

# Leelanau County Road Commission

Year Ended  
December 31,  
2015

Financial  
Statements

# LEELANAU COUNTY ROAD COMMISSION

## ELECTED OFFICERS & PRINCIPAL OFFICIALS

For the Year Ended December 31, 2015

### BOARD OF ROAD COMMISSIONERS

John Popa  
*Chair*

Jim Calhoun  
*Vice Chair*

Robert Joyce  
*Member*

### ROAD COMMISSION STAFF

Dan Wagner  
*Managing Director*

James Johnson  
*Engineer*

Dave Priest  
*Superintendent*

Joe Nedow  
*Finance Manager*

Gino Grimaldi  
*Foreman - Maple City Garage*

**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 20, 2016

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of the *Leelanau County Road Commission* (the "Road Commission") (a component unit of Leelanau County, Michigan) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Independent Auditors' Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Leelanau County Road Commission as of December 31, 2015, 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.

***Implementation of GASB Statement No. 68***

As described in Note 10, the Road Commission implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. Accordingly, beginning net position of governmental activities was restated. Our opinion is not modified with respect to this matter.

***Other Matters***

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

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The operating fund schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The operating fund schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2016, on our consideration of the Leelanau County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Leelanau County Road Commission's internal control over financial reporting and compliance.

*Rehmann Lobson LLC*

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# LEELANAU COUNTY ROAD COMMISSION

(A Component Unit of Leelanau County, Michigan)

## Management's Discussion and Analysis

As management of the Leelanau County Road Commission (the "Road Commission"), we offer the readers of the Road Commission's financial statement this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2015.

### Financial Highlights

- The Road Commission implemented GASB Statement No. 68 in the current year. In addition to expanded disclosure requirements, the Road Commission is required to report its net pension liability on the statement of net position. At December 31, 2015, the net pension liability of the Road Commission amounted to \$2,080,085.
- Total revenue sources for the year of \$7,224,842 were greater than expenses of \$5,919,990 by \$1,304,852.

### 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, 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 (General Fund).

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

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

**Management's Discussion and Analysis**

Because the focus of the fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the funds 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 general fund statement of revenues, expenditures, and changes in fund balances 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. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

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

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

**Government-wide Financial Analysis**

The Road Commission's net position increased during the fiscal year by \$1,304,852, ending the year at \$34,677,286. The following table shows the composition of the Road Commission's net position at December 31:

|                                       | Net Position         |                      |
|---------------------------------------|----------------------|----------------------|
|                                       | 2015                 | 2014                 |
| Current and other assets              | \$ 3,774,110         | \$ 4,622,037         |
| Capital assets, net                   | 34,442,546           | 33,714,926           |
| <b>Total assets</b>                   | <b>38,216,656</b>    | <b>38,336,963</b>    |
| <b>Deferred outflows of resources</b> | <b>352,602</b>       | <b>-</b>             |
| Other liabilities                     | 2,526,050            | 673,289              |
| Long-term liabilities                 | 172,380              | 58,321               |
| <b>Total liabilities</b>              | <b>2,698,430</b>     | <b>731,610</b>       |
| <b>Deferred inflows of resources</b>  | <b>1,193,542</b>     | <b>1,286,349</b>     |
| Net position:                         |                      |                      |
| Investment in capital assets          | 34,442,546           | 33,714,926           |
| Unrestricted                          | 234,740              | 2,604,078            |
| <b>Total net position</b>             | <b>\$ 34,677,286</b> | <b>\$ 36,319,004</b> |

**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. This increase was partially due to an higher revenue received from state sources for primary road projects, local sources for local road projects, and an increase in the gain on disposal of equipment during 2015. Significant changes from prior year in the operating grants and contributions and capital grants and contributions categories below are primarily related to reclassification of revenue sources between the two categories. Beginning net position decreased due to a restatement to record a net pension liability as part of the implementation of GASB 68.

|                                           | Change in Net Position |                      |
|-------------------------------------------|------------------------|----------------------|
|                                           | 2015                   | 2014                 |
| Program revenues:                         |                        |                      |
| Charges for services                      | \$ 1,050,517           | \$ 775,230           |
| Operating grants and contributions        | 3,647,480              | 1,872,956            |
| Capital grants and contributions          | 1,211,049              | 3,426,997            |
| General revenues:                         |                        |                      |
| Property taxes                            | 1,181,451              | 1,164,926            |
| Gain on sale of capital assets            | 112,432                | 14,500               |
| Interest and rents                        | 21,913                 | 2,319                |
| <b>Total revenues</b>                     | <u>7,224,842</u>       | <u>7,256,928</u>     |
| Expenses:                                 |                        |                      |
| Public works                              | <u>5,919,990</u>       | <u>5,112,167</u>     |
| Change in net position                    | 1,304,852              | 2,144,761            |
| Net position:                             |                        |                      |
| Beginning of year                         | 36,319,004             | 34,174,243           |
| Restatement for implementation of GASB 68 | (2,946,570)            | -                    |
| <b>End of year</b>                        | <u>\$ 34,677,286</u>   | <u>\$ 36,319,004</u> |

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

For the year ended December 31, 2015, the fund balance of the General Fund increased \$75,473, as compared to a decrease of \$44,598 in the fund balance for the prior year. This increase was partially due to a decrease in primary road preservation, resulting from a milder winter in 2015, as well as proceeds from the sale of assets, as noted above. Total revenues were \$6,827,115, a decrease of \$429,813 as compared to last year. This change in revenues resulted primarily from decreases in federal revenue as no federal aid eligible projects occurred in 2015.

**LEELANAU COUNTY ROAD COMMISSION**  
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**Management's Discussion and Analysis**

**General Fund Budgetary Highlights**

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

- Federal revenue in the final budget was significantly less than the original due to final engineering estimate for Grand Traverse Band of Ottawa and Chippewa Indians project coming in lower than the original agreement amount.
- State revenue in the final budget was significantly higher than the original due to a special Michigan Department of Transportation paving project that was approved and completed in September 2015.
- Maintenance expense for primary and local roads in the final budget were significantly higher than the original due to cleanup of debris and fallen trees from severe storm in August.
- Equipment expense (net) was significantly higher in the final budget than the original due to lower than anticipated equipment rental rates.
- Fringe benefits expense was significantly less in the final amended budget than the original adopted budget due to this amount being allocated to the related projects worked on by staff.

**Capital Assets**

The Road Commission's capital assets as of December 31, 2015 amounted to \$34,442,546 (net of accumulated depreciation). Investments in capital assets include land, infrastructure, buildings, land improvements, and equipment. The net increase in the Road Commission's investment in capital assets for the current fiscal year was \$727,620. Major capital asset events during the year included purchasing two heavy plow trucks, a new loader, and the installation of a new fuel depot at satellite garage.

|                                        | <b>Capital Assets<br/>(Net of Depreciation)</b> |                             |
|----------------------------------------|-------------------------------------------------|-----------------------------|
|                                        | <b>2015</b>                                     | <b>2014</b>                 |
| Land                                   | \$ 37,276                                       | \$ 37,276                   |
| Infrastructure - not being depreciated | 14,413,813                                      | 13,237,500                  |
| Buildings                              | 1,041,784                                       | 929,507                     |
| Road equipment                         | 1,882,944                                       | 1,663,471                   |
| Office equipment                       | 1,372                                           | 2,089                       |
| Yard and storage                       | 154,828                                         | 168,648                     |
| Infrastructure - being depreciated     | 16,910,529                                      | 17,676,435                  |
| <b>Total capital assets, net</b>       | <b><u>\$ 34,442,546</u></b>                     | <b><u>\$ 33,714,926</u></b> |

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

# LEELANAU COUNTY ROAD COMMISSION

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## Management's Discussion and Analysis

### Long-term Liabilities

The Road Commission's long-term liabilities are comprised of compensated absences representing sick and vacation pay due to employees. Liabilities for compensated absences totaled \$172,380 and \$166,631 in 2015 and 2014, respectively.

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

### Economic Factors and Next Year's Budget

The Board of County Road Commissioner's considered many factors when setting the fiscal year 2016 budget. One of the factors is the economy. The Road Commission derives approximately 45% of its revenues from fuel tax collections. Economic upturn in the State has resulted in greater consumption of fuel and consequently more Michigan Transportation Fund revenue available for distribution.

The fiscal year 2016 budget shows \$882,000 less revenue due primarily to no special grant projects, while additional capital outlay is anticipated.

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

### Requests for information

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

## **BASIC FINANCIAL STATEMENTS**

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

**Statement of Net Position**

December 31, 2015

|                                           | <b>Governmental<br/>Activities</b> |
|-------------------------------------------|------------------------------------|
| <b>Assets</b>                             |                                    |
| Cash and cash equivalents                 | \$ 304,257                         |
| Receivables, net                          | 2,179,799                          |
| Inventory                                 | 1,258,138                          |
| Prepaid items                             | 31,916                             |
| Capital assets not being depreciated      | 14,451,089                         |
| Capital assets being depreciated, net     | <u>19,991,457</u>                  |
| <b>Total assets</b>                       | <u><b>38,216,656</b></u>           |
| <b>Deferred outflows of resources</b>     |                                    |
| Deferred pension amounts                  | <u>352,602</u>                     |
| <b>Liabilities</b>                        |                                    |
| Accounts payable and accrued liabilities  | 98,560                             |
| Advances from State                       | 322,405                            |
| Unearned revenue                          | 25,000                             |
| Long-term liabilities:                    |                                    |
| Due within one year                       | 86,380                             |
| Due in more than one year                 | 86,000                             |
| Net pension liability                     | <u>2,080,085</u>                   |
| <b>Total liabilities</b>                  | <u><b>2,698,430</b></u>            |
| <b>Deferred inflows of resources</b>      |                                    |
| Property taxes levied for subsequent year | <u>1,193,542</u>                   |
| <b>Net position</b>                       |                                    |
| Investment in capital assets              | 34,442,546                         |
| Unrestricted                              | <u>234,740</u>                     |
| <b>Total net position</b>                 | <u><u><b>\$ 34,677,286</b></u></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, 2015

| Functions/Programs                           | Expenses     | Program Revenues        |                                          |                                        | Net<br>(Expense)<br>Revenue |
|----------------------------------------------|--------------|-------------------------|------------------------------------------|----------------------------------------|-----------------------------|
|                                              |              | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |                             |
| <b>Primary government</b>                    |              |                         |                                          |                                        |                             |
| Governmental activities:                     |              |                         |                                          |                                        |                             |
| Public works                                 | \$ 5,919,990 | \$ 1,050,517            | \$ 3,647,480                             | \$ 1,211,049                           | \$ (10,944)                 |
| General revenues:                            |              |                         |                                          |                                        |                             |
| Property taxes                               |              |                         |                                          |                                        | 1,181,451                   |
| Gain on sale of capital assets               |              |                         |                                          |                                        | 112,432                     |
| Interest and rents                           |              |                         |                                          |                                        | 21,913                      |
| Total general revenues                       |              |                         |                                          |                                        | 1,315,796                   |
| <b>Change in net position</b>                |              |                         |                                          |                                        | 1,304,852                   |
| Net position, beginning of year, as restated |              |                         |                                          |                                        | 33,372,434                  |
| <b>Net position, end of year</b>             |              |                         |                                          |                                        | <u>\$ 34,677,286</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, 2015

|                                                                           | <b>General<br/>Fund</b> |
|---------------------------------------------------------------------------|-------------------------|
| <b>Assets</b>                                                             |                         |
| Cash and cash equivalents                                                 | \$ 304,257              |
| Receivables:                                                              |                         |
| Property taxes                                                            | 1,193,542               |
| Michigan Transportation Fund                                              | 450,037                 |
| State Trunkline Maintenance                                               | 51,813                  |
| State Aid                                                                 | 338,776                 |
| State other                                                               | 115,564                 |
| Sundry accounts                                                           | 30,067                  |
| Inventories:                                                              |                         |
| Road materials                                                            | 1,170,838               |
| Equipment, parts and materials                                            | 87,300                  |
| Prepaid items                                                             | 31,916                  |
| <b>Total assets</b>                                                       | <b>\$ 3,774,110</b>     |
| <b>Liabilities</b>                                                        |                         |
| Accounts payable                                                          | \$ 25,384               |
| Accrued liabilities                                                       | 73,176                  |
| Advances from State                                                       | 322,405                 |
| Unearned revenue                                                          | 25,000                  |
| <b>Total liabilities</b>                                                  | <b>445,965</b>          |
| <b>Deferred inflows of resources</b>                                      |                         |
| Unavailable revenue - state grants                                        | 285,295                 |
| Property taxes levied for subsequent year                                 | 1,193,542               |
| <b>Total deferred inflows of resources</b>                                | <b>1,478,837</b>        |
| <b>Fund balance</b>                                                       |                         |
| Nonspendable                                                              | 1,290,054               |
| Unassigned                                                                | 559,254                 |
| <b>Total fund balance</b>                                                 | <b>1,849,308</b>        |
| <b>Total liabilities, deferred inflows of resources and fund balances</b> | <b>\$ 3,774,110</b>     |

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 General Fund  
 to Net Position of Governmental Activities  
 December 31, 2015

|                                                                                                                                                                                                                                                                                                                   |                             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| <b>Fund balance - General Fund</b>                                                                                                                                                                                                                                                                                | <b>\$ 1,849,308</b>         |
| <p>Amounts reported for <i>governmental activities</i> in the statement of net position are different because:</p>                                                                                                                                                                                                |                             |
| <p>Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statement.</p>                                                                                                                                                                          |                             |
| Capital assets not being depreciated                                                                                                                                                                                                                                                                              | 14,451,089                  |
| Capital assets being depreciated, net                                                                                                                                                                                                                                                                             | 19,991,457                  |
| <p>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.</p> |                             |
| Unavailable amounts due from other governments                                                                                                                                                                                                                                                                    | 285,295                     |
| <p>Certain liabilities are not due and payable in the current period, and therefore are not reported in the fund statement.</p>                                                                                                                                                                                   |                             |
| Compensated absences                                                                                                                                                                                                                                                                                              | (172,380)                   |
| <p>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.</p>                                                                       |                             |
| Net pension liability                                                                                                                                                                                                                                                                                             | (2,080,085)                 |
| Deferred outflows of resources related to the net pension liability                                                                                                                                                                                                                                               | 352,602                     |
| <b>Net position of governmental activities</b>                                                                                                                                                                                                                                                                    | <b><u>\$ 34,677,286</u></b> |

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 Changes in Fund Balance**

Budget and Actual - General Fund  
For the Year Ended December 31, 2015

|                                      | Original Budget     | Final Budget        | Actual              | Actual Over (Under) Final Budget |
|--------------------------------------|---------------------|---------------------|---------------------|----------------------------------|
| <b>Revenues</b>                      |                     |                     |                     |                                  |
| Property taxes                       | \$ 1,162,000        | \$ 1,187,000        | \$ 1,181,451        | \$ (5,549)                       |
| Permits and licenses                 | 14,500              | 19,500              | 18,555              | (945)                            |
| Federal sources                      | 1,376,000           | 1,016,000           | 1,013,406           | (2,594)                          |
| State sources:                       |                     |                     |                     |                                  |
| Michigan Transportation funds        | 2,955,300           | 3,099,300           | 3,070,035           | (29,265)                         |
| Economic development funds           | 39,700              | 39,750              | 39,743              | (7)                              |
| Other state revenue                  | 125,300             | 355,300             | 351,299             | (4,001)                          |
| Contributions from local units       | -                   | 160,000             | 157,900             | (2,100)                          |
| Charges for services                 | 723,500             | 969,500             | 962,813             | (6,687)                          |
| Other revenues                       | 65,400              | 73,400              | 31,913              | (41,487)                         |
| <b>Total revenues</b>                | <b>6,461,700</b>    | <b>6,919,750</b>    | <b>6,827,115</b>    | <b>(92,635)</b>                  |
| <b>Expenditures</b>                  |                     |                     |                     |                                  |
| Primary Road:                        |                     |                     |                     |                                  |
| Preservation                         | 550,000             | 374,959             | 352,068             | (22,891)                         |
| Maintenance                          | 878,000             | 1,222,714           | 1,114,485           | (108,229)                        |
| Local Road:                          |                     |                     |                     |                                  |
| Preservation                         | 2,026,000           | 2,070,011           | 1,628,817           | (441,194)                        |
| Maintenance                          | 1,506,000           | 2,145,224           | 2,061,916           | (83,308)                         |
| Total preservation and maintenance   | 4,960,000           | 5,812,908           | 5,157,286           | (655,622)                        |
| State trunkline maintenance          | 690,000             | 590,000             | 558,843             | (31,157)                         |
| State trunkline non-maintenance      | -                   | 305,000             | 301,833             | (3,167)                          |
| Administrative expense (net)         | 122,000             | 312,547             | 275,285             | (37,262)                         |
| Equipment expense (net)              | (78,000)            | 362,756             | 253,614             | (109,142)                        |
| Capital outlay (net)                 | 63,900              | 323,900             | 325,881             | 1,981                            |
| Fringes                              | 905,800             | -                   | -                   | -                                |
| <b>Total expenditures</b>            | <b>6,663,700</b>    | <b>7,707,111</b>    | <b>6,872,742</b>    | <b>(834,369)</b>                 |
| Revenues over (under) expenditures   | (202,000)           | (787,361)           | (45,627)            | 741,734                          |
| <b>Other financing sources</b>       |                     |                     |                     |                                  |
| Proceeds from sale of capital assets | 14,000              | 124,000             | 121,100             | (2,900)                          |
| <b>Net change in fund balance</b>    | <b>(188,000)</b>    | <b>(663,361)</b>    | <b>75,473</b>       | <b>738,834</b>                   |
| Fund balance, beginning of year      | 1,773,835           | 1,773,835           | 1,773,835           | -                                |
| <b>Fund balance, end of year</b>     | <b>\$ 1,585,835</b> | <b>\$ 1,110,474</b> | <b>\$ 1,849,308</b> | <b>\$ 738,834</b>                |

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, 2015

|                                                                                                                                                                                                                   |                            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| <b>Net change in fund balance - General Fund</b>                                                                                                                                                                  | <b>\$ 75,473</b>           |
| 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                                                                                                                                                                              | 2,922,723                  |
| Depreciation expense                                                                                                                                                                                              | (2,186,435)                |
| Proceeds from the sale of capital assets                                                                                                                                                                          | (121,100)                  |
| Gain on sale of capital assets                                                                                                                                                                                    | 112,432                    |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.                                                                                |                            |
| Change in unavailable funding for state and local road and bridge programs                                                                                                                                        | 226,146                    |
| Change in unavailable amounts due from other governments                                                                                                                                                          | 59,149                     |
| 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 liability and related deferred amounts                                                                                                                                                  | 222,213                    |
| Change in the accrual for compensated absences                                                                                                                                                                    | (5,749)                    |
| <b>Change in net position of governmental activities</b>                                                                                                                                                          | <b><u>\$ 1,304,852</u></b> |

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

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## NOTES TO FINANCIAL STATEMENTS

# LEELANAU COUNTY ROAD COMMISSION

(A Component Unit of Leelanau County, Michigan)

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### Reporting Entity

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

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

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

The government reports the following major governmental fund:

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

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

### Budgets and Budgetary Accounting

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

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

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

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

#### *Deposits*

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

# LEELANAU COUNTY ROAD COMMISSION

(A Component Unit of Leelanau County, Michigan)

## Notes to Financial Statements

### *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. The 2015 taxable valuation for the Road Commission amounted to \$2,523,514,450 net of amounts for incorporated cities and villages (distributed based on SEV by statute), on which ad valorem taxes of 0.5 mills were levied for the Road Commission for road construction purposes.

Although the County's 2015 ad valorem tax is levied and collectible on December 1, 2015, it is the Road Commission's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of the Road Commission's operations in the governmental fund financial statements. The tax receivable is offset to deferred inflows of resources.

### *Inventory*

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

### *Prepaid Items*

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

### *Capital Assets*

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

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

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

# LEELANAU COUNTY ROAD COMMISSION

(A Component Unit of Leelanau County, Michigan)

## Notes to Financial Statements

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

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

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

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

### *Deferred Outflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Road Commission reports deferred outflows of resources for changes in expected and actual investment returns, assumptions, and benefits provided in its pension plan. More detailed information can be found in Note 6.

### *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.

### *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.

# LEELANAU COUNTY ROAD COMMISSION

(A Component Unit of Leelanau County, Michigan)

## Notes to Financial Statements

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

### *Deferred Inflows of Resources*

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until a future period. The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting, from certain amounts due from other governments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In addition, 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.

### *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 and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

**Notes to Financial Statements**

*Use of Estimates*

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

**2. DEPOSITS AND INVESTMENTS**

*Deposits*

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

**Deposits and investments**

|                                    |                                 |
|------------------------------------|---------------------------------|
| Deposits held with Leelanau County | \$ 304,157                      |
| Petty cash                         | <u>100</u>                      |
| <b>Total</b>                       | <b><u><u>\$ 304,257</u></u></b> |

*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 \$20,663, excluding amounts held by the County, was exposed to custodial credit risk because it was uninsured and uncollateralized. Deposits of the Road Commission are held by Leelanau County and 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.

*Investments*

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

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service

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

**Notes to Financial Statements**

- 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

**3. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2015 was as follows:

|                                                   | Beginning<br>Balance | Additions          | Deletions         | Ending<br>Balance    |
|---------------------------------------------------|----------------------|--------------------|-------------------|----------------------|
| Capital assets, not being depreciated:            |                      |                    |                   |                      |
| Land                                              | \$ 37,276            | \$ -               | \$ -              | \$ 37,276            |
| Infrastructure - roads                            | 13,237,500           | 1,176,313          | -                 | 14,413,813           |
| <b>Total capital assets not being depreciated</b> | <b>13,274,776</b>    | <b>1,176,313</b>   | <b>-</b>          | <b>14,451,089</b>    |
| Capital assets, being depreciated:                |                      |                    |                   |                      |
| Land improvements                                 | 52,064               | -                  | -                 | 52,064               |
| Buildings                                         | 1,761,932            | 169,789            | (177,436)         | 1,754,285            |
| Road equipment                                    | 9,877,149            | 772,049            | (561,243)         | 10,087,955           |
| Shop equipment                                    | 154,280              | -                  | (7,208)           | 147,072              |
| Office equipment                                  | 17,315               | -                  | (6,704)           | 10,611               |
| Engineering equipment                             | 28,378               | -                  | (3,773)           | 24,605               |
| Yard and storage                                  | 601,188              | -                  | -                 | 601,188              |
| Infrastructure - roads                            | 31,409,564           | 804,572            | -                 | 32,214,136           |
| <b>Total capital assets being depreciated</b>     | <b>43,901,870</b>    | <b>1,746,410</b>   | <b>(756,364)</b>  | <b>44,891,916</b>    |
| Less accumulated depreciation for:                |                      |                    |                   |                      |
| Land improvements                                 | (52,064)             | -                  | -                 | (52,064)             |
| Buildings                                         | (832,425)            | (48,844)           | 168,768           | (712,501)            |
| Road equipment                                    | (8,213,678)          | (552,576)          | 561,243           | (8,205,011)          |
| Shop equipment                                    | (154,280)            | -                  | 7,208             | (147,072)            |
| Office equipment                                  | (15,226)             | (717)              | 6,704             | (9,239)              |
| Engineering equipment                             | (28,378)             | -                  | 3,773             | (24,605)             |
| Yard and storage                                  | (432,540)            | (13,820)           | -                 | (446,360)            |
| Infrastructure - roads                            | (13,733,129)         | (1,570,478)        | -                 | (15,303,607)         |
| <b>Total accumulated depreciation</b>             | <b>(23,461,720)</b>  | <b>(2,186,435)</b> | <b>747,696</b>    | <b>(24,900,459)</b>  |
| <b>Capital assets being depreciated, net</b>      | <b>20,440,150</b>    | <b>(440,025)</b>   | <b>(8,668)</b>    | <b>19,991,457</b>    |
| <b>Total capital assets, net</b>                  | <b>\$ 33,714,926</b> | <b>\$ 736,288</b>  | <b>\$ (8,668)</b> | <b>\$ 34,442,546</b> |

Depreciation expense of \$2,186,435 was charged to public works in 2015.

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**  
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**Notes to Financial Statements**

**4. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended December 31, 2015, was as follows:

|                      | Beginning Balance | Additions  | Reductions   | Ending Balance | Due Within One Year |
|----------------------|-------------------|------------|--------------|----------------|---------------------|
| Compensated absences | \$ 166,631        | \$ 112,866 | \$ (107,117) | \$ 172,380     | \$ 86,380           |

**5. FUND BALANCES**

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

|                    | General Fund |
|--------------------|--------------|
| Nonspendable:      |              |
| Inventory          | \$ 1,258,138 |
| Prepays            | 31,916       |
| Total nonspendable | 1,290,054    |
| Unassigned         | 559,254      |
| Total fund balance | \$ 1,849,308 |

**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.

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

*Employees Covered by Benefit Terms.* At December 31, 2014, plan membership consisted of the following:

|                                                                  |                  |
|------------------------------------------------------------------|------------------|
| Inactive employees or beneficiaries currently receiving benefits | 21               |
| Inactive employees entitled to but not yet receiving benefits    | 9                |
| Active employees                                                 | <u>28</u>        |
| <b>Total membership</b>                                          | <u><u>58</u></u> |

*Contributions.* The Road Commission 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 employer contributions ranged from \$23,828 to \$28,000 during the year ended December 31, 2015, while employees contributed 4.0% to the plan.

*Net Pension Liability.* The Road Commission's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014.

*Actuarial Assumptions.* The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |                                                                                  |
|---------------------------|----------------------------------------------------------------------------------|
| Inflation                 | 3% to 4%                                                                         |
| Salary increases          | 4.5% in the long-term (2% and 3% for calendar years 2015 and 2016, respectively) |
| Investment rate of return | 8.25%, net of investment expense and including inflation                         |

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study conducted in 2008. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 2013.)

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

**Notes to Financial Statements**

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                        | 57.5%             | 5.02%                                  | 2.87%                                  |
| Global fixed income                  | 20.0%             | 2.18%                                  | 0.44%                                  |
| Real assets                          | 12.5%             | 4.23%                                  | 0.53%                                  |
| Diversifying strategies              | <u>10.0%</u>      | 6.56%                                  | 0.66%                                  |
|                                      | <u>100.0%</u>     |                                        |                                        |
| Inflation                            |                   |                                        | 3.50%                                  |
| Administrative expenses netted above |                   |                                        | <u>0.25%</u>                           |
| <b>Investment rate of return</b>     |                   |                                        | <u><b>8.25%</b></u>                    |

*Discount Rate.* The discount rate used to measure the total pension liability is 8.25% for 2014. 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**  
(A Component Unit of Leelanau County, Michigan)

**Notes to Financial Statements**

*Changes in Net Pension Liability*

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

|                                                                  | Total Pension<br>Liability<br>(a) | Plan Fiduciary<br>Net Position<br>(b) | Net Pension<br>Liability<br>(a) - (b) |
|------------------------------------------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|
| Balances at December 31, 2014                                    | \$ 6,363,969                      | \$ 4,414,273                          | \$ 1,949,696                          |
| Changes for the year:                                            |                                   |                                       |                                       |
| Service cost                                                     | 98,043                            | -                                     | 98,043                                |
| Interest                                                         | 516,891                           | -                                     | 516,891                               |
| Employer contributions                                           | -                                 | 473,484                               | (473,484)                             |
| Employee contributions                                           | -                                 | 49,761                                | (49,761)                              |
| Net investment income                                            | -                                 | (67,576)                              | 67,576                                |
| Benefit payments, including refunds of<br>employee contributions | (295,302)                         | (295,302)                             | -                                     |
| Administrative expense                                           | -                                 | (9,827)                               | 9,827                                 |
| Other changes                                                    | (38,703)                          | -                                     | (38,703)                              |
| Net changes                                                      | <u>280,929</u>                    | <u>150,540</u>                        | <u>130,389</u>                        |
| Balances at December 31, 2015                                    | <u>\$ 6,644,898</u>               | <u>\$ 4,564,813</u>                   | <u>\$ 2,080,085</u>                   |

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following presents the net pension liability of the Road Commission, calculated using the discount rate of 8.25%, 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 (7.25%) or 1% higher (9.25%) than the current rate:

| 1% Decrease<br>(7.25%) | Current<br>Discount Rate<br>(8.25%) | 1% Increase<br>(9.25%) |
|------------------------|-------------------------------------|------------------------|
| \$ 2,739,836           | \$ 2,080,085                        | \$ 1,509,037           |

*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, 2015, the Road Commission recognized pension expense of \$251,271. The Road Commission reported deferred outflows of resources related to pensions from the following sources:

|                                                                                     | Deferred<br>Outflows of<br>Resources |
|-------------------------------------------------------------------------------------|--------------------------------------|
| Difference between expected and actual experience                                   | \$ -                                 |
| Changes in assumptions                                                              | -                                    |
| Net difference between projected and actual earnings<br>on pension plan investments | 352,602                              |
|                                                                                     | <u>352,602</u>                       |
| Contributions subsequent to the measurement date                                    | -                                    |
|                                                                                     | <u>-</u>                             |
| <b>Total</b>                                                                        | <u><u>\$ 352,602</u></u>             |

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

| Year Ended<br>December 31, | Amount                   |
|----------------------------|--------------------------|
| 2016                       | \$ 88,150                |
| 2017                       | 88,150                   |
| 2018                       | 88,150                   |
| 2019                       | 88,152                   |
|                            | <u>88,152</u>            |
| <b>Total</b>               | <u><u>\$ 352,602</u></u> |

*Payable to the Pension Plan.* At December 31, 2015, the Road Commission reported a payable of \$33,661 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2015.

# 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 plan provides pension benefits for all employees. New employees are added to the defined contribution plan upon hire and previous employees have the option to participate in the Plan. 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 \$8,277 and employee contributions were \$8,277 for the year ended December 31, 2015. The Plan is administered by MERS.

### 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. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

## 7. RISK MANAGEMENT

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

## 8. CONTINGENCIES

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

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

**Notes to Financial Statements**

**9. FEDERAL REVENUE**

The Road Commission is an indirect beneficiary of federal funds that are expended directly by the Michigan Department of Transportation. These expenditures are included in the single audit for the State of Michigan. In addition, the Road Commission has entered into contracts with a local tribal government, in which management has determined constitute a vendor relationship. While the related amounts have been recorded as federal reviews, given the vendor relationship, these are not considered federal revenues subject to single audit. Because the Road Commission expended less than \$500,000 in directly administered federal awards, no single audit was required for the year ended December 31, 2015.

**10. RESTATEMENT**

The Road Commission adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. In connection with this, the prior reported net pension asset was eliminated. As a result of this change, beginning net position of governmental activities was decreased by \$2,946,570.



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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 and Related Ratios

|                                                                                        | Year Ended<br>December 31,<br>2015 |
|----------------------------------------------------------------------------------------|------------------------------------|
| <b>Total pension liability</b>                                                         |                                    |
| Service cost                                                                           | \$ 98,043                          |
| Interest                                                                               | 516,891                            |
| Benefit payments, including refunds<br>of employee contributions                       | (295,302)                          |
| Other changes                                                                          | (38,703)                           |
| <b>Net change in total pension liability</b>                                           | <u>280,929</u>                     |
| Total pension liability, beginning of year                                             | <u>6,363,969</u>                   |
| <b>Total pension liability, end of year</b>                                            | <u>6,644,898</u>                   |
| <b>Plan fiduciary net position</b>                                                     |                                    |
| Employer contributions                                                                 | 473,484                            |
| Employee contributions                                                                 | 49,761                             |
| Net investment income                                                                  | (67,576)                           |
| Benefit payments, including refunds<br>of employee contributions                       | (295,302)                          |
| Administrative expense                                                                 | (9,827)                            |
| <b>Net change in plan fiduciary net position</b>                                       | <u>150,540</u>                     |
| Plan fiduciary net position, beginning of year                                         | <u>4,414,273</u>                   |
| <b>Plan fiduciary net position, end of year</b>                                        | <u>4,564,813</u>                   |
| <b>Road Commission's net pension liability</b>                                         | <u>\$ 2,080,085</u>                |
| Plan fiduciary net position as a percentage<br>of total pension liability              | 68.7%                              |
| Covered-employee payroll                                                               | \$ 1,153,314                       |
| Road Commission's net pension liability as a percentage<br>of covered-employee payroll | 180.4%                             |

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

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

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

Schedule of the Net Pension Liability

| Year Ended<br>December 31, | Total Pension<br>Liability | Plan Net<br>Position | Net Pension<br>Liability | Plan Net<br>Position as<br>Percentage of<br>Total Pension<br>Liability | Covered-<br>Employee<br>Payroll |
|----------------------------|----------------------------|----------------------|--------------------------|------------------------------------------------------------------------|---------------------------------|
| 2015                       | \$ 6,644,898               | \$ 4,564,813         | \$ 2,080,085             | 68.7%                                                                  | \$ 1,153,314                    |

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

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

**Required Supplementary Information**

MERS Agent Multiple-Employer Defined Benefit Pension Plan

**Schedule of Contributions**

| Year Ended December 31, | Actuarially Determined Contribution | Contributions in Relation to the Actuarially Determined Contribution | Contribution Deficiency (Excess) | Covered-Employee Payroll | Contributions as Percentage of Covered-Employee Payroll |
|-------------------------|-------------------------------------|----------------------------------------------------------------------|----------------------------------|--------------------------|---------------------------------------------------------|
| 2015                    | \$ 323,484                          | \$ 473,484                                                           | \$ (150,000)                     | \$ 1,153,314             | 41.1%                                                   |

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

**Notes to Schedule of Contributions**

Valuation Date December 31, 2014  
Notes 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:

|                               |                                                                                                                                                                                                                                                                         |
|-------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Actuarial cost method         | Entry-age normal                                                                                                                                                                                                                                                        |
| Amortization method           | Level percent of payroll, closed                                                                                                                                                                                                                                        |
| Remaining amortization period | 22 years                                                                                                                                                                                                                                                                |
| Asset valuation method        | Open; 10-year smooth market                                                                                                                                                                                                                                             |
| Inflation                     | 3.0% to 4.0%                                                                                                                                                                                                                                                            |
| Salary increases              | 4.5% in the long-term (2% and 3% for calendar years 2015 and 2016, respectively)                                                                                                                                                                                        |
| Investment rate of return     | 8.25%                                                                                                                                                                                                                                                                   |
| Retirement age                | Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2009 actuarial valuations. The Early Retirement rates were first used for the December 31, 2011 actuarial valuations. |
| Mortality                     | 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.                                |

## 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, 2015

|                                    | Primary<br>Road<br>Funds | Local<br>Road<br>Funds | County Road<br>Commission<br>Funds | Total               |
|------------------------------------|--------------------------|------------------------|------------------------------------|---------------------|
| <b>Revenues</b>                    |                          |                        |                                    |                     |
| Property taxes                     | \$ 295,363               | \$ 886,088             | \$ -                               | \$ 1,181,451        |
| Permits and licenses               | -                        | 18,555                 | -                                  | 18,555              |
| Federal sources                    | -                        | 1,013,406              | -                                  | 1,013,406           |
| State sources:                     |                          |                        |                                    |                     |
| Michigan transportation funds:     |                          |                        |                                    |                     |
| Engineering                        | 6,561                    | 3,439                  | -                                  | 10,000              |
| Snow removal                       | 45,893                   | 137,678                | -                                  | 183,571             |
| Urban                              | 54,046                   | 25,438                 | -                                  | 79,484              |
| Allocation                         | 1,835,134                | 961,846                | -                                  | 2,796,980           |
|                                    | <u>1,941,634</u>         | <u>1,128,401</u>       | <u>-</u>                           | <u>3,070,035</u>    |
| Economic development funds:        |                          |                        |                                    |                     |
| Forest road                        | -                        | 39,743                 | -                                  | 39,743              |
| Other state revenue                | -                        | -                      | 351,299                            | 351,299             |
| Contributions from local units:    |                          |                        |                                    |                     |
| Townships                          | -                        | 157,900                | -                                  | 157,900             |
| Charges for services:              |                          |                        |                                    |                     |
| State trunkline maintenance        | -                        | -                      | 558,843                            | 558,843             |
| State trunkline non-maintenance    | -                        | -                      | 301,833                            | 301,833             |
| Salvage sales                      | -                        | -                      | 2,319                              | 2,319               |
| Other                              | -                        | -                      | 99,818                             | 99,818              |
|                                    | <u>-</u>                 | <u>-</u>               | <u>962,813</u>                     | <u>962,813</u>      |
| Other:                             |                          |                        |                                    |                     |
| Interest and rentals               | 7,681                    | 14,232                 | -                                  | 21,913              |
| Contributions from private sources | -                        | 10,000                 | -                                  | 10,000              |
|                                    | <u>7,681</u>             | <u>24,232</u>          | <u>-</u>                           | <u>31,913</u>       |
| <b>Total revenues</b>              | <u>\$ 2,244,678</u>      | <u>\$ 3,268,325</u>    | <u>\$ 1,314,112</u>                | <u>\$ 6,827,115</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, 2015

|                                 | Primary<br>Road<br>Funds | Local<br>Road<br>Funds | County Road<br>Commission<br>Funds | Total               |
|---------------------------------|--------------------------|------------------------|------------------------------------|---------------------|
| <b>Expenditures</b>             |                          |                        |                                    |                     |
| Preservation:                   |                          |                        |                                    |                     |
| Roads                           | \$ 352,068               | \$ 1,628,817           | \$ -                               | \$ 1,980,885        |
| Maintenance:                    |                          |                        |                                    |                     |
| Roads                           | 1,114,485                | 2,061,916              | -                                  | 3,176,401           |
| State trunkline maintenance     | -                        | -                      | 558,843                            | 558,843             |
| State trunkline non-maintenance | -                        | -                      | 301,833                            | 301,833             |
| Administrative expense (net)    | 78,278                   | 197,007                | -                                  | 275,285             |
| Equipment expense (net)         | 63,432                   | 131,364                | 58,818                             | 253,614             |
| Capital outlay (net)            | (108,024)                | 308,357                | 125,548                            | 325,881             |
| <b>Total expenditures</b>       | <u>\$ 1,500,239</u>      | <u>\$ 4,327,461</u>    | <u>\$ 1,045,042</u>                | <u>\$ 6,872,742</u> |

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

**General Operating Fund**

Schedule of Changes in Fund Balance By Component  
For the Year Ended December 31, 2015

|                                           | Primary<br>Road<br>Funds | Local<br>Road<br>Funds | County Road<br>Commission<br>Funds | Total               |
|-------------------------------------------|--------------------------|------------------------|------------------------------------|---------------------|
| Total revenues                            | \$ 2,244,678             | \$ 3,268,325           | \$ 1,314,112                       | \$ 6,827,115        |
| Total expenditures                        | 1,500,239                | 4,327,461              | 1,045,042                          | 6,872,742           |
| <b>Revenues over (under) expenditures</b> | <u>744,439</u>           | <u>(1,059,136)</u>     | <u>269,070</u>                     | <u>(45,627)</u>     |
| Other financing sources (uses):           |                          |                        |                                    |                     |
| Proceeds from sale of capital assets      | 66,223                   | 46,446                 | 8,431                              | 121,100             |
| Interfund transfers                       | (735,189)                | 1,012,690              | (277,501)                          | -                   |
| Total other financing sources (uses)      | <u>(668,966)</u>         | <u>1,059,136</u>       | <u>(269,070)</u>                   | <u>121,100</u>      |
| <b>Net change in fund balance</b>         | 75,473                   | -                      | -                                  | 75,473              |
| Fund balance, beginning of year           | 1,773,835                | -                      | -                                  | 1,773,835           |
| <b>Fund balance, end of year</b>          | <u>\$ 1,849,308</u>      | <u>\$ -</u>            | <u>\$ -</u>                        | <u>\$ 1,849,308</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 20, 2016

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"), as of and for the year ended December 31, 2015, 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 20, 2016.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described as item 2015-001, that we consider to be a significant deficiency.

## Compliance and Other Matters

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

### Leelanau County Road Commission's Response to Finding

The Road Commission's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Road Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### 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.

A handwritten signature in black ink that reads "Rehmann Lobson LLC". The signature is written in a cursive, flowing style.

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

**Schedule of Findings and Responses**

For the Year Ended December 31, 2015

**2015-001 - Segregation of Incompatible Duties**

**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. 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 a difficult decision of what degree of risk it is willing to accept, given the Road Commission's unique circumstances. 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.

**Condition.** As is the case with many governments of similar size, the Road Commission lacks a sufficient number of accounting personnel in order to ensure complete segregation of duties within its accounting function. We noted that the Finance Manager is responsible for opening mail, posting cash receipts, making deposits, reconciling bank accounts, signing checks, general ledger maintenance, and posting adjustments to inventory (which are not currently being reviewed). Further, we also noted that both the Finance Manager and the Deputy Clerk have access to all modules within the accounting software.

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

**Effect.** As a result of this condition, the Road Commission is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.

**Recommendation.** While there is no easy answer to the challenge of balancing the costs and benefits of internal control and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible.

**View of Responsible Officials.** The Board is aware of the risks associated with this condition, and has made the determination that given the Road Commission's limited resources, full segregation of duties is not feasible. Accordingly, the Board has implemented compensating controls to reduce the risks discussed above.

