

Leelanau County Road Commission

Year Ended
December 31, 2021

Financial
Statements

Rehmann

LEELANAU COUNTY ROAD COMMISSION

ELECTED OFFICERS & PRINCIPAL OFFICIALS

For the Year Ended December 31, 2021

BOARD OF ROAD COMMISSIONERS

Garth Greenan
Chair

Robert Joyce
Vice-chair

John Popa
Member

Greg Mikowski
Vice Chair

Jim Calhoun
Member

ROAD COMMISSION STAFF

Brendan Mullane
Manager

Craig Brown
Engineer Tech

Dave Priest
Superintendent

Susan Boyd
Finance Manager

Michael Mack
Foreman - Maple City Garage

Linda Kuhn
Administrative Assistant

Tim Trudell
Fleet and Facilities Manager

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

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

April 27, 2022

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

Report on the Audit of the Financial Statements

Opinions

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, 2021, and the related notes to the financial statements, which collectively comprise the Road Commission's financial statements as listed in the table of contents.

In our opinion, the accompanying 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 Road Commission as of December 31, 2021, 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.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Independent Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Road Commission's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the schedules for the pension plan, as listed in the table of contents, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's financial statements. The operating fund schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the operating fund schedules are fairly stated, in all material respects, in relation to the 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 April 27, 2022, on our consideration of the Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Road Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Road Commission's internal control over financial reporting and compliance.

Rehmann Loborn LLC

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, 2021.

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 \$40,165,297 at the end of the fiscal year. There was an increase of \$1,292,528 in net position during 2021.
- The general fund had an increase in fund balance for the year of \$387,177. Total fund balance at December 31, 2021 was \$2,902,783.

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 addition 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 \$1,292,528, ending the year at \$40,165,297. The following condensed statement of net position shows the composition of the Road Commission's net position at December 31:

| | Net Position | |
|--------------------------------------|----------------------|----------------------|
| | 2021 | 2020 |
| Current and other assets | \$ 5,797,857 | \$ 4,859,218 |
| Capital assets, net | 37,233,594 | 36,479,093 |
| Total assets | <u>43,031,451</u> | <u>41,338,311</u> |
| Other liabilities | 685,643 | 670,550 |
| Long-term debt | 77,246 | 100,766 |
| Total liabilities | <u>762,889</u> | <u>771,316</u> |
| Deferred inflows of resources | <u>2,103,265</u> | <u>1,694,226</u> |
| Net position: | | |
| Investment in capital assets | 37,233,594 | 36,479,093 |
| Restricted | 57,061 | - |
| Unrestricted | 2,874,642 | 2,393,676 |
| Total net position | <u>\$ 40,165,297</u> | <u>\$ 38,872,769</u> |

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 | |
|------------------------------------|-------------------------------|-----------------------------|
| | 2021 | 2020 |
| Program revenues: | | |
| Charges for services | \$ 1,508,756 | \$ 1,141,143 |
| Operating grants and contributions | 5,750,453 | 5,397,819 |
| Capital grants and contributions | - | 231,000 |
| General revenues: | | |
| Property taxes | 1,410,435 | 1,351,837 |
| Gain on sale of capital assets | 161,973 | 28,000 |
| Interest and rents | 190 | 8,839 |
| Total revenues | <u>8,831,807</u> | <u>8,158,638</u> |
| Expenses: | | |
| Public works | <u>7,539,279</u> | <u>6,554,996</u> |
| Change in net position | 1,292,528 | 1,603,642 |
| Net position: | | |
| Beginning of year | <u>38,872,769</u> | <u>37,269,127</u> |
| End of year | <u><u>\$ 40,165,297</u></u> | <u><u>\$ 38,872,769</u></u> |

Charges for services increased by \$367,613, or 32.2%, from the prior year levels. The change was primarily due to an increase in State funds for Transportation Work Authorization (TWA) projects for shoreline restoration work along State Highway M-22.

Operating grants and contributions increased by \$352,634 from the prior year amount. The increase was due to increased distribution of MTF funds as the State resumed normal operations following the 2020 shutdown.

Capital grants and contributions decreased by \$231,000 due to the recognition of a federal grant award and expended in 2020 on behalf of the Road Commission by the Michigan Department of Transportation, related to infrastructure improvements administered by the State. No similar amounts were recognized in 2021.

There were several sales of old road equipment during the year that lead to a significant increase in gain on sale of capital assets for 2021.

LEELANAU COUNTY ROAD COMMISSION

(A Component Unit of Leelanau County, Michigan)

Management's Discussion and Analysis

The government-wide expense increase of \$984,283 is mostly attributable to additional maintenance projects in 2021 as compared to 2020.

Financial Analysis of the Road Commission's General Fund

For the year ended December 31, 2021, the fund balance of the General Fund increased by \$387,177, as compared to a decrease of \$385,323 in fund balance for the prior year. Total revenues were \$8,719,834, an increase of \$589,196 as compared to last year. Total expenditures for 2021 amounted to \$8,494,630, a decrease of \$49,331 from the prior year. Revenue increases were explained in the section on government-wide financial analysis above.

General Fund Budgetary Highlights

Amendment of the original budget related to revenue is explained by the increased revenue noted above. During the year, there was an increase in appropriations between the original and final amended budget of \$1.4 million during 2021. The reasons for these amendments are as follows:

- Increase of \$700,000 to local road preservation expenditures for the purpose of the wedging projects that were added prior to year end based on availability of resources.
- Increase of \$700,000 to State trunkline - nonmaintenance due to additional Trunkline Work Authorization (TWA) projects, primarily shoreline restoration along M-22, approved by MDOT for completion in 2021.

Revenue from Federal sources was budgeted at \$480,000, for which no actual revenue was recorded because the Road Commission had no federal aid to sell for the year.

Revenue from Michigan Transportation Funds (MTF) was budgeted at \$5,205,000. Actual revenue came in above that final budget at \$5,654,460. Based on the uncertainty of operations due to COVID in 2020, MTF funds for 2021 were budgeted conservatively. Activities in 2021 proved to be much more typical and MTF revenue distributions were reflective of that.

The most significant budget to actual variance was for preservation and maintenance of the County's roads, which came in under the final amended budget by \$1.3 million. The main reason for this variance was that the fringe benefit rate used for the budget was based on the actual cost for fiscal 2020 and previous years, which included additional payments to MERS for the defined benefit pension plan. This resulted in a much higher budgeted fringe rate than the rate used to allocate actual expenditures to projects for fiscal 2021, as an extra payment to MERS was not made in the current year.

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

Management's Discussion and Analysis

Actual expenses for capital outlay (net) ended up over the final amended budget by \$289,053. This overage was caused by the purchase of a Volvo L110H Loader and two Michigan Underbody Scrapers.

Capital Assets

The Road Commission's capital assets as of December 31, 2021 amounted to \$37,233,594 (net of accumulated depreciation). Investments in capital assets include land, infrastructure, land improvements, buildings, equipment, and yard and storage. The net increase in the Road Commission's investment in capital assets for the current fiscal year was \$754,501. Major capital asset events during the year included purchasing two Western Star diesel trucks, several GMC Sierra trucks, a Volvo Loader, and road infrastructure during the year.

| | Capital Assets | |
|--|------------------------------|----------------------|
| | (Net of Depreciation) | |
| | 2021 | 2020 |
| Land | \$ 37,276 | \$ 37,276 |
| Infrastructure - not being depreciated | 17,449,757 | 17,062,442 |
| Buildings | 876,310 | 918,157 |
| Road equipment | 2,632,362 | 2,585,683 |
| Shop equipment | 34,888 | 4,048 |
| Office equipment | 2,538 | 4,693 |
| Engineering equipment | 4,110 | 5,519 |
| Yard and storage | 77,224 | 89,379 |
| Infrastructure - being depreciated | <u>16,119,129</u> | <u>15,771,896</u> |
| Total capital assets, net | <u>\$ 37,233,594</u> | <u>\$ 36,479,093</u> |

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 the notes 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 \$77,246 and \$100,766 in 2021 and 2020, respectively.

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

Economic Factors and Next Year's Budget

The impact of the COVID-19 pandemic significantly decreased from 2020 and revenues and operational activities were back to more standard levels, which is anticipated to continue through the next fiscal year. A critical economic factor taken into consideration has been the increase in oil prices which in turn has significantly increased the cost of road materials. This has been accounted for in the scope of projects budgeted for the upcoming year.

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, 2021

| | Governmental Activities |
|--|------------------------------------|
| Assets | |
| Cash and investments | \$ 1,212,508 |
| Receivables, net | 2,729,338 |
| Inventory | 1,111,225 |
| Prepaid items | 40,020 |
| Net pension asset | 704,766 |
| Capital assets not being depreciated | 17,487,033 |
| Capital assets being depreciated, net | <u>19,746,561</u> |
| Total assets | <u>43,031,451</u> |
| Liabilities | |
| Accounts payable and accrued liabilities | 227,989 |
| Advances and deposits | 457,654 |
| Long-term debt: | |
| Due within one year | 56,238 |
| Due in more than one year | <u>21,008</u> |
| Total liabilities | <u>762,889</u> |
| Deferred inflows of resources | |
| Property taxes levied for subsequent year | 1,455,560 |
| Deferred pension amounts | <u>647,705</u> |
| Total deferred inflows of resources | <u>2,103,265</u> |
| Net position | |
| Investment in capital assets | 37,233,594 |
| Restricted for pension benefits | 57,061 |
| Unrestricted | <u>2,874,642</u> |
| Total net position | <u>\$ 40,165,297</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, 2021

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue |
|----------------------------------|---------------------|-------------------------|--|-----------------------------|
| | | Charges for Services | Operating Grants and Contributions | |
| Primary government | | | | |
| Governmental activities: | | | | |
| Public works | <u>\$ 7,539,279</u> | <u>\$ 1,508,756</u> | <u>\$ 5,750,453</u> | <u>\$ (280,070)</u> |
| General revenues: | | | | |
| Property taxes | | | | 1,410,435 |
| Gain on sale of capital assets | | | | 161,973 |
| Interest and rents | | | | <u>190</u> |
| Total general revenues | | | | <u>1,572,598</u> |
| Change in net position | | | | 1,292,528 |
| Net position, beginning of year | | | | <u>38,872,769</u> |
| Net position, end of year | | | | <u>\$ 40,165,297</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, 2021

Assets

| | |
|--------------------------------|--------------|
| Cash and investments | \$ 1,212,508 |
| Receivables: | |
| Property taxes | 1,455,560 |
| Michigan Transportation Fund | 966,791 |
| State trunkline maintenance | 152,397 |
| Sundry accounts | 154,590 |
| Inventory: | |
| Road materials | 1,019,535 |
| Equipment, parts and materials | 91,690 |
| Prepaid items | 40,020 |

Total assets \$ 5,093,091

Liabilities

| | |
|-----------------------|------------|
| Accounts payable | \$ 174,049 |
| Accrued liabilities | 53,940 |
| Advances and deposits | 457,654 |

Total liabilities 685,643

Deferred inflows of resources

| | |
|---|-----------|
| Unavailable revenue - local road projects | 49,105 |
| Property taxes levied for subsequent year | 1,455,560 |

Total deferred inflows of resources 1,504,665

Fund balance

| | |
|--------------|-----------|
| Nonspendable | 1,151,245 |
| Unassigned | 1,751,538 |

Total fund balance 2,902,783

Total liabilities, deferred inflows of resources and fund balance \$ 5,093,091

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, 2021

Fund balance - General Fund \$ 2,902,783

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 | 17,487,033 |
| Capital assets being depreciated, net | 19,746,561 |

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 | 49,105 |
|--|--------|

Certain liabilities are not due and payable in the current period, and therefore are not
reported in the fund statement.

| | |
|----------------------|----------|
| Compensated absences | (77,246) |
|----------------------|----------|

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 | 704,766 |
| Deferred inflows of resources related to the net pension asset | <u>(647,705)</u> |

Net position of governmental activities **\$ 40,165,297**

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

General Fund

For the Year Ended December 31, 2021

Revenues

| | |
|--------------------------------|--------------|
| Property taxes | \$ 1,410,435 |
| Permits and licenses | 79,190 |
| State sources: | |
| Michigan Transportation Fund | 5,654,460 |
| Economic Development Fund | 39,731 |
| Other | 26,445 |
| Contributions from local units | 106,262 |
| Charges for services | 1,403,121 |
| Other revenues | 190 |

Total revenues

8,719,834

Expenditures

| | |
|---------------------------------|-----------|
| Current | |
| Primary road | 2,300,173 |
| Local road | 4,139,682 |
| State trunkline maintenance | 652,162 |
| State trunkline non-maintenance | 708,925 |
| Administrative expense (net) | 229,886 |
| Equipment expense (net) | 471,349 |
| Capital outlay (net) | (7,547) |

Total expenditures

8,494,630

Revenues over expenditures

225,204

Other financing sources

Proceeds from sale of capital assets

161,973

Net change in fund balance

387,177

Fund balance, beginning of year

2,515,606

Fund balance, end of year

\$ 2,902,783

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, 2021

Net change in fund balance - General Fund \$ 387,177

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 | 3,297,002 |
| Depreciation expense | (2,542,501) |
| Proceeds from the sale of capital assets | (161,973) |
| Gain on sale of capital assets | 161,973 |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

| | |
|--|----------|
| Change in unavailable amounts due from other governments | (50,000) |
|--|----------|

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 | 177,330 |
| Change in the accrual for compensated absences | 23,520 |

Change in net position of governmental activities \$ 1,292,528

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, 2021

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|---|---------------------|---------------------|---------------------|--|
| Revenues | | | | |
| Property taxes | \$ 1,418,675 | \$ 1,418,675 | \$ 1,410,435 | \$ (8,240) |
| Permits and licenses | 60,000 | 60,000 | 79,190 | 19,190 |
| Federal sources | 480,000 | 480,000 | - | (480,000) |
| State sources: | | | | |
| Michigan Transportation Fund | 5,173,000 | 5,205,000 | 5,654,460 | 449,460 |
| Economic Development Fund | 39,750 | 39,750 | 39,731 | (19) |
| Other | - | - | 26,445 | 26,445 |
| Contributions from local units | 149,100 | 149,100 | 106,262 | (42,838) |
| Charges for services | 813,400 | 1,545,400 | 1,403,121 | (142,279) |
| Other revenues | 3,000 | 3,000 | 190 | (2,810) |
| Total revenues | 8,136,925 | 8,900,925 | 8,719,834 | (181,091) |
| Expenditures | | | | |
| Preservation and maintenance: | | | | |
| Primary road: | | | | |
| Preservation | 862,000 | 862,000 | 620,340 | (241,660) |
| Maintenance | 1,994,250 | 1,994,250 | 1,679,833 | (314,417) |
| Local road: | | | | |
| Preservation | 1,258,050 | 1,958,050 | 1,676,460 | (281,590) |
| Maintenance | 2,929,400 | 2,929,400 | 2,463,222 | (466,178) |
| Total preservation and maintenance | 7,043,700 | 7,743,700 | 6,439,855 | (1,303,845) |
| State trunkline maintenance | 700,000 | 700,000 | 652,162 | (47,838) |
| State trunkline non-maintenance | 100,000 | 800,000 | 708,925 | (91,075) |
| Administrative expense (net) | 327,500 | 327,500 | 229,886 | (97,614) |
| Equipment expense (net) | 403,550 | 403,550 | 471,349 | 67,799 |
| Capital outlay (net) | (296,600) | (296,600) | (7,547) | 289,053 |
| Total expenditures | 8,278,150 | 9,678,150 | 8,494,630 | (1,183,520) |
| Revenues over (under) expenditures | (141,225) | (777,225) | 225,204 | 1,002,429 |
| Other financing sources | | | | |
| Proceeds from sale of capital assets | 12,000 | 132,000 | 161,973 | 29,973 |
| Net change in fund balance | (129,225) | (645,225) | 387,177 | 1,032,402 |
| Fund balance, beginning of year | 2,515,606 | 2,515,606 | 2,515,606 | - |
| Fund balance, end of year | \$ 2,386,381 | \$ 1,870,381 | \$ 2,902,783 | \$ 1,032,402 |

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

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 0.4958 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 2021 ad valorem tax is levied and collectible on December 1, 2021, 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.

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

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 50 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 |
|---------------------------------|-------|
| Land improvements and buildings | 10-50 |
| Road equipment | 5-8 |
| Shop equipment | 5-10 |
| Office equipment | 4-10 |
| Engineering 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 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
(A Component Unit of Leelanau County, Michigan)

Notes to Financial Statements

2. EXCESS OF EXPENDITURES OVER BUDGET

P.A. 621 of 1978, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2021, the Road Commission incurred certain expenditures which were in excess of amounts appropriated as follows:

| | Amended Budget | Actual | Variance |
|-------------------------|---------------------------|---------------|-----------------|
| Equipment expense (net) | \$ 403,550 | \$ 471,349 | \$ 67,799 |
| Capital outlay (net) | (296,600) | (7,547) | 289,053 |

3. 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 | \$ 1,212,408 |
| Cash on hand | <u>100</u> |
| Total | <u><u>\$ 1,212,508</u></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 \$891, 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

LEELANAU COUNTY ROAD COMMISSION
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Notes to Financial Statements

- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two 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

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

Notes to Financial Statements

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2021 was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|--|----------------------|--------------------|--------------------|----------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 37,276 | \$ - | \$ - | \$ 37,276 |
| Infrastructure - roads | 17,062,442 | 387,315 | - | 17,449,757 |
| Total capital assets not being depreciated | <u>17,099,718</u> | <u>387,315</u> | <u>-</u> | <u>17,487,033</u> |
| Capital assets, being depreciated: | | | | |
| Land improvements | 52,064 | - | - | 52,064 |
| Buildings | 2,018,407 | 25,945 | - | 2,044,352 |
| Road equipment | 12,454,089 | 939,439 | (590,635) | 12,802,893 |
| Shop equipment | 151,362 | 34,818 | - | 186,180 |
| Office equipment | 10,730 | - | - | 10,730 |
| Engineering equipment | 27,210 | - | - | 27,210 |
| Yard and storage | 601,188 | - | - | 601,188 |
| Infrastructure - roads | 34,540,570 | 1,909,485 | (3,295,529) | 33,154,526 |
| Total capital assets being depreciated | <u>49,855,620</u> | <u>2,909,687</u> | <u>(3,886,164)</u> | <u>48,879,143</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | (52,064) | - | - | (52,064) |
| Buildings | (1,100,250) | (67,792) | - | (1,168,042) |
| Road equipment | (9,868,406) | (892,760) | 590,635 | (10,170,531) |
| Shop equipment | (147,314) | (3,978) | - | (151,292) |
| Office equipment | (6,037) | (2,155) | - | (8,192) |
| Engineering equipment | (21,691) | (1,409) | - | (23,100) |
| Yard and storage | (511,809) | (12,155) | - | (523,964) |
| Infrastructure - roads | (18,768,674) | (1,562,252) | 3,295,529 | (17,035,397) |
| Total accumulated depreciation | <u>(30,476,245)</u> | <u>(2,542,501)</u> | <u>3,886,164</u> | <u>(29,132,582)</u> |
| Capital assets being depreciated, net | <u>19,379,375</u> | <u>367,186</u> | <u>-</u> | <u>19,746,561</u> |
| Total capital assets, net | <u>\$ 36,479,093</u> | <u>\$ 754,501</u> | <u>\$ -</u> | <u>\$ 37,233,594</u> |

Depreciation expense of \$2,542,501 was charged to public works in 2021.

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.

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

Notes to Financial Statements

5. LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2021, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|----------------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Compensated absences | \$ 100,766 | \$ 235,516 | \$ (259,036) | \$ 77,246 | \$ 56,238 |

6. FUND BALANCES

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

| | |
|--------------------|--------------|
| Nonspendable: | |
| Inventory | \$ 1,111,225 |
| Prepays | 40,020 |
| Total nonspendable | 1,151,245 |
| Unassigned | 1,751,538 |
| Total fund balance | \$ 2,902,783 |

7. 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.

LEELANAU COUNTY ROAD COMMISSION
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Notes to Financial Statements

Employees Covered by Benefit Terms. At the December 31, 2020 valuation date, plan membership consisted of the following:

| | |
|--|------------------|
| Inactive employees or beneficiaries currently receiving benefits | 36 |
| Inactive employees entitled to but not yet receiving benefits | 16 |
| Active employees | <u>10</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 \$11,374 during the year ended December 31, 2021, while employees contributed 4.0% to the plan.

Net Pension Asset. The Road Commission's net pension asset was measured as of December 31, 2021, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2020.

Actuarial Assumptions. The total pension liability in the December 31, 2020 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 base mortality tables used are constructed as described below and are based on amount weighted sex distinct rates:

- Pre-retirement mortality based on 100% of Pub-2010 Juvenile Mortality Tables for ages 0-17, 100% of PubG-2010 Employee Mortality Tables for Ages 18-80, and 100% of PubG-2010 Healthy Retiree Tables for ages 81-120
- Non-disabled retired plan members and beneficiaries mortality based on 106% of Pub-2010 Juvenile Mortality Tables for ages 0-17, 106% of PubG-2010 Employee Mortality Tables for Ages 18-49, and 106% of PubG-2010 Healthy Retiree Tables for ages 50-120
- Disabled retired plan members mortality based on 100% of Pub-2010 Juvenile Mortality Tables for ages 0-17, and 100% of PubNS-2010 Disabled Retiree Tables for ages 18-120

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of the most recent actuarial experience study of 2014-2018.

LEELANAU COUNTY ROAD COMMISSION
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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% |
| | <u>100.0%</u> | | |
| Inflation | | | 2.50% |
| Administrative expenses netted above | | | <u>0.25%</u> |
| Investment rate of return | | | <u><u>7.60%</u></u> |

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2021 was 7.6%. 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, 2020 | \$ 8,156,950 | \$ 8,312,232 | \$ (155,282) |
| Changes for the year: | | | |
| Service cost | 41,551 | - | 41,551 |
| Interest | 597,879 | - | 597,879 |
| Differences between expected and actual experience | 69,882 | - | 69,882 |
| Changes in assumptions | 148,779 | - | 148,779 |
| Employer contributions | - | 258,708 | (258,708) |
| Employee contributions | - | 18,550 | (18,550) |
| Net investment income | - | 1,148,640 | (1,148,640) |
| Benefit payments, including refunds of employee contributions | (621,797) | (621,797) | - |
| Administrative expense | - | (13,203) | 13,203 |
| Other changes | 5,120 | - | 5,120 |
| Net changes | <u>241,414</u> | <u>790,898</u> | <u>(549,484)</u> |
| Balances at December 31, 2021 | <u>\$ 8,398,364</u> | <u>\$ 9,103,130</u> | <u>\$ (704,766)</u> |

Changes in assumptions. A 5-year experience study analyzing historical experience from 2013 through 2018 was completed in February 2020. In addition to changes to the economic assumptions which took effect with the fiscal year 2021 contribution rates, the experience study recommended updated demographic assumptions, including adjustments to the following actuarial assumptions: mortality, retirement, disability, and termination rates.

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%) |
|-------------------------------|---|-------------------------------|
| \$ 86,541 | \$ (704,766) | \$ (1,387,115) |

LEELANAU COUNTY ROAD COMMISSION
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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 Inflows of Resources Related to Pensions

For the year ended December 31, 2021, the Road Commission recognized pension expense of \$81,378. The Road Commission reported deferred inflows of resources related to pensions from the following sources:

| | Deferred Inflows of Resources |
|--|--|
| Net difference between projected and actual earnings on pension plan investments | <u>\$ (647,705)</u> |

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

| Year Ended December 31, | Amount |
|------------------------------------|---------------------|
| 2022 | \$ (102,829) |
| 2023 | (254,718) |
| 2024 | (184,058) |
| 2025 | <u>(106,100)</u> |
| Total | <u>\$ (647,705)</u> |

Payable to the Pension Plan. At December 31, 2021, the Road Commission reported no amount due for outstanding contributions to the pension plan required for the year ended December 31, 2021.

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

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 \$42,771 and employee contributions were \$42,771 for the year ended December 31, 2021. 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.

8. 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.

9. 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
(A Component Unit of Leelanau County, Michigan)

Notes to Financial Statements

10. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The pandemic has resulted operational challenges for the Road Commission as it determines the impact on employees, vendors, and taxpayers, and the appropriate method for providing services. At this time, management does not believe that any ongoing negative financial impact related to the pandemic, if any, would be material to the Road Commission.



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REQUIRED SUPPLEMENTARY INFORMATION

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

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, | | | |
|--|-------------------------|---------------------|-------------------|---------------------|
| | 2021 | 2020 | 2019 | 2018 |
| Total pension liability | | | | |
| Service cost | \$ 41,551 | \$ 54,944 | \$ 68,404 | \$ 75,638 |
| Interest | 597,879 | 570,287 | 594,840 | 588,250 |
| Differences between expected and actual experience | 69,882 | 93,371 | (40,985) | (94,551) |
| Changes in assumptions | 148,779 | 233,994 | - | - |
| Benefit payments, including refunds of employee contributions | (621,797) | (557,063) | (498,590) | (428,935) |
| Other changes | 5,120 | 6,581 | (19,432) | (19,578) |
| Net change in total pension liability | <u>241,414</u> | <u>402,114</u> | <u>104,237</u> | <u>120,824</u> |
| Total pension liability, beginning of year | <u>8,156,950</u> | <u>7,754,836</u> | <u>7,650,599</u> | <u>7,529,775</u> |
| Total pension liability, end of year | <u>8,398,364</u> | <u>8,156,950</u> | <u>7,754,836</u> | <u>7,650,599</u> |
| Plan fiduciary net position | | | | |
| Employer contributions | 258,708 | 750,000 | 600,000 | 630,000 |
| Employee contributions | 18,550 | 25,117 | 30,146 | 34,603 |
| Net investment income (loss) | 1,148,640 | 942,181 | 853,664 | (252,496) |
| Benefit payments, including refunds of employee contributions | (621,797) | (557,063) | (498,590) | (428,935) |
| Administrative expense | (13,203) | (14,596) | (14,728) | (12,244) |
| Net change in plan fiduciary net position | <u>790,898</u> | <u>1,145,639</u> | <u>970,492</u> | <u>(29,072)</u> |
| Plan fiduciary net position, beginning of year | <u>8,312,232</u> | <u>7,166,593</u> | <u>6,196,101</u> | <u>6,225,173</u> |
| Plan fiduciary net position, end of year | <u>9,103,130</u> | <u>8,312,232</u> | <u>7,166,593</u> | <u>6,196,101</u> |
| Road Commission's net pension liability (asset) | <u>\$ (704,766)</u> | <u>\$ (155,282)</u> | <u>\$ 588,243</u> | <u>\$ 1,454,498</u> |
| Plan fiduciary net position as a percentage of total pension liability | 108.4% | 101.9% | 92.4% | 81.0% |
| Covered payroll | \$ 463,750 | \$ 627,925 | \$ 753,650 | \$ 874,715 |
| Road Commission's net pension liability (asset) as a percentage of covered payroll | -152.0% | -24.7% | 78.1% | 166.3% |

See notes to required supplementary information.

Year Ended December 31,

| | 2017 | 2016 | 2015 |
|----|------------------|---------------------|---------------------|
| \$ | 87,575 | \$ 101,926 | \$ 98,043 |
| | 581,951 | 538,670 | 516,891 |
| | (145,676) | 144,554 | - |
| | - | 359,724 | - |
| | (371,949) | (333,051) | (295,302) |
| | (38,702) | (40,145) | (38,703) |
| | <u>113,199</u> | <u>771,678</u> | <u>280,929</u> |
| | <u>7,416,576</u> | <u>6,644,898</u> | <u>6,363,969</u> |
| | <u>7,529,775</u> | <u>7,416,576</u> | <u>6,644,898</u> |
| | 582,000 | 486,000 | 473,484 |
| | 38,677 | 43,676 | 49,761 |
| | 709,362 | 527,239 | (67,576) |
| | (371,949) | (333,051) | (295,302) |
| | (11,195) | (10,399) | (9,827) |
| | <u>946,895</u> | <u>713,465</u> | <u>150,540</u> |
| | <u>5,278,278</u> | <u>4,564,813</u> | <u>4,414,273</u> |
| | <u>6,225,173</u> | <u>5,278,278</u> | <u>4,564,813</u> |
| \$ | <u>1,304,602</u> | <u>\$ 2,138,298</u> | <u>\$ 2,080,085</u> |
| | 82.7% | 71.2% | 68.7% |
| \$ | 966,929 | \$ 1,197,106 | \$ 1,153,314 |
| | 134.9% | 178.6% | 180.4% |

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 |
|----------------------------|---|--|--|--------------------|---|
| 2021 | \$ 136,488 | \$ 258,708 | \$ (122,220) | \$ 463,750 | 55.8% |
| 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.

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

Notes to Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Notes to the Schedule of Changes in the 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%.

In 2021, amounts reported as changes of assumptions related to updated demographic assumptions, including adjustments to the following actuarial assumptions: mortality, retirement, disability, and termination rates.

Notes to Schedule of Contributions

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

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 (2021, based on the 12/31/2019 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 | 3.00% in the long-term |
| Investment rate of return | 7.35%, 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, 2021

| | Primary Road Funds | Local Road Funds | County Road Commission Funds | Total |
|---------------------------------|--------------------------|------------------------|------------------------------------|---------------------|
| Revenues | | | | |
| Property taxes | \$ - | \$ - | \$ 1,410,435 | \$ 1,410,435 |
| Permits and licenses | 19,798 | 59,392 | - | 79,190 |
| State sources: | | | | |
| Michigan transportation funds: | | | | |
| Engineering | 6,699 | 3,301 | - | 10,000 |
| Snow removal | 77,577 | 232,732 | - | 310,309 |
| Urban | 96,508 | 45,423 | - | 141,931 |
| Allocation | 3,478,232 | 1,713,988 | - | 5,192,220 |
| | <u>3,659,016</u> | <u>1,995,444</u> | <u>-</u> | <u>5,654,460</u> |
| Economic development funds: | | | | |
| Forest road | - | 39,731 | - | 39,731 |
| Other state revenue | - | - | 26,445 | 26,445 |
| Contributions from local units: | | | | |
| Township contributions | - | 106,262 | - | 106,262 |
| Charges for services: | | | | |
| State trunkline maintenance | - | - | 651,552 | 651,552 |
| State trunkline non-maintenance | - | - | 708,925 | 708,925 |
| Salvage sales | - | - | 35,766 | 35,766 |
| Other | - | - | 6,878 | 6,878 |
| | <u>-</u> | <u>-</u> | <u>1,403,121</u> | <u>1,403,121</u> |
| Other: | | | | |
| Interest earned | - | - | 190 | 190 |
| Total revenues | <u>\$ 3,678,814</u> | <u>\$ 2,200,829</u> | <u>\$ 2,840,191</u> | <u>\$ 8,719,834</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, 2021

| | Primary Road Funds | Local Road Funds | County Road Commission Funds | Total |
|---------------------------------|--------------------------|------------------------|------------------------------------|---------------------|
| Expenditures | | | | |
| Preservation | \$ 620,340 | \$ 1,676,460 | \$ - | \$ 2,296,800 |
| Maintenance | 1,679,833 | 2,463,222 | - | 4,143,055 |
| State trunkline maintenance | - | - | 652,162 | 652,162 |
| State trunkline non-maintenance | - | - | 708,925 | 708,925 |
| Administrative expense (net) | 82,115 | 147,771 | - | 229,886 |
| Equipment expense (net) | 129,364 | 257,119 | 84,866 | 471,349 |
| Capital outlay (net) | (4,162) | (2,856) | (529) | (7,547) |
| Total expenditures | <u>\$ 2,507,490</u> | <u>\$ 4,541,716</u> | <u>\$ 1,445,424</u> | <u>\$ 8,494,630</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, 2021

| | Primary Road Funds | Local Road Funds | County Road Commission Funds | Total |
|---|-----------------------------------|---------------------------------|---|---------------------|
| Total revenues | \$ 3,678,814 | \$ 2,200,829 | \$ 2,840,191 | \$ 8,719,834 |
| Total expenditures | <u>2,507,490</u> | <u>4,541,716</u> | <u>1,445,424</u> | <u>8,494,630</u> |
| Revenues over (under) expenditures | <u>1,171,324</u> | <u>(2,340,887)</u> | <u>1,394,767</u> | <u>225,204</u> |
| Other financing sources (uses) | | | | |
| Proceeds from sale of capital assets | 89,312 | 61,291 | 11,370 | 161,973 |
| Interfund transfers | <u>(1,260,636)</u> | <u>2,279,596</u> | <u>(1,018,960)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>(1,171,324)</u> | <u>2,340,887</u> | <u>(1,007,590)</u> | <u>161,973</u> |
| Net change in fund balance | - | - | 387,177 | 387,177 |
| Fund balance, beginning of year | <u>-</u> | <u>-</u> | <u>2,515,606</u> | <u>2,515,606</u> |
| Fund balance, end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,902,783</u> | <u>\$ 2,902,783</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**

April 27, 2022

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, 2021, 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 April 27, 2022.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

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 Lohman LLC