liability - End of Year</b>  | \$ 369,630   | \$ 416,296   | \$ 438,579   |
| <b>Plan fiduciary net position as a percentage of the total OPEB liability</b> | 45.29%       | 42.91%       | 43.29%       |
| <b>Covered Payroll</b>   | \$ 1,188,772 | \$ 1,259,742 | \$ 1,326,324 |
| <b>Net OPEB liability as a percentage of covered payroll</b>                   | 31.09%       | 33.05%       | 33.07%       |
| <b>Schedule of Employer Contributions</b>                                      |              |              |              |
| Actuarially determined contribution (ADC)                                      | \$ 118,754   | \$ 141,114   | \$ 126,767   |
| Employer contribution  | (13,295)     | (19,665)     | (30,903)     |
| Contribution deficiency/(excess)   | \$ 105,459   | \$ 121,449   | \$ 95,864    |
| <b>ADC as percentage of covered payroll</b>                                    | 9.99%        | 11.20%       | 9.56%        |
| <b>Employer contribution as percentage of covered payroll</b>                  | 1.12%        | 1.56%        | 2.33%        |

**Notes to Schedule:**

Actuarially determined contribution rates are calculated as of September 30, 2020.

Methods and assumptions used to determine contribution rates:

|                                |   |
|--------------------------------|---|
| Actuarial cost method          | Entry age normal  |
| Asset valuation method         | Market value  |
| Discount rate                  | 2.60%   |
| Salary increases               | 3.50%, average  |
| 20-year Aa municipal bond rate | 2.14%   |
| Investment rate of return      | 7.35%   |
| Healthcare cost trend rate     | 8.25% graded down by .25% per year<br>3% for Dental and Vision                                      |
| Mortality rate                 | 2010 public general employees and healthy retirees,<br>headcount rated with 2020 improvement scale. |

# Benzie County Road Commission

## Required Supplementary Information Employee Retirement and Benefit Systems Summary of Plan Provisions For the Year Ended September 30, 2020

### Disability Rates - None

Rationale - Small group

**Age of Spouse** - Actual age is used for spouses of current retirees and active employees

Rationale - Consistent with experience

**Claims costs** - see rates (monthly) below:

| Blue Cross / Blue Shield |         |        |
|--------------------------|---------|--------|
| Age                      | Medical | Vision |
| 55                       | 616.77  | 5.73   |
| 56                       | 645.26  | 5.74   |
| 57                       | 674.03  | 5.75   |
| 58                       | 704.73  | 5.74   |
| 59                       | 719.94  | 5.73   |
| 60                       | 750.64  | 5.71   |
| 61                       | 777.19  | 5.68   |
| 62                       | 794.61  | 5.62   |
| 63                       | 816.46  | 5.57   |
| 64                       | 829.74  | 5.50   |

**Dental rate monthly - \$33.49**

**Rationale** - Provided by BCBS

**Implicit Subsidy** - Not applicable; premiums are age-graded

### Data Collection

Date and form of data - All personnel and asset data was prepared by the plan sponsor or a representative and was generally relied upon as being correct and complete without audit by Watkins Ross.

Assumption changes since prior valuation

- Mortality improvement scale from MP-2018 to MP-2020
- Medical trend rates changed from 8.50%

# Benzie County Road Commission

## Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues - Budget and Actual For the Year Ended September 30, 2020

|                                | Original<br>Budget  | Final<br>Amended<br>Budget | Actual              | Variance<br>Favorable<br>(Unfavorable) |
|--------------------------------|---------------------|----------------------------|---------------------|--|
| Taxes                          | \$ 1,100,000        | \$ 1,130,000               | \$ 1,126,947        | \$ (3,053)                             |
| Licenses and Permits           | 29,526              | 29,526                     | 30,805              | 1,279                                  |
| Federal Sources                |                     |                            |                     |  |
| D Funds                        | 115,000             | 340,000                    | 69,017              | (270,983)                              |
| Other                          | 381,500             | 181,500                    | 338,809             | 157,309                                |
| State Sources                  |                     |                            |                     |  |
| Michigan Transportation Fund   |                     |                            |                     |  |
| Engineering                    | 10,000              | 10,000                     | 10,000              | -                                      |
| Allocation                     | 4,452,565           | 4,177,565                  | 4,158,914           | (18,651)                               |
| Snow Removal                   | 210,185             | 228,185                    | 227,290             | (895)                                  |
| Economic Development Fund      |                     |                            |                     |  |
| Forest Road                    | 43,379              | 43,379                     | 43,381              | 2                                      |
| Contributions from Local Units | -                   | -                          | -                   | -                                      |
| City and Village               | -                   | -                          | 11,041              | 11,041                                 |
| Townships                      | 584,654             | 484,654                    | 422,306             | (62,348)                               |
| Other                          | -                   | 5,000                      | 100,100             | 95,100                                 |
| Charges for Services           |                     |                            |                     |  |
| Trunkline Maintenance          | 927,566             | 1,042,566                  | 825,754             | (216,812)                              |
| Trunkline Nonmaintenance       | 75,916              | 175,916                    | 149,487             | (26,429)                               |
| Salvage Sales                  | 4,361               | 4,361                      | 1,448               | (2,913)                                |
| Other                          | 85,000              | -                          | 205,361             | 205,361                                |
| Interest Earnings and Rent     | 40,000              | 40,000                     | 32,100              | (7,900)                                |
| Other Revenue                  |                     |                            |                     |  |
| Gain (Loss) on Disposal        | -                   | 20,000                     | 10,250              | (9,750)                                |
| Total Revenues                 | <u>\$ 8,059,652</u> | <u>\$ 7,912,652</u>        | <u>\$ 7,763,010</u> | <u>\$ (149,642)</u>                    |

# Benzie County Road Commission

**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Statement of Expenditures - Budget and Actual**  
**For the Year Ended September 30, 2020**

|                                      | Original<br>Budget   | Final<br>Amended<br>Budget | Actual              | Variance<br>Favorable<br>(Unfavorable) |
|--------------------------------------|----------------------|----------------------------|---------------------|--|
| Primary Road                         |                      |                            |                     |  |
| Preservation/Structural Improvements | \$ 1,210,000         | \$ 1,810,000               | \$ 1,743,714        | \$ 66,286                              |
| Maintenance                          | 1,395,542            | 1,695,542                  | 1,481,591           | 213,951                                |
| Local Road                           |                      |                            |                     |  |
| Preservation/Structural Improvements | 1,236,000            | 1,236,000                  | 1,003,725           | 232,275                                |
| Maintenance                          | 2,262,218            | 2,262,218                  | 1,957,119           | 305,099                                |
| Trunkline Maintenance                | 797,566              | 837,566                    | 825,754             | 11,812                                 |
| Trunkline Nonmaintenance             | 75,916               | 175,916                    | 149,487             | 26,429                                 |
| Administrative Expense - Net         | 441,912              | 471,912                    | 437,708             | 34,204                                 |
| Equipment Expense - Net              | 488,862              | 488,862                    | 229,399             | 259,463                                |
| Capital Outlay - Net                 | 570,336              | 570,336                    | 332,227             | 238,109                                |
| Debt Service                         |                      |                            |                     |  |
| Principal                            | 45,000               | 135,000                    | 134,265             | 735                                    |
| Interest                             | 15,000               | 15,000                     | 14,698              | 302                                    |
| Other                                | 29,824               | 29,824                     | -                   | 29,824                                 |
| Total Expenditures                   | 8,568,176            | 9,728,176                  | <u>\$ 8,309,687</u> | <u>\$ 1,418,489</u>                    |
| Fund Balance - October 1, 2019       | 3,620,688            | 3,620,688                  |                     |  |
| Total Budget                         | <u>\$ 12,188,864</u> | <u>\$ 13,348,864</u>       |                     |  |

## **Other Information**

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# **Benzie County Road Commission**

## **Analysis of Changes in Fund Balance For the Year Ended September 30, 2020**

|   | <u>Primary<br/>Road<br/>Fund</u> | <u>Local<br/>Road<br/>Fund</u> | <u>County<br/>Road<br/>Commission</u> | <u>Total</u>               |
|---|----------------------------------|--------------------------------|---------------------------------------|----------------------------|
| Total Revenues                                  | \$ 3,109,190                     | \$ 2,294,263                   | \$ 2,359,557                          | \$ 7,763,010               |
| Total Expenditures                              | <u>3,524,777</u>                 | <u>3,277,512</u>               | <u>1,507,398</u>                      | <u>8,309,687</u>           |
| Excess of Revenues Over<br>(Under) Expenditures | (415,587)                        | (983,249)                      | 852,159                               | (546,677)                  |
| Optional Transfers and Adjustments              | (983,851)                        | 983,851                        | -                                     | -                          |
| Fund Balance - October 1, 2019                  | <u>2,560,788</u>                 | <u>-</u>                       | <u>1,059,900</u>                      | <u>3,620,688</u>           |
| Fund Balance - September 30, 2020               | <u><u>\$ 1,161,350</u></u>       | <u><u>\$ 602</u></u>           | <u><u>\$ 1,912,059</u></u>            | <u><u>\$ 3,074,011</u></u> |

# Benzie County Road Commission

## Analysis of Revenues For the Year Ended September 30, 2020

|                                | Primary<br>Road<br>Fund | Local<br>Road<br>Fund | County<br>Road<br>Commission | Total               |
|--------------------------------|-------------------------|-----------------------|------------------------------|---------------------|
| Taxes                          | \$ -                    | \$ -                  | \$ 1,126,947                 | \$ 1,126,947        |
| Licenses and Permits           | -                       | -                     | 30,805                       | 30,805              |
| Federal Sources                |                         |                       |                              |                     |
| D Funds                        | 69,017                  | -                     | -                            | 69,017              |
| Other                          | 338,809                 | -                     | -                            | 338,809             |
| State Sources                  |                         |                       |                              |                     |
| Michigan Transportation Fund   |                         |                       |                              |                     |
| Engineering                    | 6,425                   | 3,575                 | -                            | 10,000              |
| Allocation                     | 2,672,244               | 1,486,670             | -                            | 4,158,914           |
| Snow Removal                   | -                       | 227,290               | -                            | 227,290             |
| Economic Development Fund      |                         |                       |                              |                     |
| Forest Road                    | -                       | 43,381                | -                            | 43,381              |
| Contributions from Local Units |                         |                       |                              |                     |
| City and Village               | -                       | 11,041                | -                            | 11,041              |
| Townships                      | -                       | 422,306               | -                            | 422,306             |
| Other                          | -                       | 100,000               | 100                          | 100,100             |
| Charges for Services           |                         |                       |                              |                     |
| Trunkline Maintenance          | -                       | -                     | 825,754                      | 825,754             |
| Trunkline Nonmaintenance       | -                       | -                     | 149,487                      | 149,487             |
| Salvage Sales                  | -                       | -                     | 1,448                        | 1,448               |
| Other                          | -                       | -                     | 205,361                      | 205,361             |
| Interest and Rents             |                         |                       |                              |                     |
| Interest Earnings              | 22,695                  | -                     | 9,405                        | 32,100              |
| Other Revenue                  |                         |                       |                              |                     |
| Gain on Equipment Disposals    | -                       | -                     | 10,250                       | 10,250              |
| Total Revenues                 | <u>\$ 3,109,190</u>     | <u>\$ 2,294,263</u>   | <u>\$ 2,359,557</u>          | <u>\$ 7,763,010</u> |

# **Benzie County Road Commission**

## **Analysis of Expenditures For the Year Ended September 30, 2020**

|                                      | <u>Primary<br/>Road<br/>Fund</u> | <u>Local<br/>Road<br/>Fund</u> | <u>County<br/>Road<br/>Commission</u> | <u>Total</u>        |
|--------------------------------------|----------------------------------|--------------------------------|---------------------------------------|---------------------|
| Primary Road                         |                                  |                                |                                       |                     |
| Preservation/Structural Improvements | \$ 1,743,714                     | \$ -                           | \$ -                                  | \$ 1,743,714        |
| Maintenance                          | 1,481,591                        | -                              | -                                     | 1,481,591           |
| Local Road                           |                                  |                                |                                       |                     |
| Preservation/Structural Improvements | -                                | 1,003,725                      | -                                     | 1,003,725           |
| Maintenance                          | -                                | 1,957,119                      | -                                     | 1,957,119           |
| Trunkline Maintenance                | -                                | -                              | 825,754                               | 825,754             |
| Trunkline Nonmaintenance             | -                                | -                              | 149,487                               | 149,487             |
| Administrative Expense - Net         | 228,210                          | 209,498                        | -                                     | 437,708             |
| Equipment Expense - Net              | 71,262                           | 107,170                        | 50,967                                | 229,399             |
| Capital Outlay - Net                 | -                                | -                              | 332,227                               | 332,227             |
| Debt Service                         |                                  |                                |                                       |                     |
| Debt Principal Payments              | -                                | -                              | 134,265                               | 134,265             |
| Interest Expense                     | -                                | -                              | 14,698                                | 14,698              |
| Total Expenditures                   | <u>\$ 3,524,777</u>              | <u>\$ 3,277,512</u>            | <u>\$ 1,507,398</u>                   | <u>\$ 8,309,687</u> |

## **Report on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

**KINROSS OFFICE**

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

PHILLIP J. WOLF, CPA  
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TORI 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  
Benzie County Road Commission  
Honor, Michigan 49640

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 the aggregate remaining fund information of the Benzie County Road Commission, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Benzie County Road Commission's, (a component unit of Benzie County, Michigan), basic financial statements, and have issued our report thereon dated December 15, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Benzie County Road Commission'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 the Benzie County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Benzie 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 did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2020-001 that we consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Benzie County Road Commission 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*.

### **Benzie County Road Commission, Michigan's Response to Findings**

The Benzie County Road Commission's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Benzie County Road Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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**

December 15, 2020

*Significant Deficiencies – Internal Control*

**Segregation of Duties**

***Finding 2020-001***

Condition/Criteria: The Road Commission Finance Manager performs several functions of receipting, disbursing, authorizing and posting to the general ledger. To provide a system of checks and balances, these functions are generally assigned to separate positions to minimize the potential for unauthorized transactions.

Effect: Lack of segregation of duties provides opportunities for inaccurate or unauthorized disbursements or transfers from road funds and increases the potential for inaccurate reporting of account activity.

Cause: Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the added personnel.

Recommendation: The Board should be aware of the potential weaknesses in the system and provide appropriate oversight or assistance to personnel when cost beneficial.

Response: The Board has implemented compensating controls to reduce the risks discussed above. The financial director is now prohibited from check signature authority and does not receipt funds.

- Contact Person Responsible for Correction:  
Matthew Skeels, Manager



**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

**KINROSS OFFICE**

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DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN  
MICHIGAN & WISCONSIN**

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

Members of the Board of County Road Commissioners  
Benzie County Road Commission  
11318 Main Street  
Honor, Michigan 49640

We have audited the financial statements of the governmental activities, major fund and the aggregate remaining fund information of the Benzie County Road Commission for the year ended September 30, 2020, and have issued our reports thereon dated December 15, 2020. 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, *Government Auditing Standards***

As stated in our engagement letter dated November 17, 2020, 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 Benzie 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 performed tests of the Benzie County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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 supplement 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 schedules of analysis, 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 November 17, 2020.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

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 Benzie County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted regarding and the application of existing policies was not changed during the current fiscal year. We noted no transactions entered into by the 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.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the items for OPEB Obligations and Pension Benefits was based on actuarial assumptions and estimates.

The financial statements 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 the financial statements taken as a whole. A copy of any adjustments are available from management.

### **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 December 15, 2020.

### **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 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 as to determine 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***

#### **Obsolete Inventory**

The Road Commission has accumulated outdated and obsolete parts inventory. The removal of old and unused inventory items reduces handling time and costs and more accurately reports inventory levels. Additionally, post and sign inventory should be reviewed to remove old or unusable signage.

Status: Management will review parts listing for obsolete items.

#### **Uniform Administrative Requirements**

As a precondition to receive federal funds, prospective recipients must have effective administrative and financial internal controls. The Uniform Guidance requires *written* policies and procedures regarding:

- Cash Management – Section 200.302(b)(6) payment procedures
- Allowability of Costs – Section 200.302(b)(7) in accordance with Subpart E – Cost Principals
- Conflict of Interest – Section 200.318(c) covering standards of conduct
- Procurement – Section 200.319(c) for purchasing
- Method of Conducting Technical Evaluations – Section 200.320(d)(3) regarding proposals
- Travel Reimbursement – Section 200.474(b) regarding travel expenses

Written policies should include provisions for training and consequences for violations of policies. The Commission should review its current written policies for compliance with the above requirements regarding federal awards and amend as necessary.

Status: Management with the assistance from the new financial manager anticipates policy implementation during fiscal 2021.

## **Policy Manual Update**

The Board and management have gradually been updating the “Policy Manual.” As part of this process the board should consider formally adopting the following policies:

**Purchasing Policy** – This should incorporate the Uniform Guidance considerations as well as ACT 51 required bidding practices, including emergency bidding provisions. Used equipment purchases as well as using prequalified state bid approved vendors practices should be contemplated as well.

**Whistleblower policy** – This policy is broader than the “fraud” policy in that it reports an activity that he/she considers to be illegal, dishonest, irregular or against commission approved policies. It requires to one or more of the parties specified but the policy must exercise sound judgment to avoid baseless allegations.

**Personal Use of Road Commission vehicles** – The Department of Treasury manual contains several provisions.

**Investment Policy** – Changes in ratings and allowed investments for trust funds should be reviewed.

**Medical and Dental Insurance Policy** – Should be updated to comply with the Affordable Care Act items.

**Outdated policies** – The “Policy Manual” contains other outdated or policies that have not been updated in several years for changes in technology, media or other practices. As a best practice, policies should be routinely updated over a period of three to five years.

Management and the board should consider engaging legal counsel, to review the “Policy Manual” to assure compliance with state and federal law.

Status: Management will review policies and update as necessary.

## **Credit Card Practices**

Policy #315, regarding credit cards, Section (f) states that the CFO shall maintain a list of all credit cards and long with the name of the employee it has been issue to, the date and date returned, including employee initials. We could not determine if the credit card listing was maintained by issuer. The commission should consider updating this policy for common practice or develop the listing indicated.

Status: The new financial manager will update credit card practices.

## **Board Clerk Appointment**

The board has not formally appointed a Road Commission “Clerk” to the board in several years. As part of the organizational meeting each year, the Board should consider appointing a “Clerk” or Secretary to the Board to assist in executing board approved documents, certifying board actions and other official duties in Accordance Section 224.9 of Public Act 283 of 1909.

Status: The Board will appoint a clerk at its organizational meeting.

## **Inventories**

Due to the increase in road material inventories in recent periods, the Board should implement specific cross section procedures to accurately report stockpile quantities. This would provide greater control and reporting over road material bulk quantities. This could be accomplished by the road engineer or subcontract to an outside engineer.

Parts inventory status report indicated variances and deleted quantities which were not reconciled to the year end general ledger. The inventory status report should be updated and reconciled annually.

Status: The new financial manager will reconcile inventories and implement cross sections. Some materials were produced in 2020 and based on production reports.

## **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](http://www.gasb.org). If you have questions regarding the applicability, timing, or implementation, please contact us.

### ***GASB Statement No. 95 – Postponement of the Effective Dates of Certain Authoritative Guidance***

This new pronouncement was adopted in May 2020 and is effective immediately. This statement postpones the effective dates of the following pronouncements and implementation guides by one year:

- Statement No. 83, *Certain Assets Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update – 2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update – 2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*

The effective dates of the following pronouncement and implementation guide are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*

**Other Matters**

We applied certain limited procedures to the management's discussion and analysis and budgetary comparison schedules, which are 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 inquires, 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 schedules of analysis, 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 Benzie County Road Commission, the cognizant audit agencies and other federal and state agencies, and pass-through entities 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**

December 15, 2020