

Leelanau County Road Commission

Year Ended
December 31,
2019

Financial
Statements

LEELANAU COUNTY ROAD COMMISSION

ELECTED OFFICERS & PRINCIPAL OFFICIALS

For the Year Ended December 31, 2019

BOARD OF ROAD COMMISSIONERS

Robert Joyce
Chair

John Popa
Vice Chair

Greg Mikowski
Member

Tom Eckerle
Member

Jim Calhoun
Member

ROAD COMMISSION STAFF

Justin Kelenske
Manager

Keith Moore
Engineer Tech

Dave Priest
Superintendent

Joe Nedow
Finance Manager

Gino Grimaldi
Foreman - Maple City Garage

Linda Kuhn
Administrative Assistant

LEELANAU COUNTY ROAD COMMISSION
 (A Component Unit of Leelanau County, Michigan)

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

March 18, 2020

Members of the Board of County
Road Commissioners
Leelanau County Road Commission
Suttons Bay, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the *Leelanau County Road Commission* (the "Road Commission"), a discretely presented component unit of Leelanau County, Michigan, as of and for the year ended December 31, 2019, 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.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Leelanau County Road Commission as of December 31, 2019, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other 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 operating fund schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The operating fund schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 March 18, 2020, on our consideration of the Leelanau County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is 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 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 Leelanau County Road Commission's internal control over financial reporting and compliance.

Rehmann Lobson LLC

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MANAGEMENT'S DISCUSSION AND ANALYSIS

LEELANAU COUNTY ROAD COMMISSION

(A Component Unit of Leelanau County, Michigan)

Management's Discussion and Analysis

As management of the Leelanau County Road Commission (the "Road Commission), we offer the readers of the Road Commission's financial statement this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2019.

Financial Highlights

- Net position, over time, enable governmental agencies to determine their overall fiscal position. As shown on the Road Commission's condensed statement of net position, the Road Commission's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$37,269,127 at the end of the fiscal year. There was an increase of \$1,616,306 in net position during 2019.
- The general operating fund had an increase in fund balance for the year of \$456,312. Total fund balance at December 31, 2019 was \$2,900,929.

Overview of the Financial Statements

This discussion and analysis is intended to provide a basic of understanding the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in additional to the basic financial statements themselves.

Government-wide financial statements. The statement of net position presents information on all the Road Commission's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as an indicator of the Road Commission's overall fiscal position.

The statement of activities presents information showing how the Road Commission's net position changed during the most recent fiscal period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (i.e., General Fund).

Governmental funds. The General Fund is used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, the General Fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal period. Such information may be useful in evaluating a government's near-term financing requirements.

LEELANAU COUNTY ROAD COMMISSION
 (A Component Unit of Leelanau County, Michigan)

Management's Discussion and Analysis

Because the focus of the fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the fund with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the General Fund balance sheet and the statement of revenues, expenditures, and change in fund balance provide a reconciliation to facilitate this comparison between the General Fund and the government-wide statements.

The Road Commission adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis and the schedules for the MERS pension plan immediately following the notes to the financial statements.

Government-wide Financial Analysis

The Road Commission's net position increased during the fiscal year by \$1,616,306, ending the year at \$37,269,127. The following condensed statement of net position shows the composition of the Road Commission's net position at December 31:

	Net Position	
	2019	2018
Current and other assets	\$ 4,936,068	\$ 4,292,168
Capital assets, net	34,956,292	34,412,982
Total assets	<u>39,892,360</u>	<u>38,705,150</u>
Deferred outflows of resources	<u>31,067</u>	<u>467,309</u>
Other liabilities	1,174,396	2,001,915
Long-term debt	109,531	121,756
Total liabilities	<u>1,283,927</u>	<u>2,123,671</u>
Deferred inflows of resources	<u>1,370,373</u>	<u>1,395,967</u>
Net position:		
Investment in capital assets	34,956,292	34,412,982
Unrestricted	2,312,835	1,239,839
Total net position	<u>\$ 37,269,127</u>	<u>\$ 35,652,821</u>

LEELANAU COUNTY ROAD COMMISSION
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Management's Discussion and Analysis

The Road Commission's change in net position was a combination of various revenue sources and expense categories as shown in the following table.

	Change in Net Position	
	2019	2018
Program revenues:		
Charges for services	\$ 929,299	\$ 947,954
Operating grants and contributions	5,962,690	5,539,397
General revenues:		
Property taxes	1,306,607	1,240,362
Gain on sale of capital assets	38,592	56,118
Interest and rents	37,626	11,637
Total revenues	<u>8,274,814</u>	<u>7,795,468</u>
Expenses:		
Public works	<u>6,658,508</u>	<u>7,024,083</u>
Change in net position	1,616,306	771,385
Net position:		
Beginning of year	<u>35,652,821</u>	<u>34,881,436</u>
End of year	<u>\$ 37,269,127</u>	<u>\$ 35,652,821</u>

Operating grants and contributions increased by \$423,293, or 7.6%, from the prior year levels. This change was primarily due to the sale of federal aid in 2019 that did not occur in the previous year.

Total expenses decreased by \$365,575, or 5.2%, from the prior year levels. This change was primarily due to changes in the net pension liability and related deferred amounts.

Financial Analysis of the Road Commission's General Fund

For the year ended December 31, 2019, the fund balance of the General Fund increased \$456,312, as compared to an increase of \$496,326 in fund balance for the prior year. Total revenues were \$8,137,117, an increase of \$397,767 as compared to last year. Total expenditures for 2019 amounted to \$7,719,397, an increase of \$420,255 over the prior year due to increases in operating and capital costs. Additional discussion regarding the fluctuation in revenues and expenditures has been discussed previously above in relation to the Road Commission as a whole.

General Fund Budgetary Highlights

During the year, there was a small increase in appropriations between the original and final amended budget. The main reasons of the change include:

- Recognition of the impact of the increase to the Michigan Transportation Fund revenue that was more than the earlier forecasted levels.
- Recognition of a Michigan Department of Transportation Trunkline audit refund for the year 2017.
- Sale of surplus, obsolete road equipment sold at auction.

LEELANAU COUNTY ROAD COMMISSION
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Management's Discussion and Analysis

- Decision to expand the 2019 summer road maintenance program for the additional MTF revenue received during the year.

The most significant budget to actual variance was with Equipment expense (net), which came in under the final amended budget by \$346,394. The reason for this was a higher than expected fringe benefit budget allocation to Equipment expense (net) that was significant, and the actual Schedule "C" rental revenue recognized was higher than what was budgeted.

Capital Assets

The Road Commission's capital assets as of December 31, 2019 amounted to \$34,956,292 (net of accumulated depreciation). Investments in capital assets include land, infrastructure, buildings, land improvements, and equipment. The net increase in the Road Commission's investment in capital assets for the current fiscal year was \$543,310. Major capital asset events during the year included purchasing two heavy snowplow trucks, a loader and a grader, and for the infrastructure capitalized during the year.

	Capital Assets (Net of Depreciation)	
	2019	2018
Land	\$ 37,276	\$ 37,276
Infrastructure - not being depreciated	16,330,722	15,804,285
Buildings	998,138	1,083,615
Road equipment	2,353,948	1,962,308
Shop equipment	5,151	-
Office equipment	3,024	4,673
Engineering equipment	6,928	-
Yard and storage	101,534	113,718
Infrastructure - being depreciated	15,119,571	15,407,107
Total capital assets, net	<u>\$ 34,956,292</u>	<u>\$ 34,412,982</u>

Additional information regarding the Road Commission's capital assets can be found in Note 3 to the financial statements.

Long-term Debt

The Road Commission's long-term debt is comprised of compensated absences representing sick and vacation pay due to employees. Liabilities for compensated absences totaled \$109,531 and \$121,756 in 2019 and 2018, respectively.

Additional information regarding the Road Commission's long-term debt can be found in Note 4 to the financial statements.

LEELANAU COUNTY ROAD COMMISSION

(A Component Unit of Leelanau County, Michigan)

■ Management's Discussion and Analysis

Economic Factors and Next Year's Budget

The Board of County Road Commissioner's considered many factors when setting the fiscal year 2020 budget. One of the factors is the economy. The Road Commission derives approximately 45% of its revenues from fuel tax collections. Economic upturn in the State has resulted in greater consumption of fuel and consequently more Michigan Transportation Fund revenue available for distribution.

The fiscal year 2020 budget shows \$282,000 less revenue than the 2019 amended budget due primarily to no sale of federal aid and State Trunkline Audit refund budgeted for 2020, while additional preventative structural improvements are anticipated.

The Board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Leelanau County's transportation system. Therefore, the Board attempts to spend the public's money wisely, equitably and in the best interest of the motoring public and the citizens of the County.

Requests for information

This financial report is designed to provide a general overview of Road Commission finances for all those with an interest in Leelanau County Road Commission's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, may be addressed to the Leelanau County Road Commission administrative offices at 10550 E. Eckerle Road, Suttons Bay, Michigan 49682.

BASIC FINANCIAL STATEMENTS

LEELANAU COUNTY ROAD COMMISSION
(A Component Unit of Leelanau County, Michigan)

Statement of Net Position
December 31, 2019

	Governmental Activities
Assets	
Cash and investments	\$ 983,922
Receivables, net	2,504,479
Inventory	1,367,614
Prepaid items	80,053
Capital assets not being depreciated	16,367,998
Capital assets being depreciated, net	<u>18,588,294</u>
Total assets	<u>39,892,360</u>
Deferred outflows of resources	
Deferred pension amounts	<u>31,067</u>
Liabilities	
Accounts payable and accrued liabilities	176,440
Advances and deposits	409,713
Long-term liabilities:	
Due within one year	75,362
Due in more than one year	34,169
Net pension liability (due in more than one year)	<u>588,243</u>
Total liabilities	<u>1,283,927</u>
Deferred inflows of resources	
Property taxes levied for subsequent year	1,349,881
Deferred pension amounts	<u>20,492</u>
Total deferred inflows of resources	<u>1,370,373</u>
Net position	
Investment in capital assets	34,956,292
Unrestricted	<u>2,312,835</u>
Total net position	<u>\$ 37,269,127</u>

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

LEELANAU COUNTY ROAD COMMISSION
(A Component Unit of Leelanau County, Michigan)

Statement of Activities
For the Year Ended December 31, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Primary government				
Governmental activities:				
Public works	\$ 6,658,508	\$ 929,299	\$ 5,962,690	\$ 233,481
General revenues:				
Property taxes				1,306,607
Gain on sale of capital assets				38,592
Interest and rents				37,626
Total general revenues				<u>1,382,825</u>
Change in net position				1,616,306
Net position, beginning of year				<u>35,652,821</u>
Net position, end of year				<u>\$ 37,269,127</u>

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

LEELANAU COUNTY ROAD COMMISSION
 (A Component Unit of Leelanau County, Michigan)

Balance Sheet - General Fund
 December 31, 2019

	General Fund
Assets	
Cash and investments	\$ 983,922
Receivables:	
Property taxes	1,349,881
Michigan Transportation Fund	790,239
State Trunkline Maintenance	118,913
State other	58,786
Sundry accounts	186,660
Inventories:	
Road materials	1,239,668
Equipment, parts and materials	127,946
Prepaid items	80,053
Total assets	\$ 4,936,068
Liabilities	
Accounts payable	\$ 129,267
Accrued liabilities	47,173
Advances and deposits	409,713
Total liabilities	586,153
Deferred inflows of resources	
Unavailable revenue - local road projects	99,105
Property taxes levied for subsequent year	1,349,881
Total deferred inflows of resources	1,448,986
Fund balance	
Nonspendable	1,447,667
Committed	150,000
Unassigned	1,303,262
Total fund balance	2,900,929
Total liabilities, deferred inflows of resources and fund balance	\$ 4,936,068

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

LEELANAU COUNTY ROAD COMMISSION
(A Component Unit of Leelanau County, Michigan)

Reconciliation

Fund Balance for the General Fund
to Net Position of Governmental Activities
December 31, 2019

Fund balance - General Fund \$ 2,900,929

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 fund statement.

Capital assets not being depreciated	16,367,998
Capital assets being depreciated, net	18,588,294

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows of resources in the governmental funds, and thus are not included in fund balance.

Unavailable amounts due from other governments	99,105
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Certain liabilities are not due and payable in the current period, and therefore are not reported in the fund statement.

Compensated absences	(109,531)
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Certain pension-related amounts, such as the net pension liability and deferred amounts, are not due and payable in the current period or do not represent current financial resources, and therefore are not reported in the funds.

Net pension liability	(588,243)
Deferred outflows of resources related to the net pension liability	31,067
Deferred inflows of resources related to the net pension liability	(20,492)

Net position of governmental activities	<u>\$ 37,269,127</u>
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The accompanying notes are an integral part of these financial statements.

LEELANAU COUNTY ROAD COMMISSION
(A Component Unit of Leelanau County, Michigan)

Statement of Revenues, Expenditures and Change in Fund Balance
Budget and Actual - General Fund
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 1,300,135	\$ 1,310,135	\$ 1,306,607	\$ (3,528)
Permits and licenses	60,000	68,000	58,115	(9,885)
State sources:				
Michigan Transportation Fund	4,795,150	4,975,150	4,986,980	11,830
Economic Development Fund	39,750	39,750	39,731	(19)
Contributions from local units	1,052,500	852,500	836,874	(15,626)
Charges for services	965,400	922,400	871,184	(51,216)
Other revenues	12,000	42,000	37,626	(4,374)
Total revenues	<u>8,224,935</u>	<u>8,209,935</u>	<u>8,137,117</u>	<u>(72,818)</u>
Expenditures				
Preservation and maintenance:				
Primary road:				
Preservation	1,000,000	801,028	787,663	(13,365)
Maintenance	1,511,000	1,944,871	1,843,913	(100,958)
Local road:				
Preservation	1,200,000	989,637	974,418	(15,219)
Maintenance	2,059,000	2,880,202	2,805,915	(74,287)
Total preservation and maintenance	<u>5,770,000</u>	<u>6,615,738</u>	<u>6,411,909</u>	<u>(203,829)</u>
State trunkline maintenance	625,000	730,000	698,633	(31,367)
State trunkline non-maintenance	23,400	88,400	83,670	(4,730)
Administrative expense (net)	135,400	359,027	277,836	(81,191)
Equipment expense (net)	21,000	289,334	(57,060)	(346,394)
Capital outlay (net)	304,000	302,000	304,409	2,409
Fringes and insurance	1,407,700	-	-	-
Total expenditures	<u>8,286,500</u>	<u>8,384,499</u>	<u>7,719,397</u>	<u>(665,102)</u>
Revenues over (under) expenditures	(61,565)	(174,564)	417,720	592,284
Other financing sources				
Proceeds from sale of capital assets	47,000	32,000	38,592	6,592
Net change in fund balance	(14,565)	(142,564)	456,312	598,876
Fund balance, beginning of year	<u>2,444,617</u>	<u>2,444,617</u>	<u>2,444,617</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,430,052</u>	<u>\$ 2,302,053</u>	<u>\$ 2,900,929</u>	<u>\$ 598,876</u>

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

LEELANAU COUNTY ROAD COMMISSION
 (A Component Unit of Leelanau County, Michigan)

Reconciliation of Net Change in Fund Balance of the General Fund
 to Change in Net Position of Governmental Activities
 For the Year Ended December 31, 2019

Net change in fund balance - General Fund	\$ 456,312
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital assets purchased/constructed	2,886,609
Depreciation expense	(2,343,299)
Proceeds from the sale of capital assets	(38,592)
Gain on sale of capital assets	38,592
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
Change in unavailable amounts due from other governments	99,105
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>	
Change in the net pension liability and related deferred amounts	505,354
Change in the accrual for compensated absences	12,225
Change in net position of governmental activities	<u>\$ 1,616,306</u>

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

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NOTES TO FINANCIAL STATEMENTS

LEELANAU COUNTY ROAD COMMISSION

(A Component Unit of Leelanau County, Michigan)

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Leelanau County Road Commission (the "Road Commission") conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Reporting Entity

The Road Commission is a discretely presented component unit of the County of Leelanau, Michigan. The Road Commission controls the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Department of State Highways for work done by the County on State trunklines, Federal Transportation funds, and contributions from other local units of government for work performed by the Road Commission. The Road Commission is a discretely presented component unit of the County because it is an entity for which the County is considered to be financially accountable.

The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan, to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

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 primary government. Governmental activities are supported by taxes, charges for services and intergovernmental revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements (the statement of net position and the statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LEELANAU COUNTY ROAD COMMISSION
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Notes to Financial Statements

Governmental fund financial statements (General Fund balance sheet and General Fund statement of revenues, expenditures and change in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and federal revenue, charges for services, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *General Fund* is the government's primary operating fund. It accounts for all the financial resources of the Road Commission.

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.

Budgets and Budgetary Accounting

General Budgetary Policies - The Finance Manager is responsible for submitting the proposed operating budget for the following fiscal year to the Board of Road Commissioners. The Board, during its review holds public hearings to obtain public comments. The budget is legally enacted through passage of a resolution.

Budget Transfers and Amendments - The Finance Manager authorizes all budgetary transfers. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Board. All budget amendments are approved by the Board of Road Commissioners.

Budgetary Basis of Accounting - The budgets are adopted on a modified accrual basis consistent with generally accepted accounting principles (GAAP).

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Equity

Deposits

Cash and cash equivalents consist of cash on hand, demand deposit accounts, deposits held by Leelanau County, and money market deposits.

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Accounts Receivable

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectible balances at year-end are considered by management to be immaterial.

Taxes Receivable

Property taxes are levied each December 1st on the taxable valuation of property located in the County as of the preceding December 31st. There were 0.5 mills levied on the taxable value of property for road maintenance purposes in 2019, net of amounts for incorporated cities and villages (statutorily distributed based on SEV).

Although the County's 2019 ad valorem tax is levied and collectible on December 1, 2019, it is the Road Commission's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of the Road Commission's operations in the governmental fund financial statements. The tax receivable is offset to deferred inflows of resources.

Inventory

Inventory, consisting of various operating parts, supplies and road material, is determined on the first-in first-out method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

Prepaid Items

Certain payments to vendors reflect costs applicable to future years and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net position). Capital assets are defined by the Road Commission as assets, with an individual cost of more than \$5,000, or as determined by management, with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition cost at the date of donation.

Accounting standards require major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years since June 30, 1980 be inventoried and capitalized. The Road Commission has capitalized and reported the infrastructure assets on the statement of net position.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Fund.

Depreciation is recorded over the estimated useful lives of the related assets (ranging from four to fifty years), which are standard useful lives for road commissions, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

	Years
Buildings and land improvements	10-50
Road equipment	5-8
Shop equipment	5-10
Engineering equipment	4-10
Office equipment	4-10
Yard and storage	30-50
Infrastructure - roads	8-20

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 one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Road Commission reports deferred outflows of resources for changes in expected and actual investment returns, assumptions, and benefits provided in its pension plan.

Advances and Deposits

State Trunkline Adjustments

The Road Commission contracts with the Michigan Department of Transportation (MDOT) for maintenance of State highways in Leelanau County. The Road Commission is reimbursed for the actual cost of providing services. MDOT audits contract expenditures annually and the resulting adjustments are reflected as increases or decreases in revenues in subsequent periods.

Advances and Deposits

Advances and deposits payable are reported in the Road Commission's government-wide and General Fund financial statements for amounts paid by citizen's for driveway inspections prior to having construction work done. These deposits will be returned to the appropriate citizen once the Road Commission engineer has inspected the completed work.

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Notes to Financial Statements

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits depending on the date of hire. All accrued vacation and sick pay benefits are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

Employees accrue vacation time based on a scale of longevity and is payable upon termination, death or retirement. Employees may accumulate a maximum of 600 hours of sick leave. Upon death or retirement, employees are paid for 50% of their accumulated sick hours to a maximum of 280 hours at their current rate of pay.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position 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 one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds also report unavailable revenues, which arise only under a modified accrual basis of accounting that are reported as deferred inflows of resources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. 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. In addition, the Road Commission reports deferred inflows of resources for changes in expected and actual experience and investment returns in its pension plan.

Fund Equity

The Road Commission reports nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of County Road Commissioners (the government's highest level of decision-making authority). A formal resolution of the Board of County Road Commissioners is required to establish, modify, or rescind a fund balance commitment. The Road Commission reports assigned fund balance for amounts that are constrained by the Road Commission's intent to be used for specific purposes, but are neither restricted nor committed. The Board of County Road Commissioners has delegated the authority to assign fund balance to the Road Commission Manager or his/her designee. Unassigned fund balance is the residual classification for the General Fund.

When the Road Commission incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Road Commission's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

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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 Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, and expenditures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

2. DEPOSITS AND INVESTMENTS

The Road Commission's deposits, presented as cash and investments in the statement of net position, consisted of the following:

Deposits and investments	
Deposits held with Leelanau County	\$ 502,048
Investments	481,774
Cash on hand	<u>100</u>
Total	<u>\$ 983,922</u>

The Road Commission's investments are summarized as follows:

Investment	Maturity	Fair Value	Rating
Investments carried at net asset value:			
MI CLASS Investment Pool	N/A	<u>\$ 481,774</u>	S&P AAAm

Investments in Entities that Calculate Net Asset Value per Share

The Road Commission holds shares in Michigan CLASS whereby the fair value of the investment is measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient.

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At year end, the net asset value of the Road Commission's investment in Michigan CLASS was \$481,774. The investment pool had no unfunded commitments, specific redemption frequency or redemption notice period required. The Michigan CLASS investment pool invests in U.S. treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper (rated 'A-1' or better) collateralized bank deposits, repurchase agreements (collateralized at 102% by Treasuries and agencies), and approved money-market funds. The program seeks to provide safety, liquidity, convenience, and competitive rates of return, and is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statutes and are available for investment by Michigan counties, cities, townships, school districts, authorities and other public agencies.

Investment and Deposit Risk

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified under "statutory authority" below. The Road Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the Road Commission's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in "statutory authority" below. The Road Commission's investment policy does not allow investments in banker acceptances or mutual funds. The credit ratings on the Road Commission's investments are identified above.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require, and the Road Commission does not have, a policy for deposit custodial risk. As of year-end, \$0 of the bank balance of \$135,282, excluding amounts held by the County, was exposed to custodial credit risk because it was uninsured and uncollateralized. Deposits of the Road Commission held by Leelanau County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole and cannot be separately identified for the Road Commission.

Custodial Credit Risk - Investments. For an 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 collateral securities that are in the possession of an outside party. The Road Commission minimizes custodial credit risk by limiting investments to the types of securities listed in the Road Commission's investment policy and by pre-qualifying the financial institutions, broker/dealers, intermediaries, set forth in accordance with the Road Commission's investment policy. There is no custodial credit risk to the Road Commission as all investments are held in the Road Commission's name.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the Road Commission's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk. The Road Commission minimizes concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. All investments held at year-end are reported above.

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■ **Notes to Financial Statements**

Statutory Authority

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

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Notes to Financial Statements

3. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 37,276	\$ -	\$ -	\$ 37,276
Infrastructure - roads	15,804,285	526,437	-	16,330,722
Total capital assets not being depreciated	<u>15,841,561</u>	<u>526,437</u>	<u>-</u>	<u>16,367,998</u>
Capital assets, being depreciated:				
Land improvements	52,064	-	-	52,064
Buildings	2,001,695	4,766	-	2,006,461
Road equipment	10,952,917	1,107,198	(506,519)	11,553,596
Shop equipment	147,072	5,519	(1,229)	151,362
Office equipment	9,796	-	-	9,796
Engineering equipment	20,165	7,045	-	27,210
Yard and storage	601,188	-	-	601,188
Infrastructure - roads	34,927,140	1,235,644	-	36,162,784
Total capital assets being depreciated	<u>48,712,037</u>	<u>2,360,172</u>	<u>(507,748)</u>	<u>50,564,461</u>
Less accumulated depreciation for:				
Land improvements	(52,064)	-	-	(52,064)
Buildings	(918,080)	(90,243)	-	(1,008,323)
Road equipment	(8,990,609)	(715,558)	506,519	(9,199,648)
Shop equipment	(147,072)	(368)	1,229	(146,211)
Office equipment	(5,123)	(1,649)	-	(6,772)
Engineering equipment	(20,165)	(117)	-	(20,282)
Yard and storage	(487,470)	(12,184)	-	(499,654)
Infrastructure - roads	(19,520,033)	(1,523,180)	-	(21,043,213)
Total accumulated depreciation	<u>(30,140,616)</u>	<u>(2,343,299)</u>	<u>507,748</u>	<u>(31,976,167)</u>
Capital assets being depreciated, net	<u>18,571,421</u>	<u>16,873</u>	<u>-</u>	<u>18,588,294</u>
Total capital assets, net	<u>\$ 34,412,982</u>	<u>\$ 543,310</u>	<u>\$ -</u>	<u>\$ 34,956,292</u>

Depreciation expense of \$2,343,299 was charged to public works in 2019.

Non-depreciable roads infrastructure included in the table above consists of land improvements which are not expected to be replaced during road repairs or resurfacing, including excavating, grading, graveling, and shoulder restoration costs. As the estimated useful life for these costs is not readily determinable, they have been classified as non-depreciable.

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Notes to Financial Statements

4. LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 121,756	\$ 153,682	\$ (165,907)	\$ 109,531	\$ 75,362

5. FUND BALANCES

Detailed information on the fund balance of the Road Commission's General Fund is as follows:

Nonspendable:	
Inventory	\$ 1,367,614
Prepays	80,053
Total nonspendable	<u>1,447,667</u>
Committed for emergency shoreline repair/remediation	150,000
Unassigned	<u>1,303,262</u>
Total fund balance	<u>\$ 2,900,929</u>

6. PENSION PLAN

Defined Benefit Pension Plan

General Information About the Plan

Plan Description. The Road Commission participates in the Municipal Employees' Retirement System (MERS) of Michigan, a defined benefit pension plan providing certain retirement, disability and death benefits to plan members and beneficiaries. 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. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. 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. Pension benefits are calculated as final average compensation (based on a 5 year period) and multipliers at 2.0%. Participants are considered to be fully vested in the plan after 10 years. Normal retirement age is 60 with early retirement at age 50 with 25 years of service or age 55 with 15 years of service. The plan is closed to new entrants.

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Employees Covered by Benefit Terms. At December 31, 2018, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	31
Inactive employees entitled to but not yet receiving benefits	15
Active employees	16
Total membership	<u><u>62</u></u>

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. In addition, the employer may establish contribution rates to be paid by its covered employees.

Monthly required employer contributions were \$12,542 during the year ended December 31, 2019, while employees contributed 4.0% to the plan.

Net Pension Liability. The Road Commission's net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018.

Actuarial Assumptions. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation

Although no explicit price inflation assumption is used in the valuation, the long-term annual rate of price inflation implicit in the 3.75% base wage inflation is 2.5%.

The mortality table used to project the mortality experience of non-disabled plan members is a 50% male, 50% female blend of the following tables:

- The RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%
- The RP-2014 Employee Mortality Tables
- The RP-2014 Juvenile Mortality Tables

The mortality table used to project the mortality experience of disabled plan members is 50% Male, 50% Female blend of RP-2014 Disabled Retiree Mortality Tables.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	55.5%	6.15%	3.41%
Global fixed income	18.5%	1.26%	0.23%
Real assets	13.5%	7.22%	0.98%
Diversifying strategies	12.5%	5.00%	0.63%
	<u>100.0%</u>		
Inflation			2.50%
Administrative expenses netted above			<u>0.25%</u>
Investment rate of return			<u><u>8.00%</u></u>

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2018 was 8.0%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Changes in Net Pension Liability

The components of the change in the net pension liability are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2018	\$ 7,650,599	\$ 6,196,101	\$ 1,454,498
Changes for the year:			
Service cost	68,404	-	68,404
Interest	594,840	-	594,840
Differences between expected and actual experience	(40,985)	-	(40,985)
Employer contributions	-	600,000	(600,000)
Employee contributions	-	30,146	(30,146)
Net investment income	-	853,664	(853,664)
Benefit payments, including refunds of employee contributions	(498,590)	(498,590)	-
Administrative expense	-	(14,728)	14,728
Other changes	(19,432)	-	(19,432)
Net changes	104,237	970,492	(866,255)
Balances at December 31, 2019	\$ 7,754,836	\$ 7,166,593	\$ 588,243

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the Road Commission, calculated using the discount rate of 8.00%, as well as what the Road Commission's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate:

1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
\$ 1,319,856	\$ 588,243	\$ (44,780)

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

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Notes to Financial Statements

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

For the year ended December 31, 2019, the Road Commission recognized pension expense of \$94,646. The Road Commission reported deferred outflows/inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ -	\$ 20,492	\$ (20,492)
Net difference between projected and actual earnings on pension plan investments	31,067	-	31,067
Total	\$ 31,067	\$ 20,492	\$ 10,575

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

Year Ended December 31,	Amount
2020	\$ (25,705)
2021	25,709
2022	81,230
2023	(70,659)
Total	\$ 10,575

Payable to the Pension Plan. At December 31, 2019, the Road Commission reported a payable of \$51,922 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2019.

Defined Contribution Pension Plan

The Road Commission's defined contribution pension provides pension benefits for employees hired after July 1, 2014. New employees are added to the defined contribution plan after hire. Employees vest immediately upon contribution. Plan members are required to contribute 4% of their annual salary. The Road Commission contributes a matching percentage. Employer contributions were \$30,580 and employee contributions were \$30,580 for the year ended December 31, 2019. The Plan is administered by MERS, and is not considered a fiduciary activity of the Road Commission under GASB Statement No. 84.

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■ **Notes to Financial Statements**

Deferred Compensation Plan

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan were held in trust, (custodial account or annuity contract) as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Leelanau 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. The Road Commission remits withholdings from participants to the administrator and retains no liability. The 457 deferred compensation plan is not considered a fiduciary activity of the Road Commission under GASB Statement No. 84.

■ **7. RISK MANAGEMENT**

The Road Commission is exposed to various risks related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (the "Pool"). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, trunk line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

■ **8. CONTINGENCIES**

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being eligible under the terms of the grants. Questioned costs could lead to reimbursement to the grantor agencies. Management believes such disallowances, if any, would not be material to the financial position of the Road Commission.

■ **9. FEDERAL REVENUE**

The Road Commission is an indirect beneficiary of federal funds that are expended directly by the Michigan Department of Transportation. These expenditures are included in the single audit for the State of Michigan. In addition, the Road Commission has entered into contracts with a local tribal government, in which management has determined constitute a vendor relationship. While the related amounts have been recorded as federal revenues, given the vendor relationship, these are not considered federal revenues subject to single audit. Because the Road Commission expended less than \$750,000 in directly administered federal awards, no single audit was required for the year ended December 31, 2019.



REQUIRED SUPPLEMENTARY INFORMATION

LEELANAU COUNTY ROAD COMMISSION
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Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Changes in Net Pension Liability and Related Ratios

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Total pension liability					
Service cost	\$ 68,404	\$ 75,638	\$ 87,575	\$ 101,926	\$ 98,043
Interest	594,840	588,250	581,951	538,670	516,891
Differences between expected and actual experience	(40,985)	(94,551)	(145,676)	144,554	-
Changes of assumptions	-	-	-	359,724	-
Benefit payments, including refunds of employee contributions	(498,590)	(428,935)	(371,949)	(333,051)	(295,302)
Other changes	(19,432)	(19,578)	(38,702)	(40,145)	(38,703)
Net change in total pension liability	104,237	120,824	113,199	771,678	280,929
Total pension liability, beginning of year	7,650,599	7,529,775	7,416,576	6,644,898	6,363,969
Total pension liability, end of year	7,754,836	7,650,599	7,529,775	7,416,576	6,644,898
Plan fiduciary net position					
Employer contributions	600,000	630,000	582,000	486,000	473,484
Employee contributions	30,146	34,603	38,677	43,676	49,761
Net investment income (loss)	853,664	(252,496)	709,362	527,239	(67,576)
Benefit payments, including refunds of employee contributions	(498,590)	(428,935)	(371,949)	(333,051)	(295,302)
Administrative expense	(14,728)	(12,244)	(11,195)	(10,399)	(9,827)
Net change in plan fiduciary net position	970,492	(29,072)	946,895	713,465	150,540
Plan fiduciary net position, beginning of year	6,196,101	6,225,173	5,278,278	4,564,813	4,414,273
Plan fiduciary net position, end of year	7,166,593	6,196,101	6,225,173	5,278,278	4,564,813
Road Commission's net pension liability	\$ 588,243	\$ 1,454,498	\$ 1,304,602	\$ 2,138,298	\$ 2,080,085
Plan fiduciary net position as a percentage of total pension liability	92.4%	81.0%	82.7%	71.2%	68.7%
Covered payroll	\$ 753,650	\$ 874,715	\$ 966,929	\$ 1,197,106	\$ 1,153,314
Road Commission's net pension liability as a percentage of covered payroll	78.1%	166.3%	134.9%	178.6%	180.4%

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

The changes of assumptions in 2016 primarily related to an adjustment to the mortality table to reflect longer lifetimes, the assumed annual rate of return, net of all expenses, was lowered from 8.0% to 7.75%, and the asset smoothing was changed from 10 to 5 years.

LEELANAU COUNTY ROAD COMMISSION
 (A Component Unit of Leelanau County, Michigan)

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of the Net Pension Liability

Year Ended December 31,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered Payroll	Net Pension Liability as Percentage of Covered Payroll
2019	\$ 7,754,836	\$ 7,166,593	\$ 588,243	92.4%	\$ 753,650	78.1%
2018	7,650,599	6,196,101	1,454,498	81.0%	874,715	166.3%
2017	7,529,775	6,225,173	1,304,602	82.7%	966,929	134.9%
2016	7,416,576	5,278,278	2,138,298	71.2%	1,197,106	178.6%
2015	6,644,898	4,564,813	2,080,085	68.7%	1,153,314	180.4%

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

LEELANAU COUNTY ROAD COMMISSION
(A Component Unit of Leelanau County, Michigan)

Required Supplementary Information
MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Contributions

Year Ended December 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2019	\$ 150,504	\$ 600,000	\$ (449,496)	\$ 753,650	79.6%
2018	183,732	630,000	(446,268)	874,715	72.0%
2017	214,116	582,000	(367,884)	966,929	60.2%
2016	175,188	486,000	(310,812)	1,197,106	40.6%
2015	323,484	473,484	(150,000)	1,153,314	41.1%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated as of the December 31 that is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates (2019, based on the 12/31/2017 actuarial valuation):

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	14 years
Asset valuation method	5-year smooth market
Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Normal retirement age	Age 60
Mortality	50% Female/50% Male blend of the RP-2014 Healthy Annuitant Mortality Tables with rates multiplied by 105%, the RP-2014 Employee Mortality Tables, and the RP-2014 Juvenile Mortality Tables

SUPPLEMENTARY INFORMATION

LEELANAU COUNTY ROAD COMMISSION
(A Component Unit of Leelanau County, Michigan)

General Operating Fund

Schedule of Revenues By Component
For the Year Ended December 31, 2019

	Primary Road Funds	Local Road Funds	County Road Commission Funds	Total
Revenues				
Property taxes	\$ -	\$ -	\$ 1,306,607	\$ 1,306,607
Permits and licenses	14,529	43,586	-	58,115
State sources:				
Michigan transportation funds:				
Engineering	6,659	3,341	-	10,000
Snow removal	69,605	208,813	-	278,418
Urban	85,910	40,435	-	126,345
Allocation	3,044,673	1,527,544	-	4,572,217
	<u>3,206,847</u>	<u>1,780,133</u>	<u>-</u>	<u>4,986,980</u>
Economic development funds:				
Forest road	-	39,731	-	39,731
Contributions from local units:				
Township contributions	105,215	169,159	-	274,374
Other	562,500	-	-	562,500
	<u>667,715</u>	<u>169,159</u>	<u>-</u>	<u>836,874</u>
Charges for services:				
State trunkline maintenance	-	-	698,634	698,634
State trunkline non-maintenance	-	-	83,670	83,670
Salvage sales	-	-	2,431	2,431
Other	-	-	86,449	86,449
	<u>-</u>	<u>-</u>	<u>871,184</u>	<u>871,184</u>
Other:				
Interest earned	-	-	37,626	37,626
Total revenues	<u>\$ 3,889,091</u>	<u>\$ 2,032,609</u>	<u>\$ 2,215,417</u>	<u>\$ 8,137,117</u>

LEELANAU COUNTY ROAD COMMISSION
 (A Component Unit of Leelanau County, Michigan)

General Operating Fund
 Schedule of Expenditures By Component
 For the Year Ended December 31, 2019

	Primary Road Funds	Local Road Funds	County Road Commission Funds	Total
Expenditures				
Preservation	\$ 787,663	\$ 974,418	\$ -	\$ 1,762,081
Maintenance	1,843,913	2,805,915	-	4,649,828
State trunkline maintenance	-	-	698,633	698,633
State trunkline non-maintenance	-	-	83,670	83,670
Administrative expense (net)	114,029	163,807	-	277,836
Equipment expense (net)	(15,682)	(30,161)	(11,217)	(57,060)
Capital outlay (net)	167,851	139,792	(3,234)	304,409
Total expenditures	<u>\$ 2,897,774</u>	<u>\$ 4,053,771</u>	<u>\$ 767,852</u>	<u>\$ 7,719,397</u>

LEELANAU COUNTY ROAD COMMISSION
 (A Component Unit of Leelanau County, Michigan)

General Operating Fund
 Schedule of Change in Fund Balance By Component
 For the Year Ended December 31, 2019

	Primary Road Funds	Local Road Funds	County Road Commission Funds	Total
Total revenues	\$ 3,889,091	\$ 2,032,609	\$ 2,215,417	\$ 8,137,117
Total expenditures	2,897,774	4,053,771	767,852	7,719,397
Revenues over (under) expenditures	991,317	(2,021,162)	1,447,565	417,720
Other financing sources (uses)				
Proceeds from sale of capital assets	21,279	14,603	2,710	38,592
Interfund transfers	(1,012,596)	2,006,559	(993,963)	-
Total other financing sources (uses)	(991,317)	2,021,162	(991,253)	38,592
Net change in fund balance	-	-	456,312	456,312
Fund balance, beginning of year	-	-	2,444,617	2,444,617
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,900,929</u>	<u>\$ 2,900,929</u>

INTERNAL CONTROL AND COMPLIANCE

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**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**

March 18, 2020

Members of the Board of County
Road Commissioners
Leelanau County Road Commission
Suttons Bay, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the **Leelanau County Road Commission** (the "Road Commission"), a discretely presented component unit of Leelanau County, Michigan, as of and for the year ended December 31, 2019, 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 March 18, 2020.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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. 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.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Road Commission'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.

Rehmann Loborn LLC



Rehmann Robson

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INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

March 18, 2020

Members of the Board of County
Road Commissioners
Leelanau County Road Commission
Suttons Bay, Michigan

We have audited the financial statements of the governmental activities and the major fund of the **Leelanau County Road Commission** (the "Road Commission"), a discretely presented component unit of Leelanau County, Michigan, as of and for the year ended December 31, 2019, and have issued our report thereon dated March 18, 2020. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated February 29, 2020, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Road Commission solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated March 18, 2020. In addition, we noted a certain other matter which is included in Attachment A to this letter.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on February 18, 2020.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Road Commission's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Road Commission is included in Note 1 to the financial statements.

There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units. In addition, the financial statements include a net pension liability and other pension-related amounts, which are dependent on estimates made by the plan. These estimates are based on historical trends and industry standards, but are not within the control of management.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. We did not identify any misstatements during our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Road Commission's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in Attachment C to this letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Road Commission, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Road Commission's auditors.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. 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.

Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment B to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

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

Very truly yours,

Rehmann Lobson LLC

LEELANAU COUNTY ROAD COMMISSION
(A Component Unit of Leelanau County, Michigan)

■ **Attachment A - Comments and Recommendations**

For the December 31, 2019 Audit

During our audit, we became aware of a certain other matter that is an opportunity for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding the matter. Our consideration of the Road Commission's internal control over financial reporting is described in our report, dated March 18, 2020, issued in accordance with *Government Auditing Standards*. This memorandum does not affect that report or our report dated March 18, 2020, on the financial statements of the Leelanau County Road Commission.

Segregation of Duties - Cash Receipting

For most of 2019, the Finance Manager was responsible for posting cash receipts, making deposits, reconciling bank accounts, signing checks, general ledger maintenance, and posting adjustments to inventory. However, we noted that, near year-end, several improvements to the system of internal controls were made in an effort to allow for improved segregation of duties and independent review and approval, and we commend the Road Commission for these changes. We recommend that management monitor these revised policies in the subsequent year to ensure they are operating as designed, and continue to look critically at all areas of the Road Commission's operations to identify any additional segregation of duties issues that can be practically overcome.

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LEELANAU COUNTY ROAD COMMISSION
(A Component Unit of Leelanau County, Michigan)

■ **Attachment B - Upcoming Changes in Accounting Standards / Regulations**
For the December 31, 2019 Audit

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

GASB 87 ■ Leases

Effective 12/15/2020 (your FY 2020)

This standard establishes a single model for reporting all leases (including those previously classified as operating and capital). Lessees will now report offsetting intangible lease assets and lease liabilities equal to the present value of future lease payments. Lessors will report offsetting lease receivables and deferred inflows of resources.

GASB 89 ■ Accounting for Interest Cost Incurred before the End of a Construction Period

Effective 12/15/2020 (your FY 2020)

This standard eliminates the requirement for governments to capitalize interest during the construction period for business-type activities. As this simplifies the accounting for interest, early implementation is encouraged. We do not expect this standard to have any significant effect on the Road Commission.

GASB 91 ■ Conduit Debt Obligations

Effective 12/15/2021 (your FY 2021)

This standard defines "conduit debt obligations", where a government issues debt whose proceeds are received and repaid by a third-party obligor without the issuer being primarily liable. The standard requires issuers to disclose conduit debt obligations, but not to record a liability unless it is more likely than not that a commitment made by the issuer will require it to support one or more debt payments for a conduit debt obligation. We do not expect this standard to have any significant effect on the Road Commission.

GASB 92 ■ Omnibus 2020

Effective 06/15/2021 (your FY 2021)

This standard includes a variety of small technical revisions to previously issued GASB statements. We do not expect this standard to have any significant effect on the Road Commission.



LEELANAU COUNTY ROAD COMMISSION
(A Component Unit of Leelanau County, Michigan)

■ **Attachment C - Management Representations**
For the December 31, 2019 Audit

The following pages contain the written representations that we requested from management.



March 18, 2020

Rehmann Robson
107 South Cass Street, Suite A
Traverse City, Michigan 49684

This representation letter is provided in connection with your audit of the financial statements of the governmental activities and the major fund of the *Leelanau County Road Commission* (the "Road Commission"), a discretely presented component unit of Leelanau County, Michigan, as of and for the year ended December 31, 2019, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and the budgetary comparison for the General Fund of the Road Commission in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of March 18, 2020:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 29, 2020, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We acknowledge our responsibility 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
8. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

Commissioners

Jim Calhoun
John Popa
Robert Joyce
Greg Mikowski
Tom Eckerle

Staff

Manager – Justin Kelenske
Superintendent – Dave Priest
Finance Manager – Joe Nedow
Engineer Tech – Keith Moore
Fleet Manager – Dustin Albrecht

General Contact Info

Phone (231) 271-3993
Fax (231) 271-5612
e-mail lcrc@leelanauroads.org
<http://leelanaucountyroads.org>



9. With regard to items reported at fair value:
 - a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
10. All funds and activities are properly classified.
11. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
12. All components of net position and fund balance classifications have been properly reported.
13. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
14. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
15. All interfund and intra-entity transactions and balances have been properly classified and reported.
16. Deposit and investment risks have been properly and fully disclosed.
17. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
18. All required supplementary information is measured and presented within the prescribed guidelines.
19. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
20. We are responsible for the fair presentation of the Road Commission's net pension liability as calculated by the Municipal Employees' Retirement System of Michigan (MERS) and related amounts.
21. We provided MERS with complete and accurate information regarding the Road Commission's participation in the plan, and have reviewed the information provided by MERS for inclusion in the Road Commission's financial statements.

Information Provided

22. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
23. All transactions have been recorded in the accounting records and are reflected in the financial statements.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.



24. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the financial statements.
25. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
26. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
27. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
28. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
29. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
30. We have disclosed to you all guarantees, whether written or oral, under which the government is contingently liable.
31. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
32. There are no:
 - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
33. The government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
34. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
35. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

Supplementary Information in Relation to the Financial Statements as a Whole

36. With respect to the supplementary information accompanying the financial statements:
 - a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
 - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.



- c. The methods of measurement or presentation have not changed from those used in the prior period.
- d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

Required Supplementary Information

37. With respect to the required supplementary information accompanying the financial statements:
- a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
 - b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

A handwritten signature in blue ink, appearing to read "Joe Nedow", is written above a horizontal line.

Joe Nedow, Finance Manager

A handwritten signature in black ink, appearing to read "Justin Kelenske", is written above a horizontal line.

Justin Kelenske, Manager