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May 5, 2025

Board of Commissioners and Management
Gratiot County
Ithaca, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Gratiot County (the County) as of and for the year ended September 30, 2024. We are required to communicate certain matters to you in accordance with generally accepted auditing standards that are related to internal control and the audit.

Our communication includes the following:

- I. Auditors' Communication of Significant Matters with Those Charged with Governance
- II. Matters for Management's Consideration

Matters for management's consideration are not required to be communicated but we believe are valuable for management.

We discussed these matters with various personnel in the County during the audit and with management. We would also be pleased to meet with you to discuss these matters at your convenience.

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

Yeo & Yeo, P.C.

Alma, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *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 engagement letter to you dated December 16, 2024. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in the footnotes of the financial statements. The County has adopted the following Governmental Accounting Standards Board Statements effective October 1, 2023:

- Statement No. 100, *Accounting Changes and Error Corrections*, improves the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. More understandable, reliable, relevant, consistent and comparable information will be provided to financial statement users for making decisions or assessing accountability. Additionally, the display and note disclosure requirements will result in more consistent, decision useful, understandable and comprehensive information for users about accounting changes and error corrections.

We noted no transactions entered into by the County during the year for which there is 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 County's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Net other postemployment benefits (OPEB) liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Disclosures in the financial statements are neutral, consistent and clear.

We have identified the following significant risks of material misstatement as part of our audit planning:

- Management override of controls
- Improper revenue recognition
- Material weakness in previous audit

Accounting Standards and Regulatory Updates

The Governmental Accounting Standards Board has released additional Statements. Details regarding these Statements are described in the footnotes of the financial statements.

Difficulties Encountered in Performing the Audit

While certain departments, such as the Treasurer's office, were ready at the beginning of scheduled fieldwork, the administrative and finance office were not. Items included on the assistance list were not available, and based on the number of audit adjustments proposed, many general ledger accounts had not yet been reviewed by management. Other than this, 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.

The following material misstatements were detected as a result of our audit procedures and corrected by management:

A financing arrangement was not properly accounted for during the fiscal year in a component unit fund. The County records the fund on the modified accrual basis within the general ledger. As such, prior to the audit adjustment, capital outlay expenditures and other financing sources were understated by approximately \$3.3 million. On the full accrual statement, this equated to capital assets and long-term liabilities being understated by approximately \$3.3 million.

There were no known uncorrected misstatements that were more than trivial other than the omitted disclosure discussed below.

Management has determined that tax abatements are immaterial both individually and in the aggregate, to the financial statements taken as a whole and have therefore not included certain disclosures related to the abatements which are typically required by accounting principles generally accepted in the United States of America.

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 auditors' 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 as of the date of the audit report.

Management's Consultations with Other 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 County's financial statements or a determination of the type of auditors' 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 County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Reports

Other information that is required to be reported to you is included in the: Independent Auditors' 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*; Independent Auditors' Report on Compliance For Each Major Federal Program; Independent Auditors' Report on Internal Control Over Compliance; Independent Auditors' Report on Schedule of Expenditures of Federal Awards Required by the Uniform Grant Guidance; and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Report on Required Supplementary Information

We applied certain limited procedures to management's discussion and analysis and the remaining required supplementary information (RSI) as described in the table of contents of the financial statements that supplements 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.

Report on Other Supplementary Information

We were engaged to report on other supplementary information as described in the table of contents of the financial statements, which accompany the financial statements but are 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.

Appendix II

Matters for Management's Consideration

In planning and performing our audit of the financial statements of the County as of and for the year ended September 30, 2024, we considered the County's internal control over financial reporting (internal control) as a basis for designing audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

However, during our audit we became aware of the following matter for management's consideration that is an opportunity for strengthening internal controls and correcting noncompliance. This letter does not affect our report dated May 5, 2025, on the financial statements of the County.

Deficit Fund Balance

The Indigent Defense Fund ended the September 30, 2024 fiscal year end with deficit fund balance totaling \$124,519. This was the result of current year expenditures in excess of current year revenue due to the County being required to pay for unanticipated defense costs. The budget was not amended to account for the additional costs and communication did not occur with the Michigan Indigent Defense Commission (MIDC) to secure additional funding. Subsequent to the fiscal year, management secured additional funding and filed a deficit elimination plan with the State of Michigan.

To ensure alignment between incurred costs and available funding, we recommend that management regularly review the programmatic activities accounted for in this fund throughout future fiscal years. If management anticipates that expenditures will exceed the available funding, it is crucial to promptly communicate with the MIDC to secure additional resources.