



# **LEELANAU COUNTY ROAD COMMISSION**

(A Component Unit of Leelanau County, Michigan)

## **Financial Statements**

**For the Year Ended December 31, 2016**



SMITH & KLACZKIEWICZ, PC  
CERTIFIED PUBLIC ACCOUNTANTS

# Leelanau County Road Commission

(A Component Unit of Leelanau County)

## Table of Contents

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	<u>Page</u>
<b>Independent Auditor's Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-7
<b>Basic Financial Statements for the Year Ended December 31, 2016</b>	
Governmental Fund Balance Sheet and Statement of Net Position	8
Reconciliation of Fund Balances of the General Operating / Road Fund to Net Position of Governmental Activities	9
Governmental Fund Revenues, Expenditures and Changes in Fund Balance and Statement of Activities	10
Reconciliation of Net Change in Fund Balance of the General Operating / Road Fund to Change in Net Position of Governmental Activities	11
<b>Notes to Financial Statements</b>	12-24
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedules – Road Fund	25
Schedule of Changes in Net Pension Liability and Related Ratios	26
Schedule of Employer Contributions	27
<b>Other Supplementary Information</b>	
Schedule of Revenues by Component – Road Fund	28
Schedule of Expenditures by Component – Road Fund	29
Schedule of Changes in Fund Balance – Road Fund	30
<b>Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	31-32
<b>Schedule of Findings and Responses</b>	33-34



SMITH & KLACZKIEWICZ, PC  
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A VETERAN OWNED BUSINESS

## Independent Auditor's Report

To the Board of County Road Commissioners  
Leelanau County, 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*, a component unit of Leelanau County, Michigan, as of and for the year ended December 31, 2016, 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.

### Auditor's 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 from 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 auditor's 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 made 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, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3 through 7), budgetary comparison information (page 25), schedule of changes in net pension liability and related ratios (page 26) and schedule of employer contributions (page 27) and 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 **Leelanau County Road Commission's** basic financial statements. The other supplementary information schedules on pages 28 through 30 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 other supplementary information schedules are 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 18, 2017 on our consideration of the **Leelanau County Road Commission's** control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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.

*Smith + Klaehring PC*

**Saginaw, Michigan**

April 18, 2017

# Leelanau County Road Commission

## Management's Discussion and Analysis

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As management of the Leelanau County Road Commission, we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2016. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to provide a basis of understanding of the Leelanau County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

#### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Leelanau County Road Commission's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the Leelanau County Road Commission's assets, deferred outflows, liabilities and deferred inflows, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. 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 future fiscal periods (e.g., vested sick and vacation).

#### **Governmental Fund Financial Statements**

Unlike the government-wide financial statements, governmental 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 year. Such information may be useful in evaluating the Road Commission's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds financial statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the Road Commission's near term financing decisions.

# Leelanau County Road Commission

## Management's Discussion and Analysis

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The Leelanau County Road Commission adopts an annual appropriated budget for the General Operating / Road Fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and governmental fund financial statements. The notes to financial statements can be found on pages 12 through 24 of this report.

### FINANCIAL HIGHLIGHTS

#### Government-Wide Financial Analysis

As noted above net position may serve over time as a useful indicator of the Road Commission's financial position. As shown on the table below, the Road Commission's assets and deferred outflows exceeded liabilities and deferred inflows by \$34,161,762 at the end of the year.

Net position is separated into two major components, net investment in capital assets of \$34,063,142 and unrestricted net position of \$98,620. The investment in capital assets reflects the Road Commission's historical cost of capital assets (i.e., land, infrastructure, buildings, vehicles and equipment), less accumulated depreciation. The remaining balance of unrestricted net position represents the remaining amount may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

The following compares the net position at the end of the current and prior years, in a condensed format:

	<u>2015</u>	<u>2016</u>
Assets –		
Current and other unrestricted assets	\$ 3,774,110	\$ 3,690,306
Capital and other long-term assets	<u>34,442,546</u>	<u>34,063,142</u>
Total assets	<u>38,216,656</u>	<u>37,753,448</u>
Deferred outflows of resources	<u>352,602</u>	<u>600,637</u>
Liabilities –		
Current liabilities	532,345	693,672
Long-term liabilities	<u>2,166,085</u>	<u>2,170,531</u>
Total liabilities	<u>2,698,430</u>	<u>2,864,203</u>
Deferred inflows of resources	<u>1,193,542</u>	<u>1,328,120</u>
Net position –		
Net investment in capital assets	34,442,546	34,063,142
Unrestricted (deficit)	<u>234,740</u>	<u>98,620</u>
Total net position	<u>\$ 34,677,286</u>	<u>\$ 34,161,762</u>

# Leelanau County Road Commission

## Management's Discussion and Analysis

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The following presents a comparison of revenues, expenses and changes in net position for the current and prior years in a condensed format:

	<u>2015</u>	<u>2016</u>
Revenues –		
Charges for services	\$ 1,050,517	\$ 1,067,553
Operating grants and contributions	3,647,480	3,460,932
Capital grants and contributions	1,211,049	-
General and other revenue	<u>1,315,796</u>	<u>1,227,699</u>
Total	7,224,842	5,756,184
Expenses –		
Public works	<u>5,919,990</u>	<u>6,271,708</u>
Change in net position	<u>\$ 1,304,852</u>	<u>\$ (515,524)</u>

### **Financial Analysis of Governmental Fund Financial Statements**

As noted earlier, the focus of the governmental fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information can be useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of government's net resources available to finance routine and emergency spending in succeeding years.

For the year ended December 31, 2016, the fund balance of the Road Commission decreased by \$65,841 to \$1,783,467. Of this amount, \$1,280,328 is not spendable (prepaid items and inventory) and \$503,139 is restricted because it may only be used to finance future maintenance projects on the road system.

Total revenues and other financing sources were \$5,920,332, a decrease of \$1,027,883, as compared to the prior year. This was primarily the result of decreases in federal contributions (including pass-through funding) for projects and supplemental funding from the State General Fund allocation. Total expenditures of \$5,986,173 decreased \$886,569 over the prior year, again mainly as a result of decreased activity for federally funded road projects.

### **BUDGETARY HIGHLIGHTS**

The Road Commission amended its annual budget several times to reflect status changes in preservation-structural improvements and maintenance projects. The final revenue budget was \$531,350 more than the original budget; the final expenditure budget was \$1,104,000 more than the original budget for those same reasons. The actual revenues were \$52,017 less than the amended budget or .88% under budget. The actual expenditures were \$609,627 less than the amended budget, or 10.18% under budget.

# Leelanau County Road Commission

## Management's Discussion and Analysis

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### CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets** – The Road Commission had \$34,063,142 in net capital assets at the end of the year. The main reason for the decrease from the previous year is the result of decreased capital outlay and the capitalization of road projects funded by federal sources in the prior year. A summary of capital assets net of accumulated depreciation at year-end in comparison to the previous year is as follows:

	<u>2015</u>	<u>2016</u>
Nondepreciable capital assets	\$ 14,451,089	\$ 14,870,825
Buildings and improvements	1,041,784	994,386
Equipment	2,039,144	2,056,180
Infrastructure	<u>16,910,529</u>	<u>16,141,751</u>
Total	<u>\$ 34,442,546</u>	<u>\$ 34,063,142</u>

Additional information about the Road Commission's capital assets activity may be found in the notes to the financial statements.

**Long-term Liabilities** – The Road Commission's long-term liabilities are comprised of accrued compensated absences. Amounts reported for these liabilities at the end of the current and prior year were \$153,965 and \$172,380, respectively.

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

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economy of the State of Michigan is the driving factor on road commission revenue. The growth in economic activity in Michigan generates additional Michigan Transportation Fund (MTF) revenue. Because of a recovering economy in Michigan, the MTF revenue has just matched the revenue level of 2004. When inflation is included in the comparison, the MTF revenue has not yet recovered the ground lost during the previous eleven years. Recent changes to the taxes and fees that are components of the MTF are positive but will take some years to be realized.

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

# Leelanau County Road Commission

## Management's Discussion and Analysis

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### **CONTACTING THE ROAD COMMISSION'S MANAGEMENT**

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the funding it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Leelanau County administrative office at 10550 E. Eckerle Rd., Suttons Bay, Michigan 49682.



**Leelanau County Road Commission**  
**Governmental Fund Balance Sheet / Statement of Net Position**  
*December 31, 2016*

	<u>General Operating / Road Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 356,609	\$ -	\$ 356,609
Receivables:			
Due from State of Michigan	743,685	-	743,685
Due from local sources	95,932	-	95,932
Property taxes	1,213,752	-	1,213,752
Inventory	1,251,884	-	1,251,884
Prepaid items	28,444	-	28,444
Capital assets:			
Assets not being depreciated	-	14,870,825	14,870,825
Assets being depreciated, net	-	19,192,317	19,192,317
Total assets	<u>\$ 3,690,306</u>	<u>34,063,142</u>	<u>37,753,448</u>
<b>Deferred outflows of resources</b>			
Deferred pension amounts	-	486,269	486,269
<b>Liabilities</b>			
Accounts payable	\$ 106,985	-	106,985
Accrued liabilities	21,719	-	21,719
Advances and deposits	418,236	-	418,236
Unearned revenue	25,000	-	25,000
Non-current liabilities:			
Due within one year	-	121,732	121,732
Due in more than one year	-	32,233	32,233
Net pension liability	-	2,138,298	2,138,298
Total liabilities	<u>571,940</u>	<u>2,292,263</u>	<u>2,864,203</u>
<b>Deferred inflows of resources</b>			
Unavailable revenue - MDOT trunkline audit results	121,147	(121,147)	-
Property taxes levied for subsequent year	1,213,752	-	1,213,752
Total deferred inflows of resources	<u>1,334,899</u>	<u>(121,147)</u>	<u>1,213,752</u>
<b>Fund balance</b>			
Nonspendable:			
Inventory	1,251,884	(1,251,884)	-
Prepaid items	28,444	(28,444)	-
Restricted for road system	503,139	(503,139)	-
Total fund balance	<u>1,783,467</u>	<u>(531,583)</u>	<u>-</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 3,690,306</u>		
<b>Net position</b>			
Net investment in capital assets		34,063,142	34,063,142
Restricted for road system		98,620	98,620
Total net position		<u>\$ 34,161,762</u>	<u>\$ 34,161,762</u>

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

## Leelanau County Road Commission

### Reconciliation of Fund Balances of the General Operating / Road Fund to Net Position of Governmental Activities

*December 31, 2016*

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Fund balances - General Operating / Road Fund \$ 1,783,467

Amounts reported for governmental activities in the Statement of Net Position  
are different because:

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 fund financial statements

Net pension liability	(2,138,298)
Deferred outflows related to the net pension liability	486,269

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the fund financial statements.

Add - land and improvements / right-of-way	14,870,825
Add - land improvements, buildings and equipment	13,242,425
Add - infrastructure	32,742,272
Deduct - accumulated depreciation	(26,792,380)

Long-term liabilities that are not due and payable in the current period and therefore are not reported in the fund statements	(153,965)
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Certain deferred inflows are comprised of unavailable revenue, which is only  
deferred in the fund financial statements

121,147

Net position of governmental activities	<u>\$ 34,161,762</u>
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**Leelanau County Road Commission**  
**Statement of Governmental Revenues, Expenditures and**  
**Changes in Fund Balance / Statement of Activities**  
*For the Year Ended December 31, 2016*

	<b>General Operating / Road Fund</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>Expenditures/expenses</b>			
Public works	\$ 4,348,287	\$ 1,923,421	\$ 6,271,708
Capital outlay	1,637,886	(1,637,886)	-
Total expenditures/expenses	<u>5,986,173</u>	<u>285,535</u>	<u>6,271,708</u>
<b>Program revenue</b>			
Charges for services	1,067,553	-	1,067,553
Operating grants and contributions	3,625,080	(164,148)	3,460,932
Total program revenue	<u>4,692,633</u>	<u>(164,148)</u>	<u>4,528,485</u>
Net program revenue			<u>(1,743,223)</u>
<b>General revenue</b>			
Property taxes	1,213,255	-	1,213,255
Interest and rentals	1,645	-	1,645
Total general revenue	<u>1,214,900</u>	<u>-</u>	<u>1,214,900</u>
Total revenue	<u>5,907,533</u>		
<b>Other financing sources</b>			
Proceeds from sale of capital assets	12,799	-	12,799
Revenue and other financing sources over (under) expenditures / expenses	(65,841)	65,841	-
Change in net position	-	(515,524)	(515,524)
<b>Fund balance / net position</b>			
Beginning of the year	1,849,308	32,827,978	34,677,286
<b>End of the year</b>	<u>\$ 1,783,467</u>	<u>\$ 32,378,295</u>	<u>\$ 34,161,762</u>

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

## Leelanau County Road Commission

### Reconciliation of Net Change in Fund Balance of the General Operating / Road Fund to Change in Net Position of Governmental Activities

*For the Year Ended December 31, 2016*

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Change in fund balance - General Operating / Road Fund	\$ (65,841)
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Amounts reported for *governmental activities* in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	690,014
Add - Infrastructure purchases	947,872
Deduct - depreciation expense	(2,017,290)

Deferred inflows are reported in the fund financial statements because the related receivable is not a current financial resource. Therefore, the revenue is reported only in the Statement of Activities.	121,147
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The change in the net pension liability and related deferred outflows and deferred inflows does not impact current financial resources and therefore is not reported in the fund financial statements.	75,454
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The change in the deferred outflows from the State General Fund allocation does not impact current financial resources and therefore is not reported in the fund financial statements.	(285,295)
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The change in the accrued compensated absences is reported as an expense in the Statement of Activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the fund financial statements.	<u>18,415</u>
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Change in net position of governmental activities	<u><u>\$ (515,524)</u></u>
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# Leelanau County Road Commission

## Notes to Financial Statements

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### **NOTE A - Summary of Significant Accounting Policies**

The accounting policies of the *Leelanau County Road Commission* (the “Road Commission”) conform to accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The following is a summary of the significant policies.

#### **Reporting Entity**

The Road Commission is a discrete, separate component unit of the County of Leelanau, Michigan. The Road Commission is considered to be a 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.

The Road Commission is used to control 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 established pursuant to the County Road Law (MCL224.1) and operates under a three-member elected Board of County Road Commissioners. The Board of County Road Commissioners establishes policies and reviews operations of the Road Commission. The Road Commission provides services to eleven (11) Townships in Leelanau County and maintains approximately 209 miles of State trunkline, 427 miles of local roads and 171 miles of primary roads.

#### **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 Road Commission. *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.

A combined financial statement is provided for the General Operating / Road Fund Balance Sheet and the Statement of Net Position and the General Operating / Road Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities. The General Operating / Road Fund is considered to be a major fund for financial reporting purposes.

#### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements (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 were 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

## Notes to Financial Statements

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Governmental fund (General Operating / Road Fund) financial statements (Balance Sheet and General Operating / Road Fund Statement of 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, licenses and interest associated with the current fiscal period are all considered 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 Road Commission.

The Road Commission reports the following major *governmental* fund:

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

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

#### Cash and Cash Equivalents

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

#### Receivables and Payables

All receivables and payables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Management has determined that none of the year-end balances are uncollectible.

#### Property Taxes Receivable

Property taxes are levied each December 1st on the taxable valuation of property located in the County that is approved by the Board of County Commissioners the preceding October. There were 0.5 mills levied on the taxable value of property for road maintenance purposes in 2016, net of amounts for incorporated cities and villages (statutorily distributed based on SEV).

Although the County's 2016 ad valorem tax is levied and collectible on December 1, 2016, 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 fund financial statements. The receivable is offset to deferred inflows of resources.

#### Inventory

Inventory consists of various operating parts, supplies and road material is stated cost, as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as they are used.

#### Prepaid Items

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

# Leelanau County Road Commission

## Notes to Financial Statements

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### Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements. Capital assets are recorded as capital outlay expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (General Operating / Road Fund) column. No minimum cost is used to record road equipment capital assets. Other capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$5,000 and an estimated 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 donated. 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.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating / Road 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 Operating / Road Fund.

Since the year ended December 31, 2004, costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets (roads, bridges, traffic signals and similar items) have been capitalized and are reported as infrastructure capital assets in the Statement of Net Position. Infrastructure capital assets will continue to be capitalized prospectively. The Road Commission is a phase 3 government and has elected not to retroactively report major general infrastructure assets.

Depreciation is recorded over the estimated useful lives of the assets, using the sum-of-the-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

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

### Deferred Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period 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, expected and actual experience and changes in assumptions related to its defined benefit pension plan. Additional information regarding these balances can be found in note D of these financial statements.

### Advances from the State of Michigan

The State of Michigan advances funds on a State maintenance agreement it has with the Road Commission for maintenance performed by the Road Commission and for equipment purchases. These advances are considered current liabilities because they are subject to repayment annually, upon results of audit procedures performed by the State of Michigan.

# Leelanau County Road Commission

## Notes to Financial Statements

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### State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. Based on past experience, the Road Commission expects that the adjustments for the current year activity will be for a material amount however the amount of the adjustments, if any, cannot be reasonably estimated.

### Compensated Absences

Vacation and sick leave payable is reported in the General Operating / Road Fund only for matured amounts, for example, as a result of employee resignations and retirements within 60 days of the year-end. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short-term and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

### Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position will sometimes report deferred inflows of resources in a separate section. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until that time. At year-end, the Road Commission had two types of items that qualified for reporting in this category; unavailable revenue and changes in expected and actual investment returns related to its defined benefit pension plan. The unavailable revenue is from one source; property taxes that were levied for the subsequent year (voluntary non-exchange transactions). At year-end, the entire balance of property taxes receivable is deferred and will be recognized as an inflow of resources in the subsequent year. Additional information regarding the change in expected and actual investment returns related to the defined benefit pension plan can be found in note D of these financial statements.

### Fund Equity

In the financial statements, the General Operating / Road Fund reports the following components of fund balance:

#### Nonspendable

Amounts that are not in spendable form or are legally or contractually required to be maintained intact are reported as nonspendable fund balance.

#### Restricted

Amounts that are legally restricted by externally imposed constraints that are placed on the use of resources by grantors, contributors, or laws or regulations of other governments are reported as restricted fund balance.

#### Committed

Amounts that have been formally set aside by the Board of County Road Commissioners for use for specific purposes are reported as committed fund balance. Commitments are made, and can only be rescinded by resolution of the Board of County Road Commissioners. None the Road Commission's fund balance was committed at year-end.

#### Assigned

Amounts that are constrained by the Road Commission's *intent* to be used for specific purposes, but are neither restricted nor committed are reported as assigned fund balance. The Board of County Road Commissioners adopted a policy to authorize the Finance Manager to assign fund balance on

# Leelanau County Road Commission

## Notes to Financial Statements

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behalf of the Road Commission. None the Road Commission's fund balance was assigned at year-end.

### Unassigned

Amounts that have not been restricted, committed or assigned to specific purposes are reported as unassigned fund balance.

When the Road Commission incurs expenditures 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.

### Equipment Rental

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated (charged) to the Road Commission's various activities. The effect of this allocation is offset to equipment expenditures / expenses.

### Estimates

In preparing financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

## **NOTE B - Stewardship, Compliance and Accountability**

### **Auditing and Reporting**

The audit was performed 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 as described in the Independent Auditors' Report and with the types of compliance requirements described in Public Act 51 of 1951, as amended. The financial statements were prepared in accordance with U.S. GAAP, as described in the Independent Auditor's Report and also with applicable rules of the Michigan State Department of Transportation.

### **Budgetary Data**

The Road Commission's procedures for establishing budgetary data are as follows:

- The Road Commission's Finance Manager prepares a proposed operating budget for the calendar year commencing January 1<sup>st</sup>. The proposed operating budget includes identification of expenditures and resources to finance them.
- Prior to December 31<sup>st</sup>, the proposed budget is presented to the Board of County Road Commissioners. The budget is reviewed and may be amended by the Board and a public hearing is held regarding the proposed budget. The budget is then legally enacted through passage of a resolution adopted by the Board of County Road Commissioners and is placed in the Board minutes.
- The Road Commission's approved budget was adopted at the activity level. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act, since the Board of County Road Commissioners must approve amendments to the budget at the activity level.
- The budget for the General Operating / Road Fund is adopted on a basis consistent with U.S. GAAP. Budget amounts reported in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

# Leelanau County Road Commission

## Notes to Financial Statements

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- The Road Commission adopts a budget for the General Operating / Road Fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the State-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.
- Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. Variances at the legal level of control are as disclosed on the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

### **NOTE C - Detailed Notes on Select Financial Statement Captions / Transaction Classes**

#### **Deposits and Investments**

At year-end, the Road Commission's deposits, presented as cash and cash equivalents, consisted of the following:

Cash on hand	\$	100
Deposits held with Leelanau County		<u>356,509</u>
Total	\$	<u>356,609</u>

#### **Deposit and Investment Risk**

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

#### ***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. At year-end, none of the bank balance of \$17,934, excluding amounts held by the County, was exposed to custodial credit risk because it was uninsured and uncollateralized. At year-end, deposits of the Road Commission in the amount of \$356,509 were held by Leelanau County and may have been

# Leelanau County Road Commission

## Notes to Financial Statements

partially insured under FDIC coverage. However, the amount of federal depository insurance is determined for the County as a whole and cannot be separately identified for the Road Commission.

### Capital Assets

Capital asset activity for the year was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Capital assets not being depreciated				
Land	\$ 37,276	\$ -	\$ -	\$ 37,276
Infrastructure – land improvements	14,413,813	419,736	-	14,833,549
Total capital assets not being depreciated	14,451,089	419,736	-	14,870,825
Capital assets being depreciated				
Land improvements	52,064	-	-	52,064
Buildings	1,754,285	13,985	-	1,768,270
Road equipment	10,087,955	676,029	(125,369)	10,638,615
Shop equipment	147,072	-	-	147,072
Office equipment	10,611	-	-	10,611
Engineering equipment	24,605	-	-	24,605
Yard and storage	601,188	-	-	601,188
Infrastructure – roads	32,214,136	528,136	-	32,742,272
Total capital assets being depreciated	44,891,916	1,218,150	(125,369)	45,984,697
Less accumulated depreciation				
Land improvements	(52,064)	-	-	(52,064)
Buildings	(712,501)	(61,383)	-	(773,884)
Road equipment	(8,205,011)	(644,456)	125,369	(8,724,098)
Shop equipment	(147,072)	-	-	(147,072)
Office equipment	(9,239)	(716)	-	(9,955)
Engineering equipment	(24,605)	-	-	(24,605)
Yard and storage	(446,360)	(13,821)	-	(460,181)
Infrastructure – roads	(15,303,607)	(1,296,914)	-	(16,600,521)
Total accumulated depreciation	(24,900,459)	(2,017,290)	125,369	(26,792,380)
Net capital assets being depreciated	19,991,457	(799,140)	-	19,192,317
Total net capital assets	\$ 34,442,546	\$ (379,404)	\$ -	\$ 34,063,142

### Long-term Debt

Long-term debt activity for the year was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>(Decreases)</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Accrued compensated absences	\$ 172,380	\$ 17,737	\$ (36,152)	\$ 153,965	\$ 121,732

# Leelanau County Road Commission

## Notes to Financial Statements

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### Accrued Compensated Absences

In accordance with Board policy and labor agreements, employees have a vested right upon retirement or termination of employment to receive compensation for 100% accumulated vacation time. Employees also have a vested right upon retirement to receive compensation for 50% of accumulated sick leave. Employees also earn personal time that is subject to a “use it or lose it” policy and is not paid upon retirement or termination however 100% of unused balances are paid out annually to all employees in July of each year. The estimated dollar amounts of these vested rights, which have been accrued on the government-wide financial statements, amounted to approximately \$59,253 for sick leave, \$76,701 for vacation and \$18,011 for personal time at year-end.

### **NOTE D – Pension Plans**

#### Defined Benefit Pension Plan

##### Plan Description

The Road Commission participates in the Municipal Employees' Retirement System (MERS) of Michigan, a defined benefit pension plan providing certain retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

##### Benefits Provided

Pension benefits are calculated as final average compensation (based on a 5 year period) and multipliers at 2.0%. Participants are considered to be fully vested in the plan after 10 years. Normal retirement age is 60 with early retirement at age 50 with 25 years of service or age 55 with 15 years of service. The plan is closed to new entrants.

##### Employees Covered by the Benefit Terms

At the December 31, 2016 measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	22
Inactive employees entitled to but not yet receiving benefits	9
Active employees	<u>27</u>
Total membership	<u><u>58</u></u>

##### Contribution Requirements

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement Board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

# Leelanau County Road Commission

## Notes to Financial Statements

During the year, the Road Commission's actuarially determined contribution rate was a fixed monthly dollar amount of \$14,599. Employees were required to contribute 4.00% of their annual covered payroll to the plan.

### Actuarial Assumptions

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.75% (plus 0.00% to 11.00% for merit and longevity)
Investment rate of return	7.75%, net of investment expense and including inflation

Mortality rates were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend for non-disabled plan members and 50% Male and 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables for disabled plan members.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of the most recent actuarial experience study dated in 2015 that covers the period from January 1, 2009 through December 31, 2013.

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense 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	57.50%	5.02%	2.87%
Global fixed income	20.00	2.18	0.44
Real assets	12.50	4.23	0.53
Diversifying strategies	10.00	6.56	0.66
	100.00%		
Inflation			2.50
Administrative expenses netted above			0.75
Investment rate of return			7.75%

*Discount Rate* - The discount rate used to measure the total pension liability was 8.00%. 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.

*Projected Cash Flows* - Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make 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

## Notes to Financial Statements

### Net Pension Liability

The Road Commission's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015.

Changes in the net pension liability during the year were as follows:

<u>Changes in Net Pension Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance at December 31, 2015	\$ 6,644,898	\$ 4,564,813	\$ 2,080,085
Service cost	101,926	-	101,926
Interest	538,670	-	538,670
Difference in actual and expected experience	144,554	-	144,554
Changes in assumptions	359,724	-	359,724
Employer contributions	-	486,000	(486,000)
Employee contributions	-	43,676	(43,676)
Net investment income	-	527,239	(527,239)
Benefit payments	(333,051)	(333,051)	-
Administrative expenses	-	(10,399)	10,399
Other changes	(40,145)	-	(40,145)
Net changes	<u>771,678</u>	<u>713,465</u>	<u>58,213</u>
Balance at December 31, 2016	<u>\$ 7,416,576</u>	<u>\$ 5,278,278</u>	<u>\$ 2,138,298</u>

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

	1% Decrease in Rate to 7.00%	Assumed Discount Rate 8.00%	1% Increase in Rate to 9.00%
Net Pension Liability	<u>\$ 2,889,212</u>	<u>\$ 2,138,298</u>	<u>\$ 1,491,044</u>

*Pension Plan Fiduciary Net Position* - Detailed information about the Plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows or resources related to pension and pension expense, information about the Plan's fiduciary net position and addition to / deduction from fiduciary net position have been determined on the same basis as they are reported by the Plan. The Plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

# Leelanau County Road Commission

## Notes to Financial Statements

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

During the year the Road Commission recognized pension expense of \$410,546. At year-end, the Road Commission reported deferred outflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>
Difference in expected and actual experience	\$ 96,369
Changes in assumptions	239,816
Net difference between projected and actual earnings on pension plan investments	<u>150,084</u>
Total	<u>\$ 486,269</u>

The amounts reported as deferred outflows of resources will be recognized as a component of pension expense as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 227,651
2018	227,650
2019	59,560
2020	<u>(28,592)</u>
Total	<u>\$ 486,269</u>

### Payable to the Pension Plan

At year-end, the Road Commission reported a payable of \$33,119 for the outstanding amount of contributions to the pension plan that were required for the year-ended.

### Defined Contribution Pension Plan

On July 1, 2014, the Road Commission enacted a defined contribution pension plan to provide pension benefits for employees hired on or after that date. Employees hired on or after July 1, 2014 are required to participate in the plan. The plan is administered by MERS. 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 to the Plan were \$15,339 and employee contributions were \$15,339 during the year.

### Deferred Compensation Plan

The Road Commission offers all of its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan are 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

# Leelanau County Road Commission

## Notes to Financial Statements

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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.

### **NOTE E – Other Information**

#### **Net Administrative Expenditures Balance**

Administrative expenditures are reported net of applicable credits in accordance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions. The net balance in administrative expenditures for the year is comprised of the following:

Administrative –	
Direct	\$ 473,800
Handling charges on materials	(9,940)
Overhead on trunkline maintenance	(91,049)
Purchase discounts	<u>(2,029)</u>
Total, net	<u>\$ 370,782</u>

#### **Net Equipment Expenditures Balance**

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure in the various maintenance activities. An expenditure credit is reported as an offset against the equipment expenditure activities. Accordingly, the equipment rental does not affect total expenditures or the available operating equity of the Road Commission's General Operating Fund. The net balance in equipment expenditures for the year is comprised of the following:

Equipment –	
Direct	\$ 1,152,160
Indirect	422,879
Operating	178,032
Less equipment rental credits	<u>(1,538,862)</u>
Total, net	<u>\$ 214,209</u>

#### **Capital Outlay Expenditure Balance**

On the governmental fund financial statements, the Road Commission reports a depreciation credit to offset capital outlay as a result of charging depreciation to various expenditure accounts. The net book value of capital asset retirements are also reported as a credit against capital outlay. The balance in capital outlay expenditures for the year is comprised of the following:

Capital outlay –	
Buildings	\$ 13,985
Road equipment	676,029
Less depreciation / depletion	<u>(720,378)</u>
Total, net	<u>\$ (30,364)</u>

# Leelanau County Road Commission

## Notes to Financial Statements

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### **Risk Management**

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for healthcare claims. The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The Michigan County Road Commission Self-insurance Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase excess commercial insurance coverage and to pay member claims in excess of deductible amounts. The pool provides loss coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, trunkline 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. The Road Commission's exposure is limited to \$1,000 per claim; all other risk is transferred to the Pool. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three (3) fiscal years.

The Road Commission is a member of the County Road Association Self-Insurance Fund for workers' compensation claims. As a member of the fund, the Road Commission is fully insured for workers' compensation claims incurred.

### **Contingencies**

At times, the Road Commission is named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit. Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

### **Federal Award Expenditures / Single Audit**

The Michigan Department of Transportation (MDOT) requires that Road Commissions report all Federal and State grants pertaining to their County. During the year, the Federal aid received and expended by the Road Commission was \$0 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the Road Commission administers the grant and either performs the work or contracts it out. Because the Road Commission expended less than \$750,000 in negotiated projects, no single audit was required.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

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**Leelanau County Road Commission**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule - General Operating / Road Fund**  
*For the Year Ended December 31, 2016*

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>Revenues</b>				
Property taxes	\$ 1,193,600	\$ 1,213,600	\$ 1,213,255	\$ (345)
Licenses and permits	18,000	22,000	21,329	(671)
State sources:				
Michigan transportation funds	3,160,600	3,167,700	3,169,642	1,942
Economic development funds	39,800	39,800	39,745	(55)
Other State revenue	226,200	285,350	226,089	(59,261)
Contributions from local units	51,000	181,750	181,750	-
Charges for services	715,000	1,030,000	1,046,224	16,224
Interest earned on deposits	1,500	1,850	1,645	(205)
Other	2,500	2,500	7,854	5,354
Total revenues	<u>5,408,200</u>	<u>5,944,550</u>	<u>5,907,533</u>	<u>(37,017)</u>
<b>Expenditures</b>				
Primary roads:				
Preservation	400,000	269,840	150,211	(119,629)
Maintenance	870,000	1,706,191	1,635,294	(70,897)
Local roads:				
Preservation	475,000	843,963	797,663	(46,300)
Maintenance	1,600,000	1,954,336	1,904,345	(49,991)
Total preservation and maintenance	<u>3,345,000</u>	<u>4,774,330</u>	<u>4,487,513</u>	<u>(286,817)</u>
State trunkline maintenance	660,000	740,000	719,568	(20,432)
State trunkline non-maintenance	6,000	226,000	224,465	(1,535)
Administrative - net	217,150	459,118	370,782	(88,336)
Equipment - net	192,800	396,702	214,209	(182,493)
Capital outlay - net	50,650	(350)	(30,364)	(30,014)
Distributive fringe benefits	1,020,200	-	-	-
Total expenditures	<u>5,491,800</u>	<u>6,595,800</u>	<u>5,986,173</u>	<u>(609,627)</u>
Excess of revenue over (under) expenditures	(83,600)	(651,250)	(78,640)	572,610
<b>Other financing sources</b>				
Proceeds from sale of capital assets	60,000	15,000	12,799	(2,201)
Net change in fund balance	(23,600)	(636,250)	(65,841)	570,409
<b>Fund balance</b>				
Beginning of the year	1,849,308	1,849,308	1,849,308	-
<b>End of the year</b>	<u>\$ 1,825,708</u>	<u>\$ 1,213,058</u>	<u>\$ 1,783,467</u>	<u>\$ 570,409</u>

**Leelanau County Road Commission**  
**Required Supplementary Information**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
*Last 10 Fiscal Years Ended December 31,*

	<u>2016</u>	<u>2015</u>	<u>2007* to 2014*</u>
<b>Total pension liability</b>			
Service cost	\$ 101,926	\$ 98,043	---
Interest	538,670	516,891	---
Changes of benefit terms	-	-	---
Differences between expected and actual experience	144,554	-	---
Changes in assumptions	359,724	-	---
Benefit payments	(333,051)	(295,302)	---
Other changes	(40,145)	(38,703)	---
Net change in total pension liability	<u>771,678</u>	<u>280,929</u>	---
Total pension liability - beginning	<u>6,644,898</u>	<u>6,363,969</u>	---
Total pension liability - ending	<u><u>\$ 7,416,576</u></u>	<u><u>\$ 6,644,898</u></u>	---
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 486,000	\$ 473,484	---
Contributions - member	43,676	49,761	---
Net investment income (loss), net	527,239	(67,576)	---
Benefit payments, including refunds of member contributions	(333,051)	(295,302)	---
Administrative expenses	(10,399)	(9,827)	---
Other	-	-	---
Net change in fiduciary net position	<u>713,465</u>	<u>150,540</u>	---
Fiduciary net position - beginning	<u>4,564,813</u>	<u>4,414,273</u>	---
Fiduciary net position - ending	<u><u>\$ 5,278,278</u></u>	<u><u>\$ 4,564,813</u></u>	---
<b>Net pension liability - ending</b>	<u><u>\$ 2,138,298</u></u>	<u><u>\$ 2,080,085</u></u>	---
Fiduciary net position as a percentage of the total pension liability	71.17%	68.70%	---
Covered-employee payroll	1,197,106	1,153,314	---
Net pension liability as percentage of covered-employee payroll	178.62%	180.36%	---

\* GASB Statement No. 68 was implemented as of December 31, 2015. Information from 2007 through 2014 is not available. Additional years will be presented on this schedule on a prospective basis.

*See Notes to Required Supplementary Information*



## **OTHER SUPPLEMENTARY INFORMATION**

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# Leelanau County Road Commission

## Other Supplementary Information Schedule of Road Fund Revenue and Other Financing Sources

*For the Year Ended December 31, 2016*

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
Property taxes	\$ -	\$ -	\$ 1,213,255	\$ 1,213,255
Licenses and permits	5,332	15,997	-	21,329
State sources				
Michigan Transportation Fund				
Engineering	6,591	3,409	-	10,000
Snow removal	47,763	143,288	-	191,051
Urban road	55,446	26,097	-	81,543
Allocation	1,902,850	984,198	-	2,887,048
Other	-	-	226,089	226,089
Economic development fund				
Forest road (E)	-	39,745	-	39,745
Contributions from local units				
Townships	-	181,750	-	181,750
Charges for services				
State trunkline maintenance	-	-	719,568	719,568
State trunkline non-maintenance	-	-	224,465	224,465
Salvage sales	-	-	1,312	1,312
Other	-	-	100,879	100,879
Interest earned on deposits	1,645	-	-	1,645
Other				
Contributions from private sources	-	7,854	-	7,854
Total revenue	<u>2,019,627</u>	<u>1,402,338</u>	<u>2,485,568</u>	<u>5,907,533</u>
Other financing sources				
Proceeds from sale of capital assets	<u>7,057</u>	<u>4,843</u>	<u>899</u>	<u>12,799</u>
Total revenue and other financing sources	<u><u>\$ 2,026,684</u></u>	<u><u>\$ 1,407,181</u></u>	<u><u>\$ 2,486,467</u></u>	<u><u>\$ 5,920,332</u></u>

# Leelanau County Road Commission

## Other Supplementary Information Schedule of Road Fund Expenditures

*For the Year Ended December 31, 2016*

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
Preservation / structural improvements:				
Roads	\$ 137,789	\$ 797,663	\$ -	\$ 935,452
Other	12,422	-	-	12,422
Maintenance:				
Roads	1,144,851	1,066,285	-	2,211,136
Roadside parks	-	10,437	-	10,437
Winter maintenance	460,570	778,006	-	1,238,576
Traffic control	29,873	49,617	-	79,490
State trunkline				
Maintenance	-	-	719,568	719,568
Non-maintenance	-	-	224,465	224,465
Administrative - net	147,528	223,254	-	370,782
Equipment - net	58,236	112,372	43,601	214,209
Capital outlay - net	<u>(16,744)</u>	<u>(11,489)</u>	<u>(2,131)</u>	<u>(30,364)</u>
Total expenditures	<u>\$ 1,974,525</u>	<u>\$ 3,026,145</u>	<u>\$ 985,503</u>	<u>\$ 5,986,173</u>

**Leelanau County Road Commission**  
**Other Supplementary Information**  
**Schedule of Changes in Road Fund Balances**  
*For the Year Ended December 31, 2016*

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
<b>Total revenue</b>	\$ 2,019,627	\$ 1,402,338	\$ 2,485,568	\$ 5,907,533
<b>Total expenditures</b>	<u>1,974,525</u>	<u>3,026,145</u>	<u>985,503</u>	<u>5,986,173</u>
Excess of revenue over (under) expenditures	<u>45,102</u>	<u>(1,623,807)</u>	<u>1,500,065</u>	<u>(78,640)</u>
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	7,057	4,843	899	12,799
Optional transfers	<u>(1,000,000)</u>	<u>1,618,964</u>	<u>(618,964)</u>	<u>-</u>
<b>Total other financing sources (uses)</b>	<u>(992,943)</u>	<u>1,623,807</u>	<u>(618,065)</u>	<u>12,799</u>
Excess of revenue and other financing sources over (under) expenditures	(947,841)	-	882,000	(65,841)
<b>Fund balance</b>				
Beginning of the year	<u>1,849,308</u>	<u>-</u>	<u>-</u>	<u>1,849,308</u>
<b>End of the year</b>	<u><u>\$ 901,467</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 882,000</u></u>	<u><u>\$ 1,783,467</u></u>



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A VETERAN OWNED BUSINESS

**Independent Auditor's 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***

To the Board of County Road Commissioners  
Leelanau County, 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**, a component unit of Leelanau County, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the **Leelanau County Road Commission's** basic financial statements and have issued our report thereon dated April 18, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered **Leelanau County 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 **Leelanau County Road Commission's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Leelanau County Road Commission's** internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, as described as finding 2016-1 in the accompanying Schedule of Findings and Responses that we consider to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether *Leelanau County Road Commission's* financial statements are free of 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2016-2.

**Road Commission's Responses to Findings**

The *Leelanau County Road Commission's* written responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Road Commission's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Road Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Road Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Smith + Klaehlin PC*

*Saginaw, Michigan*

April 18, 2017

# Leelanau County Road Commission

## Schedule of Findings and Responses

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### **Finding 2016-1** – Lack of Segregation of Incompatible Duties (*repeated*)

**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 Payroll Specialist have access to the inventory and payroll 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.

**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 continues to identify 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.

## Leelanau County Road Commission

### Schedule of Findings and Responses

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#### **Finding 2016-2 – Administrative Expenditures as a Percentage of MTF Funding**

**Criteria:** Section 12(21) of Public Act 51 of 1951 stipulates that not more than 10% of the Michigan Transportation Funds (MTF) received during the year be expended for administrative costs.

**Condition:** The Road Commission's administrative expenditures of \$370,782 were in excess of 10% of the amount of MTF received of \$3,169,642.

**Cause:** When working on road network or specific projects the administrative staff should have been applying their time to billing codes other than that reserved for administrative time. As a result the amount of time applied to administrative costs was artificially inflated causing the threshold to be surpassed.

**Effect:** The Road Commission did not comply with the requirements of Section 12(21) of Public Act 51 of 1951.

**View of  
Responsible  
Officials:**

Road Commission management will monitor administrative expenditures as a percent of MTF at periodic intervals during the year and will implement specific budgetary or other corrective measures to ensure compliance with these requirements in future years. Moving forward this should not be an issue.