CHIPPEWA COUNTY ROAD COMMISSION

COMPONENT UNIT
AUDITED FINANCIAL STATEMENTS

For the Year Ended December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners of the
Chippewa County Road Commission
3949 S. Mackinac Trail
Sault Ste. Marie, MI 49783

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County Road Commission (the Road Commission), a component unit of Chippewa County, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Road Commission, as of December 31, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Road Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the Road Commission's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and required supplementary information (as listed on the table of contents), be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The Additional Supplementary Information (as listed in the table of contents), is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Additional Supplementary Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2023, on our consideration of the 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 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 Road Commission's internal control over financial reporting and compliance.

Anderson, Tackman & Company, PLC
Certified Public Accountants

June 12, 2023

Chippewa County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Chippewa County Road Commission's (the Road Commission) 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.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local, and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report on the Road Commission's net position and how they have changed. "Net position" is the difference between the assets/deferred outflows of resources and liabilities/deferred inflows of resources - this is one way to ensure the Road Commission's financial health or position.

- The remaining statements are fund financial statements that focus on individual fund, reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

The Statement of Net Position and the Statement of Activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year' s activities. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources 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 changes in them. The reader can think of the Road Commission's net position (the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources) 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 are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Funds

The Road Commission currently has two funds, the General Fund and the OPEB Trust Fund (a Fiduciary Fund). All of the Road Commission's activities are accounted for in the General Fund. The General 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 approximately 8.7%, or $6,816,634 from $78,596,038 to $85,412,672 for the year ended December 31, 2022. Net position on as of the year ended December 31, 2022, and 2021 are summarized in Table 1 below.

Table 1
Net Position

	Governmental Activities	
	2022	2021
Current and Other Assets	$5,461,006	$5,238,423
Capital Assets	106,631,912	102,993,638
Total Assets	112,092,918	108,232,061
Deferred Outflows of Resources	2,496,850	695,267
Current and Other Liabilities	2,369,023	2,317,047
Non-current Liabilities	23,128,238	20,804,842
Total Liabilities	25,497,261	23,121,889
Deferred Inflows of Resources	3,679,835	7,209,401
Net Position:		
Net investment in capital assets	106,298,091	102,211,265
Restricted for County roads	(20,885,419)	(23,615,227)
Total Net Position	$85,412,672	$78,596,038

Restricted net position for operations, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements increased by $2,729,808. The net investment in capital assets increased by $4,086,826.

Changes in Net Position

A summary of changes in net position for the years ended December 31, 2022, and 2021 is summarized in Table 2 below:

Table 2
Changes in Net Position

	Governmental Activities	
	2022	2021
Program Revenue:		
Charges for Services	$3,921,901	$4,332,619
Operating Grants and Contributions	8,932,778	6,882,454
Capital Grants and Contributions	5,568,576	3,233,863
General Revenues:		
Property taxes	903,554	862,001
Gain (loss) on equipment disposal	17,900	7,188
Total Revenue	19,344,709	15,318,125
Program Expenses:		
Primary road — routine and preventative maintenance	4,412,121	5,161,293
Local road — routine and preventative maintenance	3,613,460	4,029,925
State trunkline maintenance	3,754,006	3,716,411
Net equipment expense	269,231	761,723
Net administrative expense	345,821	357,999
Non-road projects	58,449	-
Infrastructure depreciation - unallocated	2,871,608	-
Compensated absences	164,903	16,023
OPEB/Pension expense	(2,974,069)	(4,447,348)
Interest expense	12,545	29,285
Total Expenses	12,528,075	9,625,311
Change in Net Position	6,816,634	5,692,814
Net Position, Beginning of Year	78,596,038	72,903,224
Net Position, End of Year	$85,412,672	$78,596,038

The net gain of $6,816,634 was due to the following:

Net change in fund balance – total governmental funds	($81,472)
Net change in capital assets	3,638,274
Repayment of debt principal – reclassified to liability	448,552
Proceeds from borrowing	-
Change in compensated absences	(164,903)
Change in accrued interest	2,114
Change in net pension liability	(665,468)
Change in other post-employment benefits	3,639,537
Total	$6,816,634

The Road Commission's Fund

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

For the year ended December 31, 2022, the General Fund had a decrease in fund balance of $81,472, as compared to the prior year's decrease in fund balance of $374,904. Total operating revenues were $18,423,255 in the current year, an increase of $3,974,319 as compared to the prior year. This change in revenues resulted primarily from funds received in connection with the road projects completed in the prior year.

Total expenditures were $12,528,075 in the current year, an increase of $2,902,764 as compared to the prior year. This change in expenditure resulted in less funds being used for road projects completed in the prior year.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Board of County Road Commissioners 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 Assets and Debt Administration

Capital Assets

As of December 31, 2022, the Road Commission had $106,631,912 invested in capital assets, compared to $102,993,638 in the prior year. The change in capital assets is as follows:

Table 3
Capital Assets (Net of accumulated depreciation)

	Governmental Activities	
	2022	2021
Land and improvements	$61,952,104	$61,036,690
Construction in progress	-	-
Buildings	6,302,189	5,930,857
Equipment	17,953,713	17,859,892
Depletable assets	1,309,638	1,309,638
Infrastructure – Bridges	24,425,601	22,196,461
Infrastructure – Roads	47,698,265	45,708,238
Total Capital Assets	159,641,510	154,041,776
Total Accumulated Depreciation	(53,009,598)	(51,048,138)
Total Net Capital Assets	$106,631,912	$102,993,638

The Road Commission reported the infrastructure and related assets during the current year in the amount of $106,631,914, an increase of $3,638,276. The infrastructure recorded during the current fiscal year will be depreciated in the following year. The infrastructure is financed through federal, state, and local contributions.

This year's major capital asset additions included the following:

Land and improvements (Infrastructure)	$915,414
Construction in progress	-
Buildings	371,331
Equipment	120,361
Infrastructure – Bridges & Roads	6,295,565
Total Additions	$7,702,671

The Road Commission disposed of $26,539 in Road Equipment and $2,076,398 of road infrastructure during the year which was fully depreciated. More detailed information about the Road Commission's capital assets is presented in the footnotes to the financial statements.

Debt

At year end, the Road Commission had $633,597 in loans, leases, and compensated absences compared to $917,246 in the prior year, a decrease of $283,649 as shown below:

Table 4
Long-term Debt

	Governmental Activities	
	2022	2021
Loans	$112,593	$475,957
Leases	221,228	306,416
Compensated absences	299,776	134,873
Total	$633,597	$917,246

During the year the Road Commission did not issue any new debt and retired $363,364 in loans and $85,188 leases.

More detailed information about the Road Commission's long-term debt is presented in the footnotes to the financial statements.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2023 budget. One of the factors is the economy. The Road Commission derives approximately 47% of its revenues from the fuel tax collected. Using the Michigan Department of Transportation

projections, it is estimated that the Road Commission will receive an increase of 0.1% in the amount of Michigan Transportation Fund revenues in 2023. The Road Commission received approximately 4% of its revenues from city and township contributions during 2023. This amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. During 2023, we expect to receive at least $1,000,000 in federal, state, and township aid for road projects.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties with a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Chippewa County Road Commission's administrative offices at 3949 South Mackinac Trail, Sault Ste. Marie, MI 49783.

Chippewa County Road Commission

STATEMENT OF NET POSITION

December 31, 2022

ASSETS		
Current Assets:		
Cash	$	1,020,571
Accounts Receivable:		
Property taxes		920,962
Michigan Transportation funds		1,538,883
Trunkline maintenance		499,917
State Highway - Other		-
Due on County Road agreements		52,129
Sundry accounts		205,184
Inventories:		
Road materials		702,328
Equipment parts and materials		433,290
Prepaid items		87,742
Non-current Assets:		
Capital Assets:		
Land and construction in progress		61,952,104
Other capital assets, net		44,679,808
TOTAL ASSETS		112,092,918
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pension		1,974,485
Deferred outflows related to OPEB		522,365
TOTAL DEFERRED OUTFLOWS OF RESOURCES		2,496,850
LIABILITIES		
Current Liabilities:		
Accounts payable		450,999
Accrued payroll liabilities		255,564
Advances - trunkline maintenance		949,262
Unearned revenue - Forest Road (E) funds		512,596
Notes and leases payable - due within one year		200,602
Non-Current Liabilities:		
Notes and leases payable - due in more than one year		133,219
Compensated absences		299,776
Net pension liability		13,021,915
Net OPEB liability		9,673,328
TOTAL LIABILITIES		25,497,261
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pension		103,596
Deferred inflows related to OPEB		2,655,361
Deferred inflows related to property taxes levied for a subsequent period		920,878
TOTAL DEFERRED INFLOWS OF RESOURCES		3,679,835
NET POSITION		
Net investment in capital assets		106,298,091
Restricted for County roads		(20,885,419)
TOTAL NET POSITION	$	85,412,672

See accompanying notes to the financial statements.

Chippewa County Road Commission

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2022

PROGRAM EXPENSES:	
Primary road routine and preventative maintenance	$ 4,412,121
Local road routine and preventative maintenance	3,613,460
State trunkline maintenance	3,754,006
Net equipment expense	269,231
Net administrative	345,821
Non-road projects	58,449
Infrastructure depreciation	2,871,608
Compensated absences	164,903
Other post-employment benefits/pension expense	(2,974,069)
Interest Expense	12,545
TOTAL PROGRAM EXPENSES	12,528,075
PROGRAM REVENUE:	
Charges for Services:	
License and permits	23,498
Charges for services	3,897,551
Reimbursements	852
Operating Grants and Contributions:	
Michigan Transportation funds	8,926,638
Investment earnings	6,140
Capital Grants and Contributions:	
Federal grants	1,915,804
State grants	1,639,653
Contributions from local units	2,013,119
TOTAL PROGRAM REVENUES	18,423,255
NET PROGRAM REVENUE	5,895,180
GENERAL REVENUES:	
Property taxes	903,554
Gain (loss) on equipment disposal	17,900
TOTAL GENERAL REVENUES	921,454
Change in Net Position	6,816,634
Net position, beginning of year	78,596,038
NET POSITION, END OF YEAR	$ 85,412,672

See accompanying notes to the financial statements.

Chippewa County Road Commission

BALANCE SHEET

December 31, 2022

	Total
ASSETS	
Cash	$ 1,020,571
Accounts Receivable:	
Property taxes	920,962
Michigan Transportation Funds	1,538,883
Trunkline maintenance	499,917
State - other	-
Due on County road agreements	52,129
Sundry accounts	205,184
Inventories:	
Road materials	702,328
Equipment parts and materials	433,290
Prepaid items	87,742
TOTAL ASSETS	5,461,006
DEFERRED OUTFLOWS OF RESOURCES	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 5,461,006
LIABILITIES	
Accounts payable	$ 450,999
Accrued payroll liabilities	255,564
Advances - trunkline maintenance	949,262
Due to state	512,596
TOTAL LIABILITIES	2,168,421
DEFERRED INFLOWS OF RESOURCES	920,878
FUND BALANCE	
Non-spendable	1,223,360
Restricted	-
Committed	-
Assigned	-
Unassigned	1,148,347
TOTAL FUND BALANCE	2,371,707
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	$ 5,461,006

See accompanying notes to the financial statements.

Chippewa County Road Commission

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

December 31, 2022

Total Fund Balances for Governmental Funds		$ 2,371,707
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		106,631,912
Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of:		
Notes and lease payable - current	$ (200,602)	
Note and lease payable - non-current	(133,219)	
Compensated absences	(299,776)	(633,597)
Net pension liability, and related deferred (outflows)/inflows of resources, is not due and payable in the current period and is not reported in the funds.		
Net pension liability	(13,021,915)	
Deferred outflows of resources related to pension	1,974,485	
Deferred (inflows) of resources related to pension	(103,596)	(11,151,026)
Net OPEB liability, and related deferred (outflows)/inflows of resources, is not due and payable in the current period and is not reported in the funds.		
Net OPEB liability	(9,673,328)	
Deferred outflows of resources related to OPEB	522,365	
Deferred (inflows) of resources related to OPEB	(2,655,361)	(11,806,324)
NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 85,412,672

See accompanying notes to the financial statements.

Chippewa County Road Commission

STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended December 31, 2022

	Total
REVENUES:	
Property taxes	$ 903,554
License and permits	23,498
Federal sources	1,915,804
State sources	10,566,291
Contributions from local units	2,013,119
Charges for services	3,897,551
Interest and rents	6,140
Other revenue	18,752
TOTAL REVENUES	19,344,709
EXPENDITURES:	
Public works	19,605,618
Capital outlay (net)	(642,648)
Debt service	463,211
TOTAL EXPENDITURES	19,426,181
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(81,472)
OTHER FINANCING SOURCES (USES):	
Proceeds from borrowing	-
TOTAL OTHER FINANCING SOURCES (USES)	-
CHANGE IN FUND BALANCE	(81,472)
FUND BALANCE, BEGINNING OF YEAR	2,453,179
FUND BALANCE, END OF YEAR	$ 2,371,707

See accompanying notes to the financial statements.

Chippewa County Road Commission

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2022

Net Change in Fund Balances - Total Governmental Funds		$ (81,472)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays and infrastructure 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 depreciation exceeded capital outlays in the current period.		
Depreciation expense - building and equipment	$ (1,192,789)	
Depreciation expense - infrastructure	(2,871,608)	
Capital outlays - building and equipment	491,692	
Capital outlays - infrastructure - primary	6,156,718	
Capital outlays - infrastructure - local	1,054,261	
Net book value of asset disposals	-	3,638,274
Repayment of note/lease principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net position.		448,552
Proceeds from debt issuance are an other financing source in the governmental funds, but a debt issuance increases long-term liabilities in the statement of net position.		-
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(164,903)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due		2,114
Net pension liability reported in the statement of activities does not require the use of current resources, and therefore, is not reported in the fund statements until it is due for payment.		(665,468)
Some expenses reported in the statement of activities, such as other post-employment benefits, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		3,639,537
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 6,816,634

See accompanying notes to the financial statements.

Chippewa County Road Commission

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

December 31, 2022

	OPEB Trust Fund
ASSETS	
Investments at fair market value	$ 3,506,327
NET POSITION	
Restricted for Other Post Employment Benefits	$ 3,506,327

The accompanying notes are an integral part of these financial statements.

Chippewa County Road Commission

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended December 31, 2022

	OPEB Trust Fund
ADDITIONS	
Contributions - Employer	$ 1,711,388
Investment earnings:	
Net Increase (Decrease) in Fair Value of Investments	(638,517)
TOTAL ADDITIONS	1,072,871
DEDUCTIONS	
Benefit payments	1,311,388
Administrative fees and other	34,019
TOTAL DEDUCTIONS	1,345,407
CHANGES IN NET POSITION	(272,536)
Net position, beginning of year	3,778,863
NET POSITION, END OF YEAR	$ 3,506,327

The accompanying notes are an integral part of these financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of Chippewa County Road Commission (the 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 Road Commission.

Reporting Entity

The Chippewa 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 appointed by the Chippewa County Board of County Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (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 Chippewa County Road Commission, a discreetly presented component unit of Chippewa County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies 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 (the General Fund).

Fiduciary Component Unit

The OPEB Trust Fund was established to account for the assets set aside to fund the Chippewa County Road Commission's single-employer, defined benefit OPEB plan. The primary purpose of the Trust is to provide the necessary funding for the retiree health benefits provided to eligible Road Commission employees during retirement. The Trust was established through the Morgan Stanley Section 125 Trust Arrangement, with the Road Commission's Board of County Road Commissioners serving as the trustees. The assets of the Trust are for the exclusive benefit of the participants and their beneficiaries, and the assets shall not be diverted to any other purchase prior to the satisfaction of all liabilities. The assets are protected from any of the Road Commission's creditors. The Board of County Road Commissioners has the ability to exercise oversight responsibility, specifically in the area of designation of management.

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 Road Commission. There is only one fund reported in the government-wide financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

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

Fund Financial Statements

Separate financial statements are provided for the general operating fund (governmental fund). This general 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.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (i.e. statement of net position and statement of activities) 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. Property taxes are recognized as revenue in the year for which they are levied. Grants and related items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customer or applicants for goods or services or privileges provided; 2) Michigan transportation funds, State/Federal contracts, and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

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 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government. Under the terms of grant agreements, the Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

> The General Fund is the government's primary operating fund. It accounts for all financial resources of the Road Commission not accounted for and reported in another fund.

Additionally, the Road Commission reports the following fund type:

> The OPEB Trust Fund accounts for the accumulated resources for other postemployment benefit payments to qualified employees of the Road Commission.

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. The fair value measurements of investments are based on the hierarchy established by generally accepted accounting principles, which has three levels based on the valuation inputs used to measure an asset's fair value.

Property Taxes Receivable

The property tax is levied each December 1st. on the taxable valuation of property located in the County as of the preceding December 31st. The 2022 taxable valuation of $1,258,607,156 for Road Millage amounted to $1,236,078 less $315,116 for cities and villages, (on which ad valorem taxes of 0.9821 mills were levied) for road maintenance purposes resulted in a net total of $920,962.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged for 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 expenses in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items), are reported in the general fund in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than $2,500 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. GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34, and has reported the infrastructure in the Statement of Net Position.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Depreciation

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

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure—Roads	8 to 30 years
Infrastructure—Bridges	12 to 50 years

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The government reports the following in this category.

> In the financial statements, the net difference between projected and actual pension and OPEB plan investment earnings, differences between expected and actual experience, changes in assumptions and changes in proportion and differences between employer contributions and proportionate share of contributions create a deferred outflow of resources.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the general fund Statement of Net Position.

Compensated Absences (Vacation and Sick Leave)

It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds.

Pensions

For purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits (OPEB)

For purposes of measuring the net Other Post-Employment Benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the Chippewa County Road Commission Other

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Post-Employment Benefits Plan and additions to/deductions from the Road Commission's fiduciary net position have been determined on the same basis as they are reported by the Road Commission. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

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 reports the following in this category.

> In the financial statements, the net difference between projected and actual pension and OPEB plan investment earnings, differences between expected and actual experience, changes in assumptions and changes in proportion and differences between employer contributions and proportionate share of contributions create a deferred inflow of resources.
>
> The governmental funds report unavailable revenues, which arise only under a modified accrual basis of accounting, from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available. In addition, deferred inflows of resources are reported in the government-wide and governmental fund financial statements for property taxes levied during the year that were intended to finance future periods.

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 and liabilities 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 expenditure during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through June 12, 2023, which is the date of the accompanying independent auditor's report, and which is the date the financial statements were available to be issued.

NOTE B – 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. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the Board of Road Commissioners for its review and consideration. The board conducts a public hearing. The budget is amended as necessary during the year and

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

NOTE C – CASH DEPOSITS AND INVESTMENTS:

The cash and investments are classified into the following categories:

Cash – Petty cash		$150
Cash – Bank deposits		1,020,421
	Total	$1,020,571

Custodial Credit Risk – Deposits

Custodial deposit credit risk is the risk that in the event of a bank failure, the Road Commission deposits may not be returned. State law does not require, and the Road Commission does not have a policy for deposit custodial credit risk. The carrying amounts of the Road Commission's deposits with financial institutions were $1,020,421 and the bank balance was $1,788,779. The bank balance is categorized as follows:

Amount insured by FDIC		$500,000
Amount uninsured and uncollateralized		1,288,779
	Total	$1,788,779

Interest Rate Risk

The Road Commission does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

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 Governmental 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 purchase; obligations of the State of Michigan or its political subdivision which are treated 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 20 of 1943 as amended.*

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

NOTE C – CASH DEPOSITS AND INVESTMENTS (Continued):

Fair value measurement.

The Road Commission categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances where inputs used to measure fair value fall into various 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.

As of December 31, 2022, the Road Commission had the following investments:

	Fair Value at 12/31/2022	Fair Value Measurement Level 1	Level 2	Level 3
OPEB Trust Fund:				
Morgan Stanley Pooled Funds	$3,400,015	$-	$3,400,015	$-

Custodial Investment Credit Risk

Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party.

NOTE D – CAPITAL ASSETS:

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

	Balances 12/31/2021	Additions	Deletions	Balances 12/31/2022
Capital Assets Not Being Depreciated:				
Land and improvements	$61,036,690	$915,414	$-	$61,952,104
Construction in progress	-	-	-	-
Subtotal	61,036,690	915,414	-	61,952,104
Capital Assets Being Depreciated:				
Buildings	5,930,857	371,331	-	6,302,188
Road equipment	17,357,957	46,338	(26,539)	17,377,756
Shop equipment	323,648	6,810	-	330,458
Office equipment	78,077	-	-	78,077
Engineers' equipment	100,210	67,213	-	167,423
Depletable Assets	1,309,638	-	-	1,309,638
Infrastructure – Bridges	22,196,461	2,229,140	-	24,425,601
Infrastructure - Roads	45,708,238	4,066,425	(2,076,398)	47,698,265
Subtotal	93,005,086	6,787,257	(2,102,937)	97,689,406

NOTE D – CAPITAL ASSETS (Continued):

	Balances 12/31/2021	Additions	Deletions	Balances 12/31/2022
Less Accumulated Depreciation:				
Buildings	($3,168,037)	($167,884)	$-	($3,335,921)
Road equipment	(14,638,191)	(999,779)	26,539	(15,611,431)
Shop equipment	(263,064)	(7,144)	-	(270,208)
Office equipment	(76,922)	(1,155)	-	(78,077)
Engineer's equipment	(66,782)	(14,851)	-	(81,633)
Depletable Assets	(459,219)	(1,976)	-	(461,195)
Infrastructure – Bridges	(10,513,546)	(392,841)	-	(10,906,387)
Infrastructure – Roads	(21,862,377)	(2,478,767)	2,076,398	(22,264,746)
Subtotal	(51,048,138)	(4,064,397)	2,102,937	(53,009,598)
Net Capital Assets Being Depreciated	41,956,948	2,722,860	-	44,679,808
Total Net Capital Assets	$102,993,638	$3,638,274	$-	$106,631,912

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

Equipment Expense:	
Direct	$999,779
Indirect	88,663
Administrative Expense	10,194
Distributed	35,705
State Salt Shed	56,472
Depletion	1,976
Infrastructure:	2,871,608
Total Depreciation Expense	$4,064,397

NOTE E – FUND BALANCES – GOVERNMENTAL FUNDS:

Fund balances of the governmental funds are classified as follows:

Non-spendable — amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed — amounts that can be used only for specific purposes determined by a formal action of the Board of County Road Commissioners (the Board). The Board is the highest level of decision-making authority for the Road Commission. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board.

Assigned — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. This intent can be expressed by the Board through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.

Unassigned — all other spendable amounts. The unassigned classification also includes negative residual fund balance of any other governmental funds that cannot be eliminated by offsetting of Assigned fund balance amounts.

NOTE E – FUND BALANCES – GOVERNMENTAL FUNDS (Continued):

As of December 31, 2022, fund balances are composed of the following:

	General Fund
Non-spendable:	
Inventories	$1,135,618
Prepaid	87,742
Subtotal	1,223,360
Restricted:	-
Committed:	-
Assigned:	-
Unassigned	1,148,347
Total fund balances	$2,371,707

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Road Commission considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Road Commission considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of County Road Commissioners has provided otherwise in its commitment or assignment actions.

NOTE F – LONG-TERM DEBT:

The changes in long-term debt of the Road Commission are summarized as follows:

	Balances 12/31/2021	Additions	Reductions	Balances 12/31/2022	Due Within One Year
Loans:					
Truck Loan – CSB	$336,358	$-	($223,765)	$112,593	$112,593
Truck Loan – OMB	139,599	-	(139,599)	-	-
Subtotal	475,957	-	(363,364)	112,593	112,593
Leases:					
Komatsu Loader	142,652	-	(39,118)	103,534	40,412
Komatsu Excavator	163,764	-	(46,070)	117,694	47,597
Subtotal	306,416	-	(85,188)	221,228	88,009
Compensated Absences:					
Unused Vacation	50,703	-	(8,373)	42,330	-
Unused Sick Leave	84,170	173,276	-	257,446	-
Subtotal	134,873	173,276	(8,373)	299,776	-
Total	$917,246	$173,276	($456,925)	$633,597	$200,602

Truck Loan

In December 2020, a loan was issued to the Road Commission for the purchase of five trucks. The loan was originally issued for $555,775 at 2.300% per annum, with 32 consecutive payments due monthly.

NOTE F – LONG-TERM DEBT (Continued):

Truck Loan

In December 2020, a loan was issued to the Road Commission for the purchase of five trucks. The loan was originally issued for $325,974 at 3.3100% per annum, with 28 consecutive payments due monthly.

Komatsu Loader Lease

The Road Commission entered into an operating lease with Komatsu Financial in December of 2020 for the use of a loader. The agreement was originally for $208,364 at 3.250% per annum, with 52 consecutive payments due monthly.

Komatsu Excavator Lease

The Road Commission entered into an operating lease with Komatsu Financial in December of 2020 for the use of an excavator. The agreement was originally for $180,521 at 3.250% per annum, with 53 consecutive payments due monthly.

Maturities on long-term obligations are as follows:

Governmental Activities			
Maturity Year	Principal	Interest	Total
2023	$200,602	$7,217	$207,819
2024	90,912	2,971	93,883
2025	42,307	368	42,675
Total	$333,821	$10,556	$344,377

Compensated Absences – Vacation Benefits

Prior to February 1, 1981, employees with vacation time will be credited to the employee and it may be used at the employee's discretion. Beginning February 1, 1985, employees may carry forward 40 hours of vacation per year, which must be used by the end of the next calendar year. Vacation pay is calculated and paid at the current rate of pay.

Compensated Absences – Sick Leave Benefit Policies

Employees hired before February 1, 1993, may accumulate a maximum of 168 days of sick leave. Upon death or retirement, employees are paid for a maximum of 132 days at their current rate of pay. Employees hired on or after February 1, 1993, may accumulate a maximum of 600 hours of sick leave. Upon death or retirement, after 20 years of service employees are paid for 50% of their accumulated sick hours at their current rate of pay.

NOTE G – ADVANCES:

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract. The State also advances amounts for routine maintenance as part of the agreement.

NOTE H – DEFINED BENEFIT PENSION PLAN:

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided

	2021 Valuation	
	01 – Gnrl: Closed to new hires, linked to Division 10	10 – After 2/04: Open Division, linked to Division 01
Benefit Multiplier:	2.25% Multiplier (80% max)	2.25% Multiplier (80% max)
Normal Retirement Age:	60	60
Vesting:	10 years	10 years
Early Retirement (Unreduced):	55/25	55/25
Early Retirement (Reduced):	50/25	50/25
	55/15	55/15
Final Average Compensation:	5 years	5 years
COLA for Future Retirees:	N/A	N/A
Employee Contributions:	0%	0%
Act 88:	Yes: Adopted 11/20/1970	Yes: Adopted 11/20/1970

Employees covered by benefit terms.

At the December 31, 2021, valuation date, the following employees were covered by the benefit terms:

Active employees:	70
Inactive employees entitled to but not yet receiving*:	4
Inactive employees or beneficiaries currently receiving benefits:	86
Total	160

*Excluding pending refunds of 3

Contributions

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

The contribution rates as a percentage of payroll as of December 31, 2021, is as follows:

	Employer Contribution*	Employee Contribution
Division 01 – Gnrl; closed	$79,525	0.00%
Division 10 - After 2/04; open	10.64%	2.00%

*For open divisions, a percentage of pay contribution is shown. For closed divisions, a monthly dollar contribution is shown.

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued):

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2022, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of December 31, 2021.

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2021, rolled forward to December 31, 2022. The following actuarial assumptions were used and applied to all periods included in the measurement:

Inflation:	2.5%
Salary Increases:	3.00% plus merit and longevity; 3.00% in the long-term
Investment Rate of Return	7.00%, net of investment expenses and administrative expense, including inflation.

Although no specific price inflation assumptions are needed for the valuation, the 3.0% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on a version of Pub-2010 and fully generational MP-2019.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2014-2018.

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

Asset Class	Target Allocation	Target Allocation Gross Rate of Return	Long-Term Expected Gross Rate of Return	Inflation Assumption	Long-Term Expected Real Rate of Return
Global Equity	60.0%	7.00%	4.20%	2.50%	2.70%
Global Fixed Income	20.0%	4.50%	0.90%	2.50%	0.40%
Private Investments	20.0%	9.50%	1.90%	2.50%	1.40%
Total	100.0%		7.00%		4.50%

Discount rate

The discount rate used to measure the total pension liability is 7.25%. The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because, for GASB 68 purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued):

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 Net Pension Liability

Calculating the Net Pension Liability

	Increase (Decrease)		
Changes in Net Pension Liability	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances as of 12/31/2021	$22,759,349	$12,529,579	$10,229,770
Changes for the Year:			
Service Costs	397,357	-	397,357
Interest on Total Pension Liability	1,610,296	-	1,610,296
Changes in benefits	-	-	-
Difference between expected and actual experience	(83,579)	-	(83,579)
Changes in assumption	853,527	-	853,527
Employer Contributions	-	1,299,983	(1,299,983)
Employee Contributions	-	64,432	(64,432)
Net investment Income	-	(1,297,802)	1,297,802
Benefit payments, including. employee refunds	(1,494,108)	(1,494,108)	-
Administrative expense	-	(23,082)	23,082
Other changes	58,075	-	58,075
Net Changes	1,341,568	(1,450,577)	2,792,145
Balances as of 12/31/2022	$24,100,917	$11,079,002	$13,021,915

Sensitivity of the Net Pension Liability to changes in the discount rate.

The following presents the Net Pension Liability of the employer, calculated using the discount rate of 7.25% as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (6.25%) or 1% higher (8.25%) than the current rate.

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability at 12/31/2022	$13,021,915	$13,021,915	$13,021,915
Change in Net Pension Liability	2,738,762	-	(2,312,370)
Calculated Net Pension Liability	$15,760,677	$13,021,915	$10,709,545

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued):

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

For the year ended 2022 the employer recognized pension expense of $655,468. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference in experience	$-	($103,596)
Difference in assumptions	1,042,792	-
Excess (deficit) investment returns	931,693	-
Total	1,974,485	($103,596)

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

Deferred (Inflows) and Deferred Outflows of Resources by Year (to Be Recognized in Future Pension Expenses)

Plan Year Ended December 31,	Amount
2023	$513,652
2024	446,892
2025	476,440
2026	443,905
2027	-
Thereafter	-
Total	$1,870,889

Payable to the Pension Plan

At December 31, 2022, there was a reported a payable of $0 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2022.

NOTE I – DEFERRED COMPENSATION PLAN:

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are 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 (Chippewa 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 Road Commission's financial statements. The total amount contributed to the Plan for the year ended December 31, 2022, was $238,843.

NOTE J – OTHER POST EMPLOYMENT BENEFITS:

Plan Description

In addition to the pension benefits, the Chippewa County Road Commission agrees to provide 100% of BC/BS and prescription drug coverage benefits to eligible retirees and/or their spouses who retire after February 1, 1985, and who were hired prior to February 1, 2005, until retiree's death. If a retiree dies, the current spouse shall be provided the same coverage until attainment of Medicare eligibility. Upon attainment of Medicare eligibility, the retiree's spouse will be responsible for 100% of the cost of any medical coverage if they elect to stay in the group.

For eligible retirees who were hired after February 1, 2005, the Chippewa County Road Commission agrees to pay a fixed percent of the premium for BC/BS and prescription drug coverage benefits based on years of service, but only until attainment of Medicare eligibility, at which time, 100% of premium shall be paid for by the retiree and or spouse if they elect to remain in the group.

Employees covered by benefit terms.

At the December 31, 2021, the following employees were covered by the benefit terms:

Active Employees	68
Vested Former Employees	-
Retirees	69
Total	137

Contributions

The Plan was established and is being funded under the authority of the Road Commission. The Plan's funding policy is that the Road Commission will contribute $750,000 per year while continuing to pay retiree benefits from general operating funds until 100% funded status is obtained. Currently, benefit payments are made form general operating funds. There are no long-term contracts for contributions to the plan.

Net OPEB Liability

The employer's Net OPEB Liability was measured as of December 31, 2022.

Actuarial assumptions

The total OPEB liability used to calculate the Net OPEB Liability was determined by an annual actuarial valuation as of December 31, 2021 rolled forward to December 31, 2022. The following actuarial assumptions were used in the measurement:

Inflation	2.26%
Salary Increases	4.00%
Investment Rate of Return	6.70% (including inflation)
20-year Aa Municipal Bond Rate	4.31% (S&P Municipal Bond 20-Year High Grade Rate Index)
Mortality	2010 Public General Employees and Healthy Retirees, Headcount weighted
Improvement Scale	MP-2021

NOTE J – OTHER POST EMPLOYMENT BENEFITS (Continued):

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

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Large Cap US	24.00%	6.05%
Mid Cap US	3.00%	8.60%
Small Cap US	5.00%	7.80%
International Equities	25.00%	7.20%
Emerging Mkt Equity	8.00%	8.60%
US Equities Other	3.00%	8.40%
Short Term Fixed Inc.	14.00%	3.40%
US Fixed Inc.	9.00%	3.80%
International Fixed Inc.	1.00%	3.60%
Inflations – Linked	1.00%	4.90%
High Yield	3.00%	5.40%
Precious Metals (Commodities)	4.00%	6.00%
Total	100.00%	

The sum of each target allocation times its long-term expected rate of return, plus inflation, is 6.70%.

Discount rate

The discount rate used to measure the total OPEB liability was 6.70%. The projection of cash flows used to determine the discount rate assumed that the Road Commission will make annual contributions of $750,000 until the plan is fully funded. 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. 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", not applicable for this plan), 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. As of December 31, 2021, the discount rate used to value OPEB liabilities was 6.16%.

NOTE J – OTHER POST EMPLOYMENT BENEFITS (Continued):

Changes in Net OPEB Liability

Calculating the Net OPEB Liability

Changes in Net OPEB Liability	Increase (Decrease) Total OPEB Liability (a)	Plan Fiduciary Net OPEB (b)	Net OPEB Liability (a)-(b)
Balances as of 12/31/2021	$13,867,824	$3,778,863	$10,088,961
Changes for the Year:			
Service Costs	93,774	-	93,774
Interest on Total OPEB Liability	819,643	-	819,643
Changes in benefits	-	-	-
Difference between expected and actual experience	347,527	-	347,527
Changes in assumption	(637,725)	-	(637,725)
Contributions to OPEB trust	-	400,000	(400,000)
Employer Contributions	-	1,311,388	(1,311,388)
Employee Contributions	-	-	-
Net investment Income	-	(638,517)	638,517
Benefit payments, including. employee refunds	(1,311,388)	(1,311,388)	-
Administrative expense	-	(34,019)	34,019
Other changes	-	-	-
Net Changes	(688,169)	(272,536)	(415,633)
Balances as of 12/31/2022	$13,179,655	$3,506,327	$9,673,328

Sensitivity of the Net OPEB Liability to changes in the discount rate.

The following presents the Net OPEB Liability of the employer, calculated using the discount rate of 6.70%, as well as what the employer's Net OPEB Liability would be using a discount rate that is 1 percentage point lower (5.70%) or 1% higher (7.70%) than the current rate.

	1% Decrease (5.70%)	Current Discount Rate (6.70%)	1% Increase (7.70%)
Net OPEB Liability	$10,898,055	$9,673,328	$8,620,940

The following presents the Net OPEB Liability of the employer, calculated using the current healthcare cost trend rates as well as what the employer's Net OPEB Liability would be using a trend rate that is 1 percentage point lower or 1% higher than the current trend rate.

	1% Decrease	Current Trend Rate	1% Increase
Net OPEB Liability	$8,440,3337	$9,673,328	$11,107,878

NOTE J – OTHER POST EMPLOYMENT BENEFITS (Continued):

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2022, the employer recognized OPEB expense of ($3,639,537). The employer reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference in experience	$-	($1,813,453)
Difference in assumptions	-	(841,908)
Excess (deficit) investment returns	522,365	-
Total	$522,365	($2,655,361)

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

Deferred (Inflows) and Deferred Outflows of Resources by Year (to Be Recognized in Future OPEB Expenses)

Plan Year Ended December 31,	Amount
2023	($1,111,562)
2024	(1,057,714)
2025	(141,184)
2026	177,464
2027	-
Thereafter	-
Total	($2,132,996)

Payable to OPEB Plan

At December 31, 2022, the Road Commission reported a payable of $0 for the outstanding amount of contributions to the OPEB plan required for the year ended December 31, 2022.

NOTE K – 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 Commission.

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

NOTE K – CONTINGENCIES (Continued):

through member premiums and will reinsure through commercial companies for claims in excess of $1,000 ($2,000 for errors and omissions) for each insured event. The maximum limit of liability for each occurrence is $10,500,000.

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

Environmental Remediation – The Road Commission has implemented environmental impact evaluation procedures at its Trout Lake, Strongs, and Paradise, Michigan locations. The cost estimated of any environmental remediation is not determinable at this time. Ongoing monitoring of any existing contamination has been implemented at the Michigan locations and the Road Commission continues to develop plans for remediation with the Department of Environment, Great Lakes and Energy. Future potential liabilities, if any, are undeterminable as of the opinion date. The Road Commission executed provisions of a Consent Agreement for payment of fines and penalties of approximately $100,000 over a period of ten years through 2028.

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 L – FEDERAL GRANTS:

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2022, the Federal aid received and expended by the Road Commission was $1,915,804 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). The Federal aid received and expended by the Road Commission was $0 for negotiated projects. Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended $750,000. The Road Commissions single audit is completed and reported as part of the audit of Chippewa County, Michigan.

NOTE M – NEW GASB STANDARDS:

Management of the Road Commission has reviewed the following pronouncements released by the Governmental Accounting Standards Board (GASB) that are effective in the current fiscal year for applicability. Pronouncements deemed applicable to the Road Commission by management are described below in *Recently Issued and Adopted Accounting Pronouncements*; pronouncements not applicable are described in *Other Recently Issued Accounting Pronouncements*.

<u>Recently Issued and Adopted Accounting Pronouncements</u>

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of GASB 87 is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and

NOTE M – NEW GASB STANDARDS (Continued):

recognize as inflows of resources or outflows of resources on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement was originally effective for periods beginning after December 15, 2019. However, under GASB 95, the effective date was postponed by 18 months, to periods beginning after June 15, 2021. The Road Commission has implemented the requirements of the activities which apply under GASB 87.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. GASB 92 enhances comparability of accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases,* and Implementation Guide No. 2019-3, *Leases,* for interim financial reports. This Statement also addresses reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan. The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended, to reporting assets accumulated for postemployment benefits are also discussed along with the applicability of certain requirements of Statement No. 84, *Fiduciary Activities,* to postemployment benefit arrangements. Lastly, the Statement discusses measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition, reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers, reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature, and terminology used to refer to derivative instruments. This Statement was originally effective for periods beginning after June 15, 2020. However, under GASB 95, the effective date was postponed by one year, to periods beginning after June 15, 2021. The Road Commission has activities that meet the criteria for GASB 92; therefore, GASB 92 is applicable to the Road Commission.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statement No. 14 and No. 84, and a Supersession of GASB Statement No. 32.* GASB 97 increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform. This Statement also mitigates costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements. Lastly, this Statement enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. This statement is effective for periods beginning after June 15, 2021. The Road Commission has activities that meet the criteria for GASB 97; therefore, GASB 97 is applicable to the Road Commission.

NOTE M – NEW GASB STANDARDS (Continued):

In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The objective of GASB 99 is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing 1) practice issues that have been identified during implementation and application of certain GASB Statements and 2) accounting and financial reporting for financial guarantees. GASB 99 includes requirements related to the extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 and are effective upon issuance. GASB 99 also has requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, with early implementation permitted. The last requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, with early implementation permitted. The Road Commission has implemented the requirements of the activities which apply to the Road Commission under GASB 99.

<u>Other Recently Issued Accounting Pronouncements</u>

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. GASB 91 provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for account and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. This Statement was originally effective for periods beginning after December 15, 2020. However, under GASB 95, the effective date was postponed by 12 months, to periods beginning after December 15, 2021. The Road Commission does not have obligations that meet the criteria under GASB 91; therefore, GASB 91 is not applicable to the Road Commission.

NOTE N – UPCOMING 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.

<u>GASB 94: Public-Private and Public-Public Partnerships and Availability Payment Arrangements</u>
Effective for fiscal years beginning after June 15, 2022 (Road Commission's fiscal year 2023)

The requirements of this Statement will improve financial reporting by establishing the definitions of public-private and public-public partnership arrangements (PPPs) and availability payment arrangements (APAs) and providing uniform guidance on accounting and financial reporting for transactions that meet those definitions. That uniform guidance will provide more relevant and reliable information for financial statement users and create greater consistency in practice. This Statement will enhance the decision usefulness of a government's financial statements by requiring governments to report assets and liabilities related to PPPs consistently and disclose valuable information about PPP transactions. The required disclosures will allow users to

NOTE N – UPCOMING STANDARDS (Continued):

understand the scale and important aspects of a government's PPPs and evaluate a government's future obligations and assets resulting from PPPs.

Under this Statement, a PPP is defined as an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial assets, such as infrastructure or other capital assts (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Under this Statement a PPP meets the definition of a service concession arrangement (SCA) if: (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

<u>GASB 96: Subscription-Based Information Technology Arrangements</u>
Effective for fiscal years beginning after June 15, 2022 (Road Commission's fiscal year 2023)

The requirements of this Statement will improve financial reporting by establishing a definition for subscription-based information technology arrangements (SBITAs) for government end users (governments) and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. That definition and uniform guidance will result in greater consistency in practice. Establishing the capitalization criteria for implementation costs also will reduce diversity and improve comparability in financial reporting by governments. This Statement also will enhance the relevance and reliability of a government's financial statements by requiring a government to report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The disclosures will allow users to understand the scale and important aspects of a government's SBITA activities and evaluate a government's obligations and assets resulting from SBITAs.

<u>GASB 100: Accounting Changes and Error Corrections – An Amendment of GASB Stmt No. 62</u>
Effective for fiscal years beginning after June 15, 2023 (Road Commission's fiscal year 2024)

The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

NOTE N – UPCOMING STANDARDS (Continued):

This Statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in the absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

GASB 101: Compensated Absences
Effective for fiscal years beginning after December 15, 2023 (Road Commission's fiscal year 2024)

The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise

NOTE N – UPCOMING STANDARDS (Continued):

paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

REQUIRED SUPPLEMENTARY INFORMATION

Chippewa County Road Commission

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS

Last 10 Plan Years

	Plan Year Ending December 31,				
	2022	2021	2020	2019	2018
Total Pension Liability					
Service cost	$ 397,357	$ 367,323	$ 364,811	$ 335,653	$ 312,381
Interest	1,610,296	1,623,235	1,534,967	1,578,409	1,535,810
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	(83,579)	(131,286)	98,920	24,754	118,002
Changes of assumptions	853,527	513,219	584,149	-	-
Benefit payments including employee refunds	(1,494,108)	(1,481,420)	(1,494,112)	(1,497,808)	(1,404,808)
Other	58,075	(47,127)	65,087	9,386	5,968
Net Change in Total Pension Liability	1,341,568	843,944	1,153,822	450,394	567,353
Total Pension Liability, beginning of year	22,759,349	21,915,405	20,761,583	20,311,189	19,743,836
Total Pension Liability, end of year	$ 24,100,917	$ 22,759,349	$ 21,915,405	$ 20,761,583	$ 20,311,189
Plan Fiduciary Net Position					
Contributions-employer	$ 1,299,983	$ 1,245,140	$ 1,095,363	$ 1,047,895	$ 974,042
Contributions-employee	64,432	62,753	58,181	55,396	47,782
Net Investment income	(1,297,802)	1,562,843	1,276,335	1,255,648	(386,989)
Benefit payments including employee refunds	(1,494,108)	(1,481,420)	(1,494,112)	(1,497,808)	(1,404,808)
Administrative expense	(23,082)	(17,926)	(20,343)	(21,628)	(19,466)
Other	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	(1,450,577)	1,371,390	915,424	839,503	(789,439)
Plan Fiduciary Net Position, beginning of year	12,529,579	11,158,189	10,242,765	9,403,262	10,192,701
Plan Fiduciary Net Position, end of year	$ 11,079,002	$ 12,529,579	$ 11,158,189	$ 10,242,765	$ 9,403,262
Employer Net Pension Liability	$ 13,021,915	$ 10,229,770	$ 10,757,216	$ 10,518,818	$ 10,907,927
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	45.97%	55.05%	50.91%	49.34%	46.30%
Covered Employee Payroll	$ 3,968,693	$ 3,670,603	$ 3,671,723	$ 3,378,810	$ 3,211,709
Employer's Net Pension Liability as a percentage of covered employee payroll	328.12%	278.69%	292.97%	311.32%	339.63%

Notes to schedule:

Benefit Changes:	*NONE*	*NONE*	*NONE*	*NONE*	*NONE*
Changes of Assumptions:	*2022*	*2021*	*2020*	*NONE*	*NONE*

Above dates are based on measurement date, which may not necessarily tie to the fiscal year

2022 - The investment rate of return assumption was reduced from 7.35% to 7.00%

2021 - The mortality table was updated.

2020 - The investment rate of return assumption was reduced from 7.75% to 7.35%
The assumed rate of wage inflation was reduced from 3.75% to 3.00%

2016 - The mortality table was adjusted to reflect longer lifetimes.
The assumed annual rate of investment return, not of all expenses, was lowered from 8% to 7.75%
The asset smoothing was changed from 10 to 5 years.
The amortization period was moved to a fixed period amortization for the December 31, 2014 annual valuations.

Schedule is being built prospectively; ultimately ten years of data will be shown.

Chippewa County Road Commission

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS

Last 10 Plan Years
(Continued)

	Plan Year Ending December 31,				
	2017	2016	2015		
Total Pension Liability					
Service cost	$ 312,302	$ 285,706	$ 281,858		
Interest	1,505,449	1,434,259	1,397,298		
Changes of benefit terms	-	-	-		
Difference between expected and actual experience	(92,224)	81,278	-		
Changes of assumptions	-	916,942	-		
Benefit payments including employee refunds	(1,332,756)	(1,262,953)	(1,201,033)		
Other	22,721	(471)	(1,078)		
Net Change in Total Pension Liability	415,492	1,454,761	477,045		
Total Pension Liability, beginning of year	19,328,344	17,873,583	17,396,538		
Total Pension Liability, end of year	$ 19,743,836	$ 19,328,344	$ 17,873,583		
Plan Fiduciary Net Position					
Contributions-employer	$ 842,918	$ 762,975	$ 685,503		
Contributions-employee	40,590	35,320	32,043		
Net Investment income	1,223,866	993,016	(139,106)		
Benefit payments including employee refunds	(1,332,756)	(1,262,953)	(1,201,033)		
Administrative expense	(19,412)	(19,619)	(20,530)		
Other	-	-	-		
Net Change in Plan Fiduciary Net Position	755,206	508,739	(643,123)		
Plan Fiduciary Net Position, beginning of year	9,437,495	8,928,756	9,571,879		
Plan Fiduciary Net Position, end of year	$ 10,192,701	$ 9,437,495	$ 8,928,756		
Employer Net Pension Liability	$ 9,551,135	$ 9,890,849	$ 8,944,827		
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	51.62%	48.83%	49.96%		
Covered Employee Payroll	$ 3,244,097	$ 3,076,955	$ 3,086,023		
Employer's Net Pension Liability as a percentage of covered employee payroll	294.42%	321.45%	289.85%		

Notes to schedule:

Benefit Changes:	*NONE*	*NONE*	*N/A*
Changes of Assumptions:	*NONE*	*2016*	*N/A*

Above dates are based on measurement date, which may not necessarily tie to the fiscal year

Chippewa County Road Commission

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER'S PENSION CONTRIBUTIONS

Last 10 Fiscal Years

	Fiscal Year Ending December 31,				
	2022	2021	2020	2019	2018
Actuarial determined contributions	$ 1,442,784	$ 1,245,140	$ 1,095,363	$ 1,047,895	$ 974,042
Contributions in relation to the actuarially determined contribution	1,442,784	1,245,140	1,095,363	1,047,895	974,042
Contribution deficiency / (excess)	$ -	$ -	$ -	$ -	$ -
Covered Employee Payroll	$ 3,968,693	$ 3,378,810	$ 3,378,810	$ 3,211,709	$ 3,244,097
Contributions as a percentage of covered employee payroll	36.35%	36.85%	32.42%	32.63%	30.03%

Valuation Date	December 31, 2020
Measurement Date	December 31, 2022

Methods and assumptions used to determine contribution rate:

Actuarial cost method	Entry Age normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	17 years
Asset valuation method	5 year smoothed
Inflation	2.50%
Salary Increases	3.00% average, including inflation
Investment rate of return	7.35%
Retirement age	Varies depending on plan adoption by division
Mortality	50% Female/50% Male RP-2014 Group

Chippewa County Road Commission

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER'S PENSION CONTRIBUTIONS

Last 10 Fiscal Years
(continued)

	Fiscal Year Ending December 31,				
	2017	2016	2015	2014	2013
Actuarial determined contributions	$ 842,918	$ 762,975	$ 685,503	$ -	$ -
Contributions in relation to the actuarially determined contribution	842,918	762,975	685,503	-	-
Contribution deficiency / (excess)	$ -	$ -	$ -	$ -	$ -
Covered Employee Payroll	$ 3,076,955	$ 3,086,023	$ 2,660,500	$ -	$ -
Contributions as a percentage of covered employee payroll	27.39%	24.72%	25.77%		

Chippewa County Road Commission

DEFINED BENEFIT OPEB PLAN
SCHEDULE OF CHANGES IN THE EMPLOYER'S NET OPEB LIABILITY AND RELATED RATIOS

Last 10 Plan Years

	Plan Year Ending December 31,				
	2022	2021	2020	2019	2018
Total OPEB Liability					
Service Cost	$ 93,774	$ 106,750	$ 113,097	$ 235,298	$ 265,610
Interest	819,643	1,075,225	1,099,108	940,390	861,367
Changes of Benefit Terms	-	73,308	-	-	-
Difference between expected and actual experience	347,527	(3,859,812)	25,384	(195,101)	(175,598)
Changes of assumptions	(637,725)	(691,997)	(7,086)	(7,287,012)	(1,989,391)
Benefit payments including employee refunds	(1,311,388)	(1,179,566)	(1,116,829)	(1,014,717)	(806,914)
Other	-	-	-	-	-
Net Change in Total OPEB Liability	(688,169)	(4,476,092)	113,674	(7,321,142)	(1,844,926)
Total OPEB Liability beginning	13,867,824	18,343,916	18,230,242	25,551,384	27,396,310
Total OPEB Liability ending	$ 13,179,655	$ 13,867,824	$ 18,343,916	$ 18,230,242	$ 25,551,384
Plan Fiduciary Net Position					
Contributions-employer	$ 1,711,388	$ 1,829,566	$ 1,916,829	$ 1,764,717	$ 1,606,914
Contributions-employee	-	-	-	-	-
Net Investment income	(638,517)	229,438	494,383	182,778	(59,045)
Benefit payments including employee refunds	(1,311,388)	(1,179,566)	(1,116,829)	(1,014,717)	(806,914)
Administrative expense	(34,019)	(32,669)	(19,858)	(11,082)	(5,082)
Other	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	(272,536)	846,769	1,274,525	921,696	735,873
Plan Fiduciary Net Position beginning	3,778,863	2,932,094	1,657,569	735,873	-
Plan Fiduciary Net Position ending	$ 3,506,327	$ 3,778,863	$ 2,932,094	$ 1,657,569	$ 735,873
Employer Net OPEB Liability	$ 9,673,328	$ 10,088,961	$ 15,411,822	$ 16,572,673	$ 24,815,511
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	26.60%	27.25%	15.98%	9.09%	2.88%
Covered Employee Payroll	$ 3,615,308	$ 3,622,027	$ 3,978,757	$ 3,603,686	Not Available
Employer's Net OPEB Liability as a percentage of covered employee payroll	267.57%	278.54%	387.35%	459.88%	Not Available

Notes to schedule:

Benefit Changes:	*NONE*	*2021*	*NONE*	*NONE*	*NONE*
Changes of Assumptions:	*2022*	*NONE*	*NONE*	*NONE*	*NONE*

2022 - The 20-year bond rate increased from 2.25% to 4.31%
- The discount rate increased from 6.16% to 6.20%
- Investment rate changed from 6.16% to 6.70%

2021 - Plan provisions corrected to show life insurance benefit.

Schedule is being built prospectively; ultimately ten years of data will be shown.

Chippewa County Road Commission

DEFINED BENEFIT OPEB PLAN
SCHEDULE OF EMPLOYER'S OPEB CONTRIBUTIONS

Last 10 Fiscal Years

	Fiscal Year Ending December 31,				
	2022	2021	2020	2019	2018
Actuarial Determined Contributions*	$ 1,176,351	$ 1,929,608	$ 1,931,995	$ 1,495,901	$ 1,527,292
Contributions in relation to the actuarially determined contribution	1,711,388	1,829,566	1,916,829	1,764,717	1,606,914
Contribution deficiency / (excess)	$ (535,037)	$ 100,042	$ 15,166	$ (268,816)	$ (79,622)
Covered Employee Payroll	$ 3,615,308	$ 3,622,027	$ 3,978,757	$ 3,603,686	Not Available
Contributions as a percentage of covered employee payroll	32.54%	53.27%	48.56%	41.51%	Not Available

Valuation Date	December 31, 2021
Measurement Date	December 31, 2022

Methods and assumptions used to determine contribution rate:

Actuarial methods	
Actuarial cost method	Entry Age Normal (level percentage of compensation)
Asset valuation method	Market Value
Actuarial assumptions	
Discount rate	6.16% for 2022 contribution; 6.70% for December 31, 2022 liability and 2023 contribution
20-year Aa Municipal Bond Rate	4.31% (S&P Municipal Bond 20-Year High Grade Rate Index)
Salary Increases	4.00% (for purposes of allocating liability)
Investment rate of return	6.70%, including inflation
Mortality	Public General 2010 Healthy Retirees, Headcount weighted
Improvement Scale	MP-2021
Retirement age	Varies depending on plan adoption

Assumption changes since prior valuation

Discount rate changed from 6.16% to 6.70%
Investment rate changed from 6.16% to 6.70%
20-year municipal bond rate changed from 2.25% to 4.31%

Schedule is being built prospectively; ultimately ten years of data will be shown.

Chippewa County Road Commission

GENERAL FUND - BUDGETARY COMPARISON SCHEDULES
SCHEDULE OF REVENUES - BUDGET TO ACTUAL

For the Year Ended December 31, 2022

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Property Taxes:				
Taxes	$ 865,000	$ 905,000	$ 903,554	$ (1,446)
Total Property Taxes	865,000	905,000	903,554	(1,446)
Licenses and Permits:				
Permits	-	-	23,498	23,498
Total Licenses and Permits	-	-	23,498	23,498
Federal Sources:				
Surface Transportation Program	1,596,704	1,950,000	1,220,907	(729,093)
C-Funds - Federal	-	-	375,249	375,249
Bridge	-	-	-	-
Other	-	-	319,648	319,648
Total Federal Sources	1,596,704	1,950,000	1,915,804	(34,196)
State Sources:				
Michigan Transportation Fund:				
Engineering	-	-	10,000	10,000
Snow removal	-	-	637,787	637,787
Urban	-	-	563,370	563,370
Allocation	10,103,450	10,403,450	7,715,481	(2,687,969)
Total Michigan Transportation Fund	10,103,450	10,403,450	8,926,638	(1,476,812)
Other:				
Bridge	-	-	1,226,842	1,226,842
Other	-	-	-	-
Total Other	-	-	1,226,842	1,226,842
Economic Development Fund:				
Target industry	-	-	-	-
Urban congestion	-	-	-	-
Rural primary	-	-	182,455	182,455
Forest road	-	-	230,356	230,356
Other	-	-	-	-
Total Economic Development Fund	-	-	412,811	412,811
Total State Sources	10,103,450	10,403,450	10,566,291	162,841
Contributions from Local Units:				
City contribution	-	-	-	-
Township contribution	1,620,000	2,020,000	1,203,938	(816,062)
Private contribution	-	-	809,181	809,181
Total Contributions from Local Units	1,620,000	2,020,000	2,013,119	(6,881)

Chippewa County Road Commission

GENERAL FUND - BUDGETARY COMPARISON SCHEDULES
SCHEDULE OF REVENUES - BUDGET TO ACTUAL

For the Year Ended December 31, 2022

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Charges for Services:				
Trunkline maintenance	$ 3,500,000	$ 3,950,000	$ 3,162,433	$ (787,567)
Trunkline non-maintenance	-	-	487,755	487,755
Salvage sales	-	-	21,963	21,963
Other	-	-	225,400	225,400
Total Charges for Services	3,500,000	3,950,000	3,897,551	(52,449)
Interest and Rents:				
Interest earned	-	-	2,240	2,240
Property rentals	-	-	3,900	3,900
Total Interest and Rents	-	-	6,140	6,140
Other Revenue:				
Sundry refunds	-	-	-	-
Gain (loss) equipment disposal	-	-	17,900	17,900
Other	860,811	100,000	852	(99,148)
Total Other Revenue	860,811	100,000	18,752	(81,248)
TOTAL OPERATING REVENUE	$ 18,545,965	$ 19,328,450	$ 19,344,709	$ 16,259

Chippewa County Road Commission

GENERAL FUND - BUDGETARY COMPARISON SCHEDULES
SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL

For the Year Ended December 31, 2022

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Construction/Capacity Improvement				
Roads	$ -	$ -	$ 1,508	$ (1,508)
Structures	-	-	-	-
Total Construction/Capacity Improvements	-	-	1,508	(1,508)
Preservation - Structural Improvements:				
Roads	-	-	4,981,837	(4,981,837)
Structures	-	-	2,238,147	(2,238,147)
Safety projects	-	-	-	-
Total Preservation - Structural Improvements	-	-	7,219,984	(7,219,984)
Maintenance:				
Roads	10,740,598	15,639,100	3,724,967	11,914,133
Structures	-	-	131,346	(131,346)
Winter maintenance	-	-	4,000,274	(4,000,274)
Traffic control	-	-	158,481	(158,481)
Total Maintenance	10,740,598	15,639,100	8,015,068	7,624,032
Total Preservation - Structural Improvements and Maintenance	10,740,598	15,639,100	15,236,560	404,048
Other:				
Trunkline maintenance	3,500,000	3,775,000	3,266,251	508,749
Trunkline non-maintenance	-	-	487,755	(487,755)
Administrative expense	78,000	418,000	345,821	72,179
Equipment expense - net	(49,811)	300,000	269,231	30,769
Capital outlay - net	(623,500)	(700,000)	(642,648)	(57,352)
Other	-	-	-	-
Debt principal payment	438,178	465,000	446,942	18,058
Interest expense	-	-	16,269	(16,269)
Distributive expense	4,462,500	-	-	-
Total Other	7,805,367	4,258,000	4,189,621	68,379
TOTAL EXPENDITURES	$ 18,545,965	$ 19,897,100	$ 19,426,181	$ 470,919

ADDITIONAL SUPPLEMENTARY INFORMATION

Chippewa County Road Commission

ANALYSIS OF EQUITY

For the Year Ended December 31, 2022

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Total Revenues and Other Financing Sources	$ 11,002,170	$ 4,421,889	$ 3,920,650	$ 19,344,709
Total Expenditures and Other Financing Uses	10,905,359	4,870,385	3,650,437	19,426,181
Excess of Revenues Over (Under) Expenditures	96,811	(448,496)	270,213	(81,472)
Optional Transfers	-	-	-	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	96,811	(448,496)	270,213	(81,472)
FUND BALANCE, BEGINNING OF YEAR	1,023,964	926,165	503,050	2,453,179
FUND BALANCE, END OF YEAR	$ 1,120,775	$ 477,669	$ 773,263	$ 2,371,707

Chippewa County Road Commission

ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES

For the Year Ended December 31, 2022

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Property Taxes:				
Taxes	$ 700,000	$ 203,554	$ -	$ 903,554
Total Property Taxes	700,000	203,554	-	903,554
Licenses and Permits:				
Permits	23,498	-	-	23,498
Total Licenses and Permits	23,498	-	-	23,498
Federal Sources:				
Surface Transportation Program	1,220,907	-	-	1,220,907
C-Funds - Federal	375,249	-	-	375,249
Bridge	-	-	-	-
Other	319,648	-	-	319,648
Total Federal Sources	1,915,804	-	-	1,915,804
State Sources:				
Michigan Transportation Fund:				
Engineering	5,620	4,380	-	10,000
Snow removal	637,787	-	-	637,787
Urban	474,822	88,548	-	563,370
Allocation	4,335,926	3,379,555	-	7,715,481
Total Michigan Transportation Fund	5,454,155	3,472,483	-	8,926,638
Other:				
Bridge	1,226,842	-	-	1,226,842
Other	-	-	-	-
Total Other	1,226,842	-	-	1,226,842
Economic Development Fund:				
Target industry	-	-	-	-
Urban congestion	-	-	-	-
Rural primary	182,455	-	-	182,455
Forest road	-	230,356	-	230,356
Other	-	-	-	-
Total Economic Development Fund	182,455	230,356	-	412,811
Total State Sources	6,863,452	3,702,839	-	10,566,291
Contributions from Local Units:				
City contribution	-	-	-	-
Township contribution	699,133	504,805	-	1,203,938
Private contribution	-	-	-	-
Other	799,344	9,837	-	809,181
Total Contributions from Local Units	1,498,477	514,642	-	2,013,119
Charges for Services:				
Trunkline maintenance	-	-	3,162,433	3,162,433
Trunkline non-maintenance	-	-	487,755	487,755
Salvage sales	-	-	21,963	21,963
Other	-	-	225,400	225,400
Total Charges for Services	-	-	3,897,551	3,897,551

Chippewa County Road Commission

ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES

For the Year Ended December 31, 2022

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Interest and Rents:				
Interest earned	$ 939	$ 854	$ 447	$ 2,240
Property rentals	-	-	3,900	3,900
Total Interest and Rents	939	854	4,347	6,140
Other Revenue:				
Sundry refunds	-	-	-	-
Gain (loss) equipment disposal	-	-	17,900	17,900
Other	-	-	852	852
Total Other Revenue	-	-	18,752	18,752
TOTAL OPERATING REVENUE	$ 11,002,170	$ 4,421,889	$ 3,920,650	$ 19,344,709

Chippewa County Road Commission

ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES

For the Year Ended December 31, 2022

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Construction/Capacity Improvement				
Roads	$ -	$ 1,508	$ -	$ 1,508
Structures	-	-	-	-
Total Preservation - Structural Improvements	-	1,508	-	1,508
Preservation - Structural Improvements:				
Roads	$ 3,927,577	$ 1,054,260	$ -	$ 4,981,837
Structures	2,238,147	-	-	2,238,147
Safety projects	-	-	-	-
Total Preservation - Structural Improvements	6,165,724	1,054,260	-	7,219,984
Maintenance:				
Roads	1,550,992	2,173,975	-	3,724,967
Structures	118,721	12,625	-	131,346
Winter maintenance	2,634,953	1,365,321	-	4,000,274
Traffic control	98,449	60,032	-	158,481
Total Maintenance	4,403,115	3,611,953	-	8,015,068
Total Preservation - Structural Improvements and Maintenance	10,568,839	4,667,721	-	15,236,560
Other:				
Trunkline maintenance	-	-	3,266,251	3,266,251
Trunkline non-maintenance	-	-	487,755	487,755
Administrative expense	239,879	105,942	-	345,821
Equipment expense - net	96,641	96,722	75,868	269,231
Capital outlay - net	-	-	(642,648)	(642,648)
Other	-	-	-	-
Debt principal payment	-	-	446,942	446,942
Debt interest	-	-	16,269	16,269
Total Other	336,520	202,664	3,650,437	4,189,621
TOTAL EXPENDITURES	$ 10,905,359	$ 4,870,385	$ 3,650,437	$ 19,426,181

COMPLIANCE SECTION

ANDERSON, TACKMAN & COMPANY, PLC
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PARTNERS
Michael A. Grentz, CPA
William C. Sheltrow, CPA

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*

To the Board of County Road Commissioners of the
Chippewa County Road Commission
3949 S. Mackinac Trail
Sault Ste. Marie, MI 49855

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, each major fund, and the aggregate remaining fund information of Chippewa County Road Commission (the Road Commission), a component unit of Chippewa County, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements, and have issued our report thereon dated June 12, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Road Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 have not been 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 certain deficiencies in internal control described in the accompanying report to management as item 2022-001.

Board of County Road Commissioners of the
Chippewa County Road Commission

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Road Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Chippewa County Road Commission's Response to Findings

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

Purpose of this Report

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

Anderson, Tackman & Company, PLC
Certified Public Accountants

June 12, 2023

COMMUNICATIONS SECTION

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
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PARTNERS
Michael A. Grentz, CPA
William C. Sheltrow, CPA

Chippewa County Road Commission
Report to Management
For the Year Ended December 31, 2022

To the Board of County Road Commissioners and
Management of the Chippewa County Road Commission
3949 S. Mackinac Trail
Sault Ste. Marie, MI 49783

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County Road Commission (the Road Commission), a component unit of Chippewa County, as of and for the year ended December 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the Road Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

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

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiency in internal control to be a significant deficiency:

SIGNIFICANT DEFICIENCIES

2022-001 ASSIST IN PREPARING FINANCIAL STATEMENTS AND FOOTNOTES (REPEAT)

Condition/Criteria: Statement on Auditing Standards #115 requires us to communicate in writing when a client requires assistance to prepare the financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Cause of the Condition: The staff of the Road Commission does not have adequate time to prepare all the information included in the annual financial statements.

Effect: We assisted management with the external financial reporting responsibility to ensure their financial statements are in accordance with GAAP.

Recommendation: We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
    - County Road Office Manager
- Corrective Action Planned:
    - See separate Corrective Action Plan
- Anticipated Date of Completion:
    - Not applicable

The Road Commission's written response to the significant deficiencies identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, Board of County Road Commissioners, and others within the Road Commission, 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

June 12, 2023

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
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PARTNERS
Michael A. Grentz, CPA
William C. Sheltrow, CPA

Chippewa County Road Commission
Communication with Those Charged with Governance
For the Year Ended December 31, 2022

June 12, 2023

To the Board of County Road Commissioners of the
Chippewa County Road Commission
3949 S. Mackinac Trail
Sault Ste. Marie, MI 49783

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Chippewa County Road Commission (Road Commission), a component unit of Chippewa County, for the year ended December 31, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 24, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Road Commission are described in the Notes to the financial statements. Newly adopted GASB standards are disclosed in the notes to the financial statements. We noted no transactions entered into by the Road Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

> Management's estimate of accumulated depreciation and depreciation expense is based on historical costs and useful lives of the assets. Depreciation is calculated using the straight-line method. We evaluated the key factors and assumptions used to develop the current years depreciation expense and accumulated depreciation

in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of compensated absences is based on employee pay rates and the various subsidiary ledgers maintained for hour balances. We evaluated the key factors and assumptions used to develop the accrued employee benefit balances in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the Net Pension Liability is based on an actuarial performed for the Municipal Employees' Retirement System of Michigan to determine its liability. We evaluated the key factors and assumptions used to develop the Net Pension Liability, based on information provided by the GRS Retirement Plan Services, in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the Net OPEB Liability is based on an actuarial performed by Watkins Ross to determine its liability. We evaluated the key factors and assumptions used to develop the Net OPEB Liability, based on information provided by Watkins Ross, in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of the Defined Benefit Pension Plan includes significant actuarial assumptions used in calculating the valuation. GRS Retirement Plan Services was the actuarial company hired by the Retirement Board of the Municipal Employees' Retirement System of Michigan (MERS) for preparation of the annual actuarial valuation. A full listing of the actuarial assumptions used can be found MERS' Comprehensive Annual Financial Report of the Fiscal Year Ended December 31, 2021.

The disclosure of the Defined Benefit OPEB Plan includes significant actuarial assumptions used in calculating the valuation. Watkins Ross was the actuarial company hired for preparation of the annual actuarial valuation.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 12, 2023.

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

Other Audit Findings or Issues

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

Our consideration of internal control was for the limited purpose described in a separate letter 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 have not been 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 certain deficiencies in internal control described in the accompanying report to management as item 2022-001.

As part of obtaining reasonable assurance about whether the Road Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of County Road Commissioners of the
Chippewa County Road Commission

Other Matters

We applied certain limited procedures to required supplementary information (RSI), as listed in the table of contents, which supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Additional Supplementary Information, as listed in the table of contents, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries 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 supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the Board of County Road Commissioners and management of the Road Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Anderson, Tackman & Company, PLC
Certified Public Accountants

CHARLES MOSER
Vice Chairman - Drummond Island

BRIAN DECKER
Office Manager

JEREMY IC. GAGNON
Chairman - Sault Ste. Marie

ROBERT LAITINEN. P.S.
Manager

KEITH ERICKSON
Road Superintendent

KEVIN E. SPRAGUE
Member - Sault Ste. Marie

STEPHANIE BOILEAU, PE
Engineer

Corrective Action Plan
For the Year Ended December 31, 2022

June 12, 2023

In response to the findings disclosed in the audited financial statements for the year ended December 31, 2022:

2022-001 SEGREGATION OF DUTIES (REPEAT)
Corrective Action Plan:
The Road Commission is aware of this deficiency and believes smaller organizations, due to limited resources, are generally more sensitive to the cost of implementing these design controls and often have compensating controls to partially mitigate this deficiency. The Board of County Road Commissioners closely monitors all payments and reviews the financial statements on a quarterly basis. We do not foresee the need for any changes to this procedure at this time.

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