

Leelanau County Road Commission

Year Ended  
December 31, 2022

Financial  
Statements

**Rehmann**

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# LEELANAU COUNTY ROAD COMMISSION

## ELECTED OFFICERS & PRINCIPAL OFFICIALS

For the Year Ended December 31, 2022

### BOARD OF ROAD COMMISSIONERS

Garth Greenan

*Chair*

Jim Calhoun

*Vice-chair*

John Popa

*Member*

Greg Mikowski

*Member*

Robert Joyce

*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*

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

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**FINANCIAL SECTION**

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**INDEPENDENT AUDITORS' REPORT**

May 22, 2023

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, 2022, 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, 2022, 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 May 22, 2023, on our consideration of the Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Road Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Road Commission's internal control over financial reporting and compliance.

*Rehmann Robson 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, 2022.

#### Financial Highlights

- Net position, over time, enable governmental agencies to determine their overall fiscal position. As shown on the Road Commission's condensed statement of net position, the Road Commission's assets and deferred outflows of resources exceeded its liabilities by \$39,931,870 at the end of the fiscal year. There was a decrease of \$233,427 in net position during 2022.
- The general fund had a decrease in fund balance for the year of \$1,403,062. Total fund balance at December 31, 2022 was \$1,499,721.

#### 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, deferred outflows of resources and liabilities, 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 decreased during the fiscal year by \$233,427, ending the year at \$39,931,870. The following condensed statement of net position shows the composition of the Road Commission's net position at December 31:

	<b>Net Position</b>	
	<b>2022</b>	<b>2021</b>
Current and other assets	\$ 4,089,963	\$ 5,797,857
Capital assets, net	38,422,130	37,233,594
<b>Total assets</b>	<u>42,512,093</u>	<u>43,031,451</u>
<b>Deferred outflows of resources</b>	<u>731,504</u>	<u>-</u>
Other liabilities	868,952	685,643
Long-term liabilities	884,065	77,246
<b>Total liabilities</b>	<u>1,753,017</u>	<u>762,889</u>
<b>Deferred inflows of resources</b>	<u>1,558,710</u>	<u>2,103,265</u>
Net position:		
Investment in capital assets	38,422,130	37,233,594
Restricted	-	57,061
Unrestricted	1,509,740	2,874,642
<b>Total net position</b>	<u>\$ 39,931,870</u>	<u>\$ 40,165,297</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	
	2022	2021
Program revenues:		
Charges for services	\$ 1,164,693	\$ 1,508,756
Operating grants and contributions	6,220,794	5,750,453
General revenues:		
Property taxes	1,458,880	1,410,435
Gain on sale of capital assets	65,339	161,973
Interest and rents	3,586	190
<b>Total revenues</b>	<u>8,913,292</u>	<u>8,831,807</u>
Expenses:		
Public works	<u>9,146,719</u>	<u>7,539,279</u>
Change in net position	(233,427)	1,292,528
Net position:		
Beginning of year	<u>40,165,297</u>	<u>38,872,769</u>
<b>End of year</b>	<u>\$ 39,931,870</u>	<u>\$ 40,165,297</u>

Charges for services decreased by \$344,063, or 22.8%, 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 in fiscal 2021.

Operating grants and contributions increased by \$470,341 from the prior year amount. The reason for the increase was a 3.25% increase in MTF receipts and an increased amount for township agreements.

There were several sales of old road equipment during 2021 that lead to a significant increase in gain on sale of capital assets for that year. In 2022 this line item reverted to a more normal balance.

The government-wide expense increase of \$1,607,440 is mostly attributable to increases in pension expense over the prior year.

**Financial Analysis of the Road Commission's General Fund**

For the year ended December 31, 2022, the fund balance of the general fund decreased by \$1,403,062, as compared to an increase of \$387,177 in fund balance for the prior year. Total revenues were \$8,734,478, an increase of \$14,644 as compared to last year. Total expenditures for 2022 amounted to \$10,202,879, an increase of \$1,708,249 from the prior year.

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

### **Management's Discussion and Analysis**

Expenditures for local roads increased by \$1,285,074 during 2022 due to more HMA projects scheduled for local roads rather than primary. These projects also included two township cost share projects (The Chalets & Sugar Bay Lane). Local maintenance expenditures were higher for chip sealing projects, drainage, tree work, pavement marking and snow removal. These categories typically vary from year to year with type of projects planned.

The amount expended for state trunkline non-maintenance projects decreased by \$490,522 from the prior year because these projects are based on MDOT activity. These expenditures are authorized by MDOT and are offset by corresponding revenue.

Equipment (net) increased by \$240,542 over 2021 levels, attributable to high cost repairs to equipment, building maintenance costs incurred for repair of the parking garage wall (\$44,300), exterior painting (\$20,900), and shop modifications (\$16,860). Offsetting insurance refunds were significantly less than the previous year. Fuel prices were 13% to 72% higher than the previous year for 10 out of 12 months.

Capital outlay (net) expenditures were \$655,107 higher than in 2021, due to unscheduled purchases of two previously leased Kenworth trucks for transporting emulsion for chip sealing (\$301,128) and two used street sweepers (\$181,800). These were unbudgeted capital purchases but were purchases of opportunity that both greatly improved efficiency of operations. A Volvo loader (\$274,707) that was included in the 2023 capital budget was delivered in December 2022 and was reclassified as a 2022 capital purchase even though it was not available for use until early 2023.

#### **General Fund Budgetary Highlights**

Amendment of the original general fund budget related to revenue came to a decrease of \$160,500 for 2022. During the year, there was an increase in appropriations between the original and final amended budget of \$858,184. The reasons for these amendments are as follows:

Budgeted revenues for Michigan Transportation Fund revenues was decreased by \$335,000 from the original budget because of decreasing receipts that were below those of the previous year. The budget was adjusted anticipating that this trend would continue through the end of the year.

The charges for services revenue budget was increased during 2022 in the amount of \$181,500 to account for authorized work done for MDOT non maintenance projects. This revenue is contingent upon projects approved by MDOT through the year and is offset by corresponding expenditures. An adjustment of \$79,000 was made to record a state audit refund.

The expenditure budget for local roads preservation increased by \$200,000 over the original budget due to higher overhead and fringe benefit allocations.

The budgeted expenditures for state trunkline non-maintenance projects increased by \$120,000 to account for actual activity as authorized by MDOT. This was offset by an increase in revenue.



## **LEELANAU COUNTY ROAD COMMISSION**

### **(A Component Unit of Leelanau County, Michigan)**

#### **Management's Discussion and Analysis**

The equipment (net) budget increased by \$310,000 during the year, attributable to higher repair costs, building maintenance costs, and higher fuel costs throughout most of the year.

The capital outlay (net) expenditures budget was increased by \$228,184, due to the purchases of two Kenworth trucks and two used street sweepers netted against budgeted capital that was not purchased.

The reasons for significant variances between actual revenues and expenditures and the final amended budget were as follows:

Revenue from Michigan Transportation Funds (MTF) was budgeted at \$5,340,020. Actual revenue came in above that final budget at \$5,838,076. The reason for this variance was that MTF revenue has been historically lower in the last quarter of the year and budget adjustments were made based on that assumption. However, both November and December payments (62% above October) were higher.

The most significant budget to actual variance was for maintenance of the County's roads, which came in over the final amended budget by \$158,851 and \$142,311 for primary and local roads, respectively. The main reason for this variance was a higher expense for allocation of fringe benefits and overhead.

Actual expenses for capital outlay (net) ended up over the final amended budget by \$417,958. This overage was caused by the reclassification of a capital purchase, budgeted for 2023 (\$274,707), that was delivered in December 2022 causing a variance between budgeted and actual depreciation.

#### **Capital Assets**

The Road Commission's capital assets as of December 31, 2022 amounted to \$38,422,130 (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 \$1,188,536. Major capital asset events during the year included the purchase of a Schulte Flex Arm mower, a John Deere 6120M tractor, a quad axle dump trailer, two Kenworth trucks, two GMC Sierra pick ups, two Western Star plow trucks, two used Pelican street sweepers, and a Volvo L110H loader.

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

**Management's Discussion and Analysis**

	<b>Capital Assets</b>	
	<b>(Net of Depreciation)</b>	
	<b>2022</b>	<b>2021</b>
Land	\$ 37,276	\$ 37,276
Infrastructure - not being depreciated	17,993,284	17,449,757
Construction in progress	4,352	-
Buildings	798,548	876,310
Road equipment	3,320,753	2,632,362
Shop equipment	85,816	34,888
Office equipment	1,757	2,538
Engineering equipment	2,701	4,110
Yard and storage	65,069	77,224
Infrastructure - being depreciated	<u>16,112,574</u>	<u>16,119,129</u>
<b>Total capital assets, net</b>	<u><b>\$ 38,422,130</b></u>	<u><b>\$ 37,233,594</b></u>

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 \$103,653 and \$77,246 in 2022 and 2021, 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**

Based on MDOT revenue forecasts for MTF receipts, there is only a little over 2% increase projected for 2023. However, millage receipts are projected to increase by 11% and permit activity also continues to increase, particularly with utility permitting. The approved 2023 budget reflects a conservative 3.4% increase in revenue overall. The expenditures for most road materials increased only moderately with the exception of road gravel which increased by 57% over last year. Fuel costs have been relatively stable for the past few months. Monthly payments that were previously allocated for additional funding for the Road Commission's defined benefit pension liability remain in the budget but at a third of the previous year's amount with the remaining \$20,000 deposited monthly to a separate bank account established for facility construction/upgrades.

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

■ **Management's Discussion and Analysis**

**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, 2022

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and investments	\$ 554,315
Receivables, net	2,951,924
Inventory	540,237
Prepaid items	43,487
Capital assets not being depreciated	18,034,912
Capital assets being depreciated, net	<u>20,387,218</u>
<b>Total assets</b>	<u>42,512,093</u>
<b>Deferred outflows of resources</b>	
Deferred pension amounts	<u>731,504</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	407,695
Advances and deposits	461,257
Long-term debt:	
Due within one year	80,788
Due in more than one year	22,865
Net pension liability (due in more than one year)	<u>780,412</u>
<b>Total liabilities</b>	<u>1,753,017</u>
<b>Deferred inflows of resources</b>	
Property taxes levied for subsequent year	<u>1,558,710</u>
<b>Net position</b>	
Investment in capital assets	38,422,130
Unrestricted	<u>1,509,740</u>
<b>Total net position</b>	<u>\$ 39,931,870</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, 2022

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
<b>Primary government</b>				
Governmental activities:				
Public works	<u>\$ 9,146,719</u>	<u>\$ 1,164,693</u>	<u>\$ 6,220,794</u>	<u>\$ (1,761,232)</u>
General revenues:				
Property taxes				1,458,880
Gain on sale of capital assets				65,339
Interest and rents				<u>3,586</u>
Total general revenues				<u>1,527,805</u>
<b>Change in net position</b>				(233,427)
Net position, beginning of year				<u>40,165,297</u>
<b>Net position, end of year</b>				<u><u>\$ 39,931,870</u></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, 2022

**Assets**

Cash and investments	\$ 554,315
Receivables:	
Property taxes	1,558,710
Michigan Transportation Fund	1,016,997
State trunkline maintenance	185,851
Sundry accounts	190,366
Inventory:	
Road materials	438,415
Equipment, parts and materials	101,822
Prepaid items	43,487

**Total assets** \$ 4,089,963

**Liabilities**

Accounts payable	\$ 343,129
Accrued liabilities	64,566
Advances and deposits	461,257

**Total liabilities** 868,952

**Deferred inflows of resources**

Unavailable revenue - local road projects	162,580
Property taxes levied for subsequent year	1,558,710

**Total deferred inflows of resources** 1,721,290

**Fund balance**

Nonspendable	583,724
Unassigned	915,997

**Total fund balance** 1,499,721

**Total liabilities, deferred inflows of resources and fund balance** \$ 4,089,963

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, 2022

<b>Fund balance - General Fund</b>	\$ 1,499,721
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	18,034,912
Capital assets being depreciated, net	20,387,218
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	162,580
Certain liabilities are not due and payable in the current period, and therefore are not reported in the fund statement.	
Compensated absences	(103,653)
Certain pension-related amounts, such as the net pension liability and deferred amounts, are not due and payable in the current period or do not represent current financial resources, and therefore are not reported in the funds.	
Net pension liability	(780,412)
Deferred outflows of resources related to the net pension liability	731,504
<b>Net position of governmental activities</b>	<u>\$ 39,931,870</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**

General Fund

For the Year Ended December 31, 2022

**Revenues**

Property taxes	\$ 1,458,880
Permits and licenses	85,697
State sources:	
Michigan Transportation Fund	5,838,076
Economic Development Fund	40,906
Contributions from local units	228,337
Charges for services	1,075,626
Other revenues	6,956

<b>Total revenues</b>	<u>8,734,478</u>
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**Expenditures**

Current:	
Primary road	2,133,801
Local road	5,424,756
State trunkline maintenance	770,190
State trunkline non-maintenance	218,403
Administrative expense (net)	296,278
Equipment expense (net)	711,891
Capital outlay (net)	647,560

<b>Total expenditures</b>	<u>10,202,879</u>
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Revenues under expenditures	(1,468,401)
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**Other financing sources**

Proceeds from sale of capital assets	65,339
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<b>Net change in fund balance</b>	(1,403,062)
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Fund balance, beginning of year	<u>2,902,783</u>
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<b>Fund balance, end of year</b>	<u>\$ 1,499,721</u>
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The accompanying notes are an integral part of these financial statements.

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

**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, 2022

<b>Net change in fund balance - General Fund</b>	\$ (1,403,062)
Amounts reported for <i>governmental activities</i> 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	3,995,263
Depreciation expense	(2,806,727)
Proceeds from the sale of capital assets	(65,339)
Gain on sale of capital assets	65,339
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	113,475
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/liability and related deferred amounts	(105,969)
Change in the accrual for compensated absences	(26,407)
<b>Change in net position of governmental activities</b>	<u>\$ (233,427)</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, 2022

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
<b>Revenues</b>				
Property taxes	\$ 1,455,560	\$ 1,455,560	\$ 1,458,880	\$ 3,320
Permits and licenses	67,000	80,000	85,697	5,697
State sources:				
Michigan Transportation Fund	5,675,020	5,340,020	5,838,076	498,056
Economic Development Fund	39,750	39,750	40,906	1,156
Contributions from local units	360,509	342,509	228,337	(114,172)
Charges for services	828,000	1,009,500	1,075,626	66,126
Other revenues	7,000	5,000	6,956	1,956
<b>Total revenues</b>	<b>8,432,839</b>	<b>8,272,339</b>	<b>8,734,478</b>	<b>462,139</b>
<b>Expenditures</b>				
Preservation and maintenance:				
Primary road:				
Preservation	-	-	4,352	4,352
Maintenance	1,970,868	1,970,868	2,129,449	158,581
Local road:				
Preservation	1,966,500	2,166,500	2,127,763	(38,737)
Maintenance	3,154,682	3,154,682	3,296,993	142,311
Total preservation and maintenance	7,092,050	7,292,050	7,558,557	266,507
State trunkline maintenance	700,000	700,000	770,190	70,190
State trunkline non-maintenance	100,000	220,000	218,403	(1,597)
Administrative expense (net)	344,816	344,816	296,278	(48,538)
Equipment expense (net)	421,410	731,410	711,891	(19,519)
Capital outlay (net)	1,418	229,602	647,560	417,958
<b>Total expenditures</b>	<b>8,659,694</b>	<b>9,517,878</b>	<b>10,202,879</b>	<b>685,001</b>
Revenues under expenditures	(226,855)	(1,245,539)	(1,468,401)	(222,862)
<b>Other financing sources</b>				
Proceeds from sale of capital assets	60,000	65,000	65,339	339
<b>Net change in fund balance</b>	<b>(166,855)</b>	<b>(1,180,539)</b>	<b>(1,403,062)</b>	<b>(222,523)</b>
Fund balance, beginning of year	2,902,783	2,902,783	2,902,783	-
<b>Fund balance, end of year</b>	<b>\$ 2,735,928</b>	<b>\$ 1,722,244</b>	<b>\$ 1,499,721</b>	<b>\$ (222,523)</b>

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 non-fiduciary activities of the Road Commission. There is only one fund reported in the government-wide financial statements, the general fund.

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.

Separate financial statements are provided for the general operating fund (governmental fund). The general operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

# LEELANAU COUNTY ROAD COMMISSION

## (A Component Unit of Leelanau County, Michigan)

### ■ Notes to Financial Statements

#### 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.

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.

# LEELANAU COUNTY ROAD COMMISSION

## (A Component Unit of Leelanau County, Michigan)

### Notes to Financial Statements

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

The budget for the general operating fund is adopted on a categorical basis, and in accordance with the Uniform Budgeting and Accounting Act as prescribed by the State of Michigan. These are the legal levels of budgetary control. Administrative control is maintained through the establishment of more detailed line-item budgets.

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

##### ***Deposits***

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

##### ***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 2021, net of amounts for incorporated cities and villages (statutorily distributed based on SEV).

Although the County's 2022 ad valorem tax is levied and collectible on December 1, 2022, 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.



# LEELANAU COUNTY ROAD COMMISSION

## (A Component Unit of Leelanau County, Michigan)

### Notes to 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.

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 (ranging from four to fifty years) of the assets, using the sum-of-the-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

#### *Deferred Outflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Road Commission reports deferred outflows of resources related to its pension plan.

**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 assets 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.

# 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 liability, deferred outflows 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, 2022, the Road Commission incurred certain expenditures which were in excess of amounts appropriated as follows:

	Amended Budget	Actual	Variance
Preservation and maintenance:			
Primary road:			
Preservation	\$ -	\$ 4,352	\$ 4,352
Maintenance	1,970,868	2,129,449	158,581
Local road:			
Maintenance	3,154,682	3,296,993	142,311
State trunkline maintenance	700,000	770,190	70,190
Capital outlay (net)	229,602	647,560	417,958

**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	\$ 554,215
Cash on hand	100
<b>Total</b>	<u>\$ 554,315</u>

**Deposit Risk**

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

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

# LEELANAU COUNTY ROAD COMMISSION

## (A Component Unit of Leelanau County, Michigan)

### Notes to Financial Statements

*Custodial Credit Risk.* 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, none of the bank balance of \$19,842, 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 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, 2022 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 37,276	\$ -	\$ -	\$ 37,276
Infrastructure - roads	17,449,757	543,527	-	17,993,284
Construction in progress	-	4,352	-	4,352
Total capital assets not being depreciated	<u>17,487,033</u>	<u>547,879</u>	<u>-</u>	<u>18,034,912</u>
Capital assets, being depreciated:				
Land improvements	52,064	-	-	52,064
Buildings	2,044,352	17,770	-	2,062,122
Road equipment	12,802,893	1,770,235	(414,861)	14,158,267
Shop equipment	186,180	75,143	-	261,323
Office equipment	10,730	-	-	10,730
Engineering equipment	27,210	-	-	27,210
Yard and storage	601,188	-	-	601,188
Infrastructure - roads	33,154,526	1,584,236	(1,338,705)	33,400,057
Total capital assets being depreciated	<u>48,879,143</u>	<u>3,447,384</u>	<u>(1,753,566)</u>	<u>50,572,961</u>
Less accumulated depreciation for:				
Land improvements	(52,064)	-	-	(52,064)
Buildings	(1,168,042)	(95,532)	-	(1,263,574)
Road equipment	(10,170,531)	(1,081,844)	414,861	(10,837,514)
Shop equipment	(151,292)	(24,215)	-	(175,507)
Office equipment	(8,192)	(781)	-	(8,973)
Engineering equipment	(23,100)	(1,409)	-	(24,509)
Yard and storage	(523,964)	(12,155)	-	(536,119)
Infrastructure - roads	(17,035,397)	(1,590,791)	1,338,705	(17,287,483)
Total accumulated depreciation	<u>(29,132,582)</u>	<u>(2,806,727)</u>	<u>1,753,566</u>	<u>(30,185,743)</u>
Capital assets being depreciated, net	<u>19,746,561</u>	<u>640,657</u>	<u>-</u>	<u>20,387,218</u>
<b>Total capital assets, net</b>	<u>\$ 37,233,594</u>	<u>\$ 1,188,536</u>	<u>\$ -</u>	<u>\$ 38,422,130</u>

Depreciation expense of \$2,806,727 was charged to public works in 2022.

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 DEBT**

Long-term debt activity for the year ended December 31, 2022, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 77,246	\$ 166,869	\$ (140,462)	\$ 103,653	\$ 80,788

**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](http://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.

*Employees Covered by Benefit Terms.* At the December 31, 2021 valuation date, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	40
Inactive employees entitled to but not yet receiving benefits	12
Active employees	8
<b>Total membership</b>	<b>60</b>

*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.

**LEELANAU COUNTY ROAD COMMISSION**  
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**Notes to Financial Statements**

Monthly required employer contributions were \$5,674 during the year ended December 31, 2022, while employees contributed 4.0% to the plan.

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

*Actuarial Assumptions.* The total pension liability in the December 31, 2021 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	7.00%, 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, 2021 valuation were based on the results of the most recent actuarial experience study of 2014 2018.



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

**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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>	<b>Expected Money-Weighted Rate of Return</b>
Global equity	60.0%	4.50%	2.70%
Global fixed income	20.0%	2.00%	0.40%
Private investments	20.0%	7.00%	1.40%
	<u>100.0%</u>		
Inflation			2.50%
Administrative expenses netted above			<u>0.25%</u>
<b>Investment rate of return</b>			<u><u>7.25%</u></u>

*Discount Rate.* The discount rate used to measure the total pension liability as of December 31, 2022 was 7.25% (down from 7.60% at December 31, 2021). 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:

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (Asset) (a) - (b)</b>
Balances at December 31, 2021	\$ 8,398,364	\$ 9,103,130	\$ (704,766)
Changes for the year:			
Service cost	35,268	-	35,268
Interest	585,945	-	585,945
Differences between expected and actual experience	79,301	-	79,301
Changes in assumptions	260,108	-	260,108
Employer contributions	-	434,424	(434,424)
Employee contributions	-	15,909	(15,909)
Net investment loss	-	(943,994)	943,994
Benefit payments, including refunds of employee contributions	(667,988)	(667,988)	-
Administrative expense	-	(16,714)	16,714
Other changes	14,181	-	14,181
Net changes	<u>306,815</u>	<u>(1,178,363)</u>	<u>1,485,178</u>
<b>Balances at December 31, 2022</b>	<u>\$ 8,705,179</u>	<u>\$ 7,924,767</u>	<u>\$ 780,412</u>

*Changes in Assumptions.* In 2022, amounts reported as changes of assumptions resulted from a decrease in the assumed rate of return from 7.35% to 7.00%.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following presents the net pension liability of the Road Commission, calculated using the discount rate of 7.25%, as well as what the Road Commission's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

<b>1% Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
\$ 1,604,208	\$ 780,412	\$ 71,257

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

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

**Notes to Financial Statements**

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

For the year ended December 31, 2022, the Road Commission recognized pension expense of \$540,393. The Road Commission reported deferred outflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>
Net difference between projected and actual earnings on pension plan investments	<u>\$ 731,504</u>

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

<b>Year Ended December 31,</b>	<b>Amount</b>
2023	\$ 64,377
2024	135,037
2025	212,995
2026	<u>319,095</u>
<b>Total</b>	<u>\$ 731,504</u>

*Payable to the Pension Plan.* At December 31, 2022, the Road Commission reported no amount due for outstanding contributions to the pension plan required for the year ended December 31, 2022.

**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 \$93,126 and employee contributions were \$42,771 for the year ended December 31, 2022. The Plan is administered by MERS, and is not considered a fiduciary activity of the Road Commission under GASB Statement No. 84.

# LEELANAU COUNTY ROAD COMMISSION

## (A Component Unit of Leelanau County, Michigan)

### Notes to Financial Statements

#### Deferred Compensation Plan

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

#### 7. RISK MANAGEMENT

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

#### 8. CONTINGENCIES

The Road Commission contracts with the State of Michigan to perform state highway maintenance functions for the State. The cost of the maintenance is then billed to the State of Michigan who reimburses the Road Commission for the costs incurred. These cost reimbursement contract expenditures are subject to audit at some future date by the State of Michigan. The amount, if any, of expenditures that may be disallowed by the State of Michigan cannot be determined until the State completes its annual audit of its maintenance agreement with the Road Commission. The audit adjustment is accounted for as an adjustment of the current year's revenues.

#### 9. 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 in 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.



**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,			
	2022	2021	2020	2019
<b>Total pension liability</b>				
Service cost	\$ 35,268	\$ 41,551	\$ 54,944	\$ 68,404
Interest	585,945	597,879	570,287	594,840
Differences between expected and actual experience	79,301	69,882	93,371	(40,985)
Changes in assumptions	260,108	148,779	233,994	-
Benefit payments, including refunds of employee contributions	(667,988)	(621,797)	(557,063)	(498,590)
Other changes	14,181	5,120	6,581	(19,432)
<b>Net change in total pension liability</b>	<u>306,815</u>	<u>241,414</u>	<u>402,114</u>	<u>104,237</u>
Total pension liability, beginning of year	<u>8,398,364</u>	<u>8,156,950</u>	<u>7,754,836</u>	<u>7,650,599</u>
<b>Total pension liability, end of year</b>	<u>8,705,179</u>	<u>8,398,364</u>	<u>8,156,950</u>	<u>7,754,836</u>
<b>Plan fiduciary net position</b>				
Employer contributions	434,424	258,708	750,000	600,000
Employee contributions	15,909	18,550	25,117	30,146
Net investment income (loss)	(943,994)	1,148,640	942,181	853,664
Benefit payments, including refunds of employee contributions	(667,988)	(621,797)	(557,063)	(498,590)
Administrative expense	(16,714)	(13,203)	(14,596)	(14,728)
<b>Net change in plan fiduciary net position</b>	<u>(1,178,363)</u>	<u>790,898</u>	<u>1,145,639</u>	<u>970,492</u>
Plan fiduciary net position, beginning of year	<u>9,103,130</u>	<u>8,312,232</u>	<u>7,166,593</u>	<u>6,196,101</u>
<b>Plan fiduciary net position, end of year</b>	<u>7,924,767</u>	<u>9,103,130</u>	<u>8,312,232</u>	<u>7,166,593</u>
<b>Road Commission's net pension liability (asset)</b>	<u>\$ 780,412</u>	<u>\$ (704,766)</u>	<u>\$ (155,282)</u>	<u>\$ 588,243</u>
Plan fiduciary net position as a percentage of total pension liability	91.0%	108.4%	101.9%	92.4%
Covered payroll	\$ 407,253	\$ 463,750	\$ 627,925	\$ 753,650
Road Commission's net pension liability (asset) as a percentage of covered payroll	191.6%	-152.0%	-24.7%	78.1%

See notes to required supplementary information.

Year Ended December 31,				
2018	2017	2016	2015	
\$ 75,638	\$ 87,575	\$ 101,926	\$ 98,043	
588,250	581,951	538,670	516,891	
(94,551)	(145,676)	144,554	-	
-	-	359,724	-	
(428,935)	(371,949)	(333,051)	(295,302)	
(19,578)	(38,702)	(40,145)	(38,703)	
<u>120,824</u>	<u>113,199</u>	<u>771,678</u>	<u>280,929</u>	
<u>7,529,775</u>	<u>7,416,576</u>	<u>6,644,898</u>	<u>6,363,969</u>	
<u>7,650,599</u>	<u>7,529,775</u>	<u>7,416,576</u>	<u>6,644,898</u>	
630,000	582,000	486,000	473,484	
34,603	38,677	43,676	49,761	
(252,496)	709,362	527,239	(67,576)	
(428,935)	(371,949)	(333,051)	(295,302)	
(12,244)	(11,195)	(10,399)	(9,827)	
(29,072)	946,895	713,465	150,540	
<u>6,225,173</u>	<u>5,278,278</u>	<u>4,564,813</u>	<u>4,414,273</u>	
<u>6,196,101</u>	<u>6,225,173</u>	<u>5,278,278</u>	<u>4,564,813</u>	
<u>\$ 1,454,498</u>	<u>\$ 1,304,602</u>	<u>\$ 2,138,298</u>	<u>\$ 2,080,085</u>	
81.0%	82.7%	71.2%	68.7%	
\$ 874,715	\$ 966,929	\$ 1,197,106	\$ 1,153,314	
166.3%	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

<b>Year Ended December 31,</b>	<b>Actuarially Determined Contribution</b>	<b>Contributions in Relation to the Actuarially Determined Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Payroll</b>	<b>Contributions as Percentage of Covered Payroll</b>
2022	\$ 67,764	\$ 434,424	\$ (366,660)	\$ 407,253	106.7%
2021	138,488	258,708	(120,220)	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.

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.* In 2016, amounts reported as changes in assumptions resulted primarily from adjustments to the mortality table to reflect longer lifetimes, decreases in the assumed rate of return, and changes in asset smoothing.

In 2020, amounts reported as changes in 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 in assumptions related to updated demographic assumptions, including adjustments to the following actuarial assumptions: mortality, retirement, disability, and termination rates.

In 2022, amounts reported as changes of assumptions resulted from a decrease in the assumed rate of return from 7.35% to 7.00%.

**Notes to Schedule of Contributions**

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 (2022, based on the 12/31/2020 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

**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 Schedule of Contributions (Concluded)**

Mortality

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

**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, 2022

	Primary Road Funds	Local Road Funds	County Road Commission Funds	Total
<b>Revenues</b>				
Property taxes	\$ -	\$ -	\$ 1,458,880	\$ 1,458,880
Permits and licenses	21,424	64,273	-	85,697
State sources:				
Michigan transportation funds:				
Engineering	6,728	3,272	-	10,000
Snow removal	83,718	251,152	-	334,870
Urban	98,664	46,438	-	145,102
Allocation	3,598,416	1,749,688	-	5,348,104
	<u>3,787,526</u>	<u>2,050,550</u>	<u>-</u>	<u>5,838,076</u>
Economic development funds:				
Forest road	-	40,906	-	40,906
Contributions from local units:				
Township contributions	-	228,337	-	228,337
Charges for services:				
State trunkline maintenance	-	-	770,190	770,190
State trunkline non-maintenance	-	-	218,403	218,403
Salvage sales	-	-	8,097	8,097
Other	-	-	78,936	78,936
	<u>-</u>	<u>-</u>	<u>1,075,626</u>	<u>1,075,626</u>
Other:				
Interest earned	-	-	3,586	3,586
Other	-	-	3,370	3,370
	<u>-</u>	<u>-</u>	<u>6,956</u>	<u>6,956</u>
<b>Total revenues</b>	<u>\$ 3,808,950</u>	<u>\$ 2,384,066</u>	<u>\$ 2,541,462</u>	<u>\$ 8,734,478</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, 2022

	Primary Road Funds	Local Road Funds	County Road Commission Funds	Total
<b>Expenditures</b>				
Preservation	\$ 4,352	\$ 2,127,763	\$ -	\$ 2,132,115
Maintenance	2,129,449	3,296,993	-	5,426,442
State trunkline maintenance	-	-	770,190	770,190
State trunkline non-maintenance	-	-	218,403	218,403
Administrative expense (net)	83,639	212,639	-	296,278
Equipment expense (net)	192,359	392,380	127,152	711,891
Capital outlay (net)	356,158	245,943	45,459	647,560
<b>Total expenditures</b>	<u>\$ 2,765,957</u>	<u>\$ 6,275,718</u>	<u>\$ 1,161,204</u>	<u>\$ 10,202,879</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, 2022

	Primary Road Funds	Local Road Funds	County Road Commission Funds	Total
Total revenues	\$ 3,808,950	\$ 2,384,066	\$ 2,541,462	\$ 8,734,478
Total expenditures	<u>2,765,957</u>	<u>6,275,718</u>	<u>1,161,204</u>	<u>10,202,879</u>
Revenues over (under) expenditures	<u>1,042,993</u>	<u>(3,891,652)</u>	<u>1,380,258</u>	<u>(1,468,401)</u>
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	36,028	24,724	4,587	65,339
Interfund transfers	<u>(1,079,021)</u>	<u>3,866,928</u>	<u>(2,787,907)</u>	<u>-</u>
<b>Total other financing sources (uses)</b>	<u>(1,042,993)</u>	<u>3,891,652</u>	<u>(2,783,320)</u>	<u>65,339</u>
<b>Net change in fund balance</b>	-	-	(1,403,062)	(1,403,062)
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>2,902,783</u>	<u>2,902,783</u>
<b>Fund balance, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,499,721</u>	<u>\$ 1,499,721</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***

May 22, 2023

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, 2022, and the related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements, and have issued our report thereon dated May 22, 2023.

**Report on Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2022-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2022-002 and -003 to be significant deficiencies.

### **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*.

### **Leelanau County Road Commission's Responses to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Road Commission's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Road Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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*

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

**Schedule of Findings and Responses**

For the Year Ended December 31, 2022

**Finding 2022-001: Material Audit Adjustments**

**Finding Type.** Material Weakness in Internal Control over Financial Reporting

**Criteria.** Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

**Condition.** During our audit, we identified and proposed material adjustments (which were approved and posted by management) to adjust the Road Commission's general ledger to the appropriate balances. These material adjustments included entries to adjust accounts payable and capital outlay expenditures for one capital asset item that was received during the fiscal year that was not recorded in the proper accounting period. While not individually material, additional adjustments were also made related to deferred inflows of resources and revenue for a township contribution, and to inventory balances.

**Cause.** This condition was the result of internal controls not detecting all adjustments necessary to properly state year-end balances.

**Effect.** As a result of this condition, the Road Commission's accounting records were initially misstated by amounts material to the financial statements.

**Recommendation.** We recommend that the Road Commission reconcile all general ledgers to subsidiary detail at least on an annual basis in order to have a more accurate financial picture throughout the year.

**View of Responsible Officials.** The loader was not an oversight. It was a budgeted capital item for fiscal year 2023 that was delivered before the end of the year but was not in use until February 2023. It was the auditor's determination that it should be accrued as of December 31, 2022.

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

### **Schedule of Findings and Responses**

For the Year Ended December 31, 2022

#### **Finding 2022-002: Segregation of Incompatible Duties/Independent Review and Approval**

**Finding Type.** Significant Deficiency in Internal Control over Financial Reporting.

**Criteria.** Management is responsible for establishing effective internal controls to safeguard the Road Commission's assets, and to prevent or detect misstatements to the financial statements. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the Road Commission's unique circumstances.

**Condition.** As is the case with many organizations of similar size, the Road Commission lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. We also noted that certain manual journal entries tested did not bear evidence of independent review and approval.

**Cause.** This condition was the result of the Road Commission's limited resources, and the small size of its accounting staff.

**Effect.** While we are not aware of any actual misstatements caused by this condition, the Road Commission was nevertheless exposed to an increased risk that misstatements, whether caused by error or fraud, could occur and not be detected or prevented.

**Recommendation.** While there are no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management and the Board to actively seek ways to further strengthen the Road Commission's internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified individuals as possible, including that all manual journal entries be reviewed by an individual other than the preparer.

**View of Responsible Officials.** The Road Commission is aware of the weaknesses in this area and feels that the strong oversight and involvement of the Board provides necessary control.

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

■ **Schedule of Findings and Responses**  
For the Year Ended December 31, 2022

**Finding 2022-003: Support for Inventory Balances (Repeat Comment)**

**Finding Type.** Significant Deficiency in Internal Control over Financial Reporting.

**Criteria.** Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

**Condition.** During testing of inventory balances, it was noted that the Sand and Gravel inventory units per the inventory reconciliation were significantly different than the amounts reported from the inventory tracking system. Variance were noted between posted amounts and the material usage sheet total, and material usage sheets also lacked detailed usage records for the products.

**Cause.** This condition was the result of a lack of procedures in place to more accurately measure use of road materials inventories.

**Effect.** As a result of this condition, the Road Commission's road materials inventory records initially did not agree to general balances by amounts that were significant to the financial statements.

**Recommendation.** We recommend that the Road Commission implement procedures to more accurately account for the usage of road materials. We further recommend that inventory balances in the accounting records be reconciled to inventory tracking records and that significant variances be investigated.

**View of Responsible Officials.** Estimation of remaining stockpiles of gravel and sand has been general on an ongoing basis and that in combination with outgoing also estimated, makes it an inexact science. Measurement of stockpiles by a drone service has been discussed as well as the purchase of a scale system. Since stockpiles are now very low, additions to inventory will be recorded at delivered weight which will be more accurate. As inventories are used, staff will have to monitor remaining inventory on a weekly/monthly basis contingent upon operational activity to ensure that accurate amounts are being recorded against projects.

