

Leelanau County Road Commission

Year Ended
December 31, 2020

Financial
Statements

Rehmann

LEELANAU COUNTY ROAD COMMISSION

ELECTED OFFICERS & PRINCIPAL OFFICIALS

For the Year Ended December 31, 2020

BOARD OF ROAD COMMISSIONERS

Robert Joyce
Chair

John Popa
Member

Greg Mikowski
Vice Chair

Jim Calhoun
Member

ROAD COMMISSION STAFF

Brendan Mullane
Manager

Keith Moore
Engineer Tech

Dave Priest
Superintendent

Joe Nedow
Finance Manager of Record

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

Month //, 2021

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, 2020, 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, 2020, 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 Month //, 2021, on our consideration of the Leelanau County Road Commission's internal control over financial reporting and on 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.

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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, 2020.

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 exceeded its liabilities and deferred inflows of resources by \$38,872,769 at the end of the fiscal year. There was an increase of \$1,603,642 in net position during 2020.
- The general operating fund had a decrease in fund balance for the year of \$385,323. Total fund balance at December 31, 2020 was \$2,515,606.

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, 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).

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

Management's Discussion and Analysis

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.

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.

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

Management's Discussion and Analysis

Government-wide Financial Analysis

The Road Commission's net position increased during the fiscal year by \$1,603,642, ending the year at \$38,872,769. The following condensed statement of net position shows the composition of the Road Commission's net position at December 31:

	Net Position	
	2020	2019
Current and other assets	\$ 4,859,218	\$ 4,936,068
Capital assets, net	36,479,093	34,956,292
Total assets	41,338,311	39,892,360
Deferred outflows of resources	-	31,067
Other liabilities	670,550	1,174,396
Long-term debt	100,766	109,531
Total liabilities	771,316	1,283,927
Deferred inflows of resources	1,694,226	1,370,373
Net position:		
Investment in capital assets	36,479,093	34,956,292
Unrestricted	2,393,676	2,312,835
Total net position	\$ 38,872,769	\$ 37,269,127

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

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	
	2020	2019
Program revenues:		
Charges for services	\$ 1,141,143	\$ 929,299
Operating grants and contributions	5,397,819	5,962,690
Capital grants and contributions	231,000	-
General revenues:		
Property taxes	1,351,837	1,306,607
Gain on sale of capital assets	28,000	38,592
Interest and rents	8,839	37,626
Total revenues	8,158,638	8,274,814
Expenses:		
Public works	6,554,996	6,658,508
Change in net position	1,603,642	1,616,306
Net position:		
Beginning of year	37,269,127	35,652,821
End of year	\$ 38,872,769	\$ 37,269,127

Charges for services increased by \$211,844, or 22.8%, from the prior year levels. This change was primarily due to a significant increase in State funds, specifically Transportation Work Authorization (TWA) projects for shoreline restoration work for multiple locations along State Highway M-22.

Operating grants and contributions decreased by \$564,871 from the prior year amount. The decrease was due to the Road Commission subsequently learning that it did not have any federal aid to sell for the year, which resulted in a \$562,500 reduction in revenue when compared to the prior year.

Capital grants and contributions increased by \$231,000 due to the recognition of a federal grant award expended on behalf of the Road Commission by the Michigan Department of Transportation, related to infrastructure improvements administered by the State.

Financial Analysis of the Road Commission's General Fund

For the year ended December 31, 2020, the fund balance of the General Fund decreased by \$385,323, as compared to an increase of \$456,312 in fund balance for the prior year. Total revenues were \$8,130,638, a decrease of \$6,479 as compared to last year. Total expenditures for 2020 amounted to \$8,543,961, an increase of \$824,564 over the prior year due to increases in the overall cost of maintaining and preserving the County's road system, as well as the cost of maintaining the Road Commission's equipment. Additional discussion regarding the fluctuation in revenues and expenditures has been discussed previously above in relation to the Road Commission as a whole.

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

Management's Discussion and Analysis

General Fund Budgetary Highlights

During the year, there was an increase in appropriations between the original and final amended budget of \$753,000 during 2020. The main reasons of the change include:

- Increase of \$185,000 to State Transportation Work Authorization projects to accommodate the shoreline restoration projects on the state trunkline.
- Increase of \$400,000 to Local Road – Structural Preservation due to additional paving projects being added.
- Increase of \$200,000 to State Trunkline Routine Maintenance for higher than budgeted salt cost and overtime anticipated for November and December.

The most significant budget to actual variances were for preservation and maintenance of the County's primary roads, which came in under the final amended budget by \$212,679 and \$425,108, respectively. The reason for this was for Primary Road – Preservation: the budget was increased to accommodate possible unknown charges related to the CR-669 Federal Land and Preservation grant administered by MDOT. For Primary Road – Preventative: the adjustment was made to cover possible cost overruns associated with late-season snow removal costs that did not materialize.

Capital Assets

The Road Commission's capital assets as of December 31, 2020 amounted to \$36,479,093 (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 \$1,522,801. Major capital asset events during the year included purchasing two Western Star diesel trucks, three Chevy 3500 trucks, a grader, and road infrastructure during the year.

	Capital Assets (Net of Depreciation)	
	2020	2019
Land	\$ 37,276	\$ 37,276
Infrastructure - not being depreciated	17,062,442	16,330,722
Buildings	918,157	998,138
Road equipment	2,585,683	2,353,948
Shop equipment	4,048	5,151
Office equipment	4,693	3,024
Engineering equipment	5,519	6,928
Yard and storage	89,379	101,534
Infrastructure - being depreciated	15,771,896	15,119,571
Total capital assets, net	\$ 36,479,093	\$ 34,956,292

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

Management's Discussion and Analysis

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 \$100,766 and \$109,531 in 2020 and 2019, respectively.

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

Economic Factors and Next Year's Budget

The COVID-19 pandemic has, and continues to have a significant impact on the Road Commission's Michigan Transportation Funding distribution, interest rates, carrying costs as well as on road materials. While the 2021, MTF revenue forecast reports provided by MDOT is showing a 10% rise in receipts for 2021, the 2021 budget was approved with a less aggressive increase for the coming year. Receipts to date show no increases in revenues as the affects of COVID-19 are still having an impact on our financial picture.

Another economic factor is the accelerated funding of the Road Commission's unfunded defined benefit liability has concluded with funding levels have attained the goal established in 2007. This means more funds will be available to invest in the County's infrastructure and can also be applied toward updating the Commission's facilities.

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.

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BASIC FINANCIAL STATEMENTS

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

Statement of Net Position

December 31, 2020

	Governmental Activities
Assets	
Cash and investments	\$ 729,159
Receivables, net	2,658,891
Inventory	1,275,638
Prepaid items	40,248
Net pension asset	155,282
Capital assets not being depreciated	17,099,718
Capital assets being depreciated, net	<u>19,379,375</u>
Total assets	<u>41,338,311</u>
Liabilities	
Accounts payable and accrued liabilities	230,851
Advances and deposits	439,699
Long-term debt:	
Due within one year	72,966
Due in more than one year	<u>27,800</u>
Total liabilities	<u>771,316</u>
Deferred inflows of resources	
Property taxes levied for subsequent year	1,418,675
Deferred pension amounts	<u>275,551</u>
Total deferred inflows of resources	<u>1,694,226</u>
Net position	
Investment in capital assets	36,479,093
Unrestricted	<u>2,393,676</u>
Total net position	<u>\$ 38,872,769</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, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Public works	\$ 6,554,996	\$ 1,141,143	\$ 5,397,819	\$ 231,000	\$ 214,966
General revenues:					
Property taxes					1,351,837
Gain on sale of capital assets					28,000
Interest and rents					8,839
Total general revenues					1,388,676
Change in net position					1,603,642
Net position, beginning of year					37,269,127
Net position, end of year					\$ 38,872,769

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, 2020

	General Fund
Assets	
Cash and investments	\$ 729,159
Receivables:	
Property taxes	1,418,675
Michigan Transportation Fund	784,870
State Trunkline Maintenance	118,141
State other	79,316
Sundry accounts	257,889
Inventory:	
Road materials	1,163,544
Equipment, parts and materials	112,094
Prepaid items	40,248
Total assets	\$ 4,703,936
Liabilities	
Accounts payable	\$ 170,794
Accrued liabilities	60,057
Advances and deposits	439,699
Total liabilities	670,550
Deferred inflows of resources	
Unavailable revenue - local road projects	99,105
Property taxes levied for subsequent year	1,418,675
Total deferred inflows of resources	1,517,780
Fund balance	
Nonspendable	1,315,886
Unassigned	1,199,720
Total fund balance	2,515,606
Total liabilities, deferred inflows of resources and fund balance	\$ 4,703,936

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, 2020

Fund balance - General Fund	\$ 2,515,606
Amounts reported for <i>governmental activities</i> 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	17,099,718
Capital assets being depreciated, net	19,379,375
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
Certain liabilities are not due and payable in the current period, and therefore are not reported in the fund statement.	
Compensated absences	(100,766)
Certain pension-related amounts, such as the net pension asset 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 asset	155,282
Deferred inflows of resources related to the net pension liability	(275,551)
Net position of governmental activities	<u>\$ 38,872,769</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 Revenues, Expenditures and Change in Fund Balance

Budget and Actual - General Fund
For the Year Ended December 31, 2020

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 1,360,000	\$ 1,360,000	\$ 1,351,837	\$ (8,163)
Permits and licenses	65,000	65,000	55,145	(9,855)
Federal sources	225,000	235,000	231,000	(4,000)
State sources:				
Michigan Transportation Fund	5,221,000	5,242,000	5,027,182	(214,818)
Economic Development Fund	39,750	39,750	39,731	(19)
Other	-	93,400	93,340	(60)
Contributions from local units	787,500	331,000	330,906	(94)
Charges for services	783,000	1,168,000	992,658	(175,342)
Other revenues	36,000	36,000	8,839	(27,161)
Total revenues	8,517,250	8,570,150	8,130,638	(439,512)
Expenditures				
Preservation and maintenance:				
Primary road:				
Preservation	1,400,000	1,477,844	1,265,165	(212,679)
Maintenance	1,708,000	1,792,438	1,367,330	(425,108)
Local road:				
Preservation	1,200,000	1,716,766	1,580,010	(136,756)
Maintenance	2,196,000	2,745,400	2,635,265	(110,135)
Total preservation and maintenance	6,504,000	7,732,448	6,847,770	(884,678)
State trunkline maintenance	650,000	850,000	707,036	(142,964)
State trunkline non-maintenance	100,000	285,000	270,297	(14,703)
Administrative expense (net)	68,400	432,941	340,207	(92,734)
Equipment expense (net)	(9,000)	285,011	239,893	(45,118)
Capital outlay (net)	226,000	139,000	138,758	(242)
Fringes and insurance	1,432,000	-	-	-
Total expenditures	8,971,400	9,724,400	8,543,961	(1,180,439)
Revenues under expenditures	(454,150)	(1,154,250)	(413,323)	740,927
Other financing sources				
Proceeds from sale of capital assets	35,000	35,000	28,000	(7,000)
Net change in fund balance	(419,150)	(1,119,250)	(385,323)	733,927
Fund balance, beginning of year	2,900,929	2,900,929	2,900,929	-
Fund balance, end of year	\$ 2,481,779	\$ 1,781,679	\$ 2,515,606	\$ 733,927

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, 2020

Net change in fund balance - General Fund \$ (385,323)

Amounts reported for *governmental activities* in the statement of activities
are different because:

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.

Capital assets purchased/constructed	3,928,691
Depreciation expense	(2,405,890)
Proceeds from the sale of capital assets	(28,000)
Gain on sale of capital assets	28,000

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.

Change in the net pension asset and related deferred amounts	457,399
Change in the accrual for compensated absences	8,765
	8,765

Change in net position of governmental activities \$ 1,603,642

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 (A Component Unit of Leelanau County, Michigan)

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).

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

Notes to Financial Statements

Assets, 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.

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 2020, net of amounts for incorporated cities and villages (statutorily distributed based on SEV).

Although the County's 2020 ad valorem tax is levied and collectible on December 1, 2020, 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 by 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.

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Notes to Financial Statements

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.

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

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.

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

Notes to Financial Statements

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.

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 personal time off based on a scale of longevity and is payable upon termination, death or retirement. During the year, balances of accumulated sick time were frozen and replaced with the aforementioned personal time off. Upon death or retirement, employees are paid for 50% of their accumulated sick 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 related to its pension plan.

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

Notes to Financial Statements

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.

Pensions

For purposes of measuring the net pension asset, 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.

LEELANAU COUNTY ROAD COMMISSION
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Notes to Financial Statements

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	\$ 729,059
Cash on hand	<u>100</u>
Total	<u>\$ 729,159</u>

Deposit Risk

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 \$103,701, 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.

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, 2020 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 37,276	\$ -	\$ -	\$ 37,276
Infrastructure - roads	16,330,722	731,720	-	17,062,442
Total capital assets not being depreciated	<u>16,367,998</u>	<u>731,720</u>	<u>-</u>	<u>17,099,718</u>
Capital assets, being depreciated:				
Land improvements	52,064	-	-	52,064
Buildings	2,006,461	11,946	-	2,018,407
Road equipment	11,553,596	1,067,692	(167,199)	12,454,089
Shop equipment	151,362	-	-	151,362
Office equipment	9,796	3,904	(2,970)	10,730
Engineering equipment	27,210	-	-	27,210
Yard and storage	601,188	-	-	601,188
Infrastructure - roads	36,162,784	2,113,429	(3,735,643)	34,540,570
Total capital assets being depreciated	<u>50,564,461</u>	<u>3,196,971</u>	<u>(3,905,812)</u>	<u>49,855,620</u>
Less accumulated depreciation for:				
Land improvements	(52,064)	-	-	(52,064)
Buildings	(1,008,323)	(91,927)	-	(1,100,250)
Road equipment	(9,199,648)	(835,957)	167,199	(9,868,406)
Shop equipment	(146,211)	(1,103)	-	(147,314)
Office equipment	(6,772)	(2,235)	2,970	(6,037)
Engineering equipment	(20,282)	(1,409)	-	(21,691)
Yard and storage	(499,654)	(12,155)	-	(511,809)
Infrastructure - roads	(21,043,213)	(1,461,104)	3,735,643	(18,768,674)
Total accumulated depreciation	<u>(31,976,167)</u>	<u>(2,405,890)</u>	<u>3,905,812</u>	<u>(30,476,245)</u>
Capital assets being depreciated, net	<u>18,588,294</u>	<u>791,081</u>	<u>-</u>	<u>19,379,375</u>
Total capital assets, net	<u>\$ 34,956,292</u>	<u>\$ 1,522,801</u>	<u>\$ -</u>	<u>\$ 36,479,093</u>

Depreciation expense of \$2,405,890 was charged to public works in 2020.

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, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 109,531	\$ 170,821	\$ (179,586)	\$ 100,766	\$ 72,966

5. FUND BALANCES

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

Nonspendable:	
Inventory	\$ 1,275,638
Prepays	40,248
Total nonspendable	1,315,886
Unassigned	1,199,720
Total fund balance	\$ 2,515,606

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, 2019, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	35
Inactive employees entitled to but not yet receiving benefits	14
Active employees	<u>13</u>
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 \$10,683 during the year ended December 31, 2020, while employees contributed 4.0% to the plan.

Net Pension Asset. The Road Commission's net pension asset was measured as of December 31, 2020, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2019.

Actuarial Assumptions. The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.00% in the long-term
Investment rate of return	7.35%, net of investment and administrative expense including inflation

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, 2019 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

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Notes to Financial Statements

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	60.0%	5.25%	3.15%
Global fixed income	20.0%	1.25%	0.25%
Private investments	20.0%	7.25%	1.45%
	100.0%		
Inflation			2.50%
Administrative expenses netted above			0.25%
Investment rate of return			7.60%

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2020 was 7.6% (down from 8.0% at December 31, 2019). The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

LEELANAU COUNTY ROAD COMMISSION
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Notes to Financial Statements

Changes in Net Pension Liability (Asset)

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2019	\$ 7,754,836	\$ 7,166,593	\$ 588,243
Changes for the year:			
Service cost	54,944	-	54,944
Interest	570,287	-	570,287
Differences between expected and actual experience	93,371	-	93,371
Changes in assumptions	233,994	-	233,994
Employer contributions	-	750,000	(750,000)
Employee contributions	-	25,117	(25,117)
Net investment income	-	942,181	(942,181)
Benefit payments, including refunds of employee contributions	(557,063)	(557,063)	-
Administrative expense	-	(14,596)	14,596
Other changes	6,581	-	6,581
Net changes	402,114	1,145,639	(743,525)
Balances at December 31, 2020	\$ 8,156,950	\$ 8,312,232	\$ (155,282)

Changes in Assumptions. In 2020, amounts reported as changes of assumptions resulted primarily from a decrease in the assumed rate of return from 7.75% to 7.35%, and a decrease in the assumed rate of wage inflation from 3.75% to 3.00%.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate. The following presents the net pension liability (asset) of the Road Commission, calculated using the discount rate of 7.6%, as well as what the Road Commission's net pension liability (asset) would be if it were calculated using a discount rate that is 1% lower (6.6%) or 1% higher (8.6%) than the current rate:

1% Decrease (6.6%)	Current Discount Rate (7.6%)	1% Increase (8.6%)
\$ 616,525	\$ (155,282)	\$ (821,833)

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Notes to Financial Statements

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

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

For the year ended December 31, 2020, the Road Commission recognized pension expense of \$292,601. 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
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 275,551	\$ (275,551)

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
2021	\$ (52,249)
2022	3,272
2023	(148,617)
2024	<u>(77,957)</u>
Total	<u>\$ (275,551)</u>

Payable to the Pension Plan. At December 31, 2020, the Road Commission reported no amount due for outstanding contributions to the pension plan required for the year ended December 31, 2020.

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Notes to Financial Statements

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 \$32,112 and employee contributions were \$32,112 for the year ended December 31, 2020. The Plan is administered by MERS, and is not considered a fiduciary activity of the Road Commission under GASB Statement No. 84.

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.

LEELANAU COUNTY ROAD COMMISSION
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Notes to Financial Statements

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 reviews, 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, 2020.

10. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The extent of the ultimate impact of the pandemic on the Road Commission's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on employees, vendors, and taxpayers, all of which cannot be reasonably predicted at this time. In addition, it may place additional demands on the Road Commission for providing emergency services to its citizens. While management reasonably expects the COVID-19 outbreak to negatively impact the Road Commission's financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.



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 (Asset) and Related Ratios

	Year Ended December 31,			
	2020	2019	2018	2017
Total pension liability				
Service cost	\$ 54,944	\$ 68,404	\$ 75,638	\$ 87,575
Interest	570,287	594,840	588,250	581,951
Differences between expected and actual experience	93,371	(40,985)	(94,551)	(145,676)
Changes in assumptions	233,994	-	-	-
Benefit payments, including refunds of employee contributions	(557,063)	(498,590)	(428,935)	(371,949)
Other changes	6,581	(19,432)	(19,578)	(38,702)
Net change in total pension liability	402,114	104,237	120,824	113,199
Total pension liability, beginning of year	7,754,836	7,650,599	7,529,775	7,416,576
Total pension liability, end of year	8,156,950	7,754,836	7,650,599	7,529,775
Plan fiduciary net position				
Employer contributions	750,000	600,000	630,000	582,000
Employee contributions	25,117	30,146	34,603	38,677
Net investment income (loss)	942,181	853,664	(252,496)	709,362
Benefit payments, including refunds of employee contributions	(557,063)	(498,590)	(428,935)	(371,949)
Administrative expense	(14,596)	(14,728)	(12,244)	(11,195)
Net change in plan fiduciary net position	1,145,639	970,492	(29,072)	946,895
Plan fiduciary net position, beginning of year	7,166,593	6,196,101	6,225,173	5,278,278
Plan fiduciary net position, end of year	8,312,232	7,166,593	6,196,101	6,225,173
Road Commission's net pension liability (asset)	\$ (155,282)	\$ 588,243	\$ 1,454,498	\$ 1,304,602
Plan fiduciary net position as a percentage of total pension liability	101.9%	92.4%	81.0%	82.7%
Covered payroll	\$ 627,925	\$ 753,650	\$ 874,715	\$ 966,929
Road Commission's net pension liability (asset) as a percentage of covered payroll	-24.7%	78.1%	166.3%	134.9%

See notes to required supplementary information.

Year Ended December 31,	
2016	2015
\$ 101,926	\$ 98,043
538,670	516,891
144,554	-
359,724	-
(333,051)	(295,302)
(40,145)	(38,703)
<u>771,678</u>	<u>280,929</u>
<u>6,644,898</u>	<u>6,363,969</u>
<u>7,416,576</u>	<u>6,644,898</u>
486,000	473,484
43,676	49,761
527,239	(67,576)
(333,051)	(295,302)
(10,399)	(9,827)
<u>713,465</u>	<u>150,540</u>
<u>4,564,813</u>	<u>4,414,273</u>
<u>5,278,278</u>	<u>4,564,813</u>
<u>\$ 2,138,298</u>	<u>\$ 2,080,085</u>

71.2%	68.7%
\$ 1,197,106	\$ 1,153,314
178.6%	180.4%

LEELANAU COUNTY ROAD COMMISSION
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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
2020	\$ 128,196	\$ 750,000	\$ (621,804)	\$ 627,925	119.4%
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%

See notes to required supplementary information.

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Notes to Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Changes in Net Pension Liability and Related Ratios

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.

Changes in assumptions. 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.

In 2020, amounts reported as changes of assumptions resulted primarily from a decrease in the assumed rate of return from 7.75% to 7.35%, and a decrease in the assumed rate of wage inflation from 3.75% to 3.00%.

Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated as of the December 31 that is 18 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates (2020, based on the 12/31/2018 actuarial valuation):

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	14 years, closed to new hires
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

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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, 2020

	Primary Road Funds	Local Road Funds	County Road Commission Funds	Total
Revenues				
Property taxes	\$ -	\$ -	\$ 1,351,837	\$ 1,351,837
Permits and licenses	13,786	41,359	-	55,145
Federal sources	231,000	-	-	231,000
State sources:				
Michigan transportation funds:				
Engineering	6,657	3,343	-	10,000
Snow removal	73,825	221,475	-	295,300
Urban	86,410	40,671	-	127,081
Allocation	3,058,778	1,536,023	-	4,594,801
	<u>3,225,670</u>	<u>1,801,512</u>	<u>-</u>	<u>5,027,182</u>
Economic development funds:				
Forest road	-	39,731	-	39,731
Other state revenue	-	-	93,340	93,340
Contributions from local units:				
Township contributions	125,000	205,906	-	330,906
Charges for services:				
State trunkline maintenance	-	-	707,037	707,037
State trunkline non-maintenance	-	-	270,296	270,296
Salvage sales	-	-	4,581	4,581
Other	-	-	10,744	10,744
	<u>-</u>	<u>-</u>	<u>992,658</u>	<u>992,658</u>
Other:				
Interest earned	-	-	8,839	8,839
Total revenues	<u>\$ 3,595,456</u>	<u>\$ 2,088,508</u>	<u>\$ 2,446,674</u>	<u>\$ 8,130,638</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, 2020

	Primary Road Funds	Local Road Funds	County Road Commission Funds	Total
Expenditures				
Preservation	\$ 1,265,165	\$ 1,580,010	\$ -	\$ 2,845,175
Maintenance	1,367,330	2,635,265	-	4,002,595
State trunkline maintenance	-	-	707,036	707,036
State trunkline non-maintenance	-	-	270,297	270,297
Administrative expense (net)	130,788	209,419	-	340,207
Equipment expense (net)	67,009	128,654	44,230	239,893
Capital outlay (net)	76,510	52,506	9,742	138,758
Total expenditures	<u>\$ 2,906,802</u>	<u>\$ 4,605,854</u>	<u>\$ 1,031,305</u>	<u>\$ 8,543,961</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, 2020

	Primary Road Funds	Local Road Funds	County Road Commission Funds	Total
Total revenues	\$ 3,595,456	\$ 2,088,508	\$ 2,446,674	\$ 8,130,638
Total expenditures	2,906,802	4,605,854	1,031,305	8,543,961
Revenues over (under) expenditures	688,654	(2,517,346)	1,415,369	(413,323)
Other financing sources (uses)				
Proceeds from sale of capital assets	15,439	10,595	1,966	28,000
Interfund transfers	(704,093)	2,506,751	(1,802,658)	-
Total other financing sources (uses)	(688,654)	2,517,346	(1,800,692)	28,000
Net change in fund balance	-	-	(385,323)	(385,323)
Fund balance, beginning of year	-	-	2,900,929	2,900,929
Fund balance, end of year	\$ -	\$ -	\$ 2,515,606	\$ 2,515,606

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**

Month //, 2021

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, 2020, 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 Month //, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Road Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 financial statement. 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.