

**Shiawassee County Road Commission
Corunna, Michigan**

FINANCIAL STATEMENTS

December 31, 2013

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December 31, 2013

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INDEPENDENT AUDITOR'S REPORT

Board of the County Road Commissioners
Shiawassee County
Corunna, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Shiawassee County Road Commission (the Commission), a component unit of Shiawassee County, Michigan as of and for the year ended December 31, 2013, and the related notes to the financial statements which collectively comprise the 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 Shiawassee County Road Commission, as of December 31, 2013, 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.

Emphasis of a Matter

As discussed in Note M, the Commission implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year. As a result of this implementation, certain assets and liabilities have been reclassified as deferred outflows of resources or expenses and deferred inflows of resources or revenues, respectively. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information is the responsibility of management and was derived from and relates 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 is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2014, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the Commission's internal control over financial reporting and compliance.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 28, 2014

Our discussion and analysis of Shiawassee County Road Commission's (the Commission) financial performance provides an overview of the Commission's financial activities for the calendar year ended December 31, 2013. This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Commission and present a long-term view of the Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Commission's operations in more detail than the government-wide financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and the other supplementary information section - an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Commission's overall financial status. These statements report information about the Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Commission's net position and how they have changed. "Net position" is the difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources--this is one way to measure the Commission's financial health.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

REPORTING THE SHIAWASSEE COUNTY ROAD COMMISSION AS A WHOLE

Government-Wide Statements

The statement of net position and the statement of activities report information about the Commission, as a whole, and about its activities in a way that helps answer the question of whether the Commission, as a whole, is better off or worse off as a result of the year's activities. The statement of net position includes all of the Commission's assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Commission's net position and how they have changed. The reader can think of the Commission's net position (the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources) as one way to measure the Commission's financial health. Over time, increases or decreases in the Commission's net position are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Commission, additional nonfinancial factors such as changes in the county's property tax base, the condition of the Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Fund Financial Statements

The Commission currently has only one fund, the General Operating Fund. All of the Commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. The General Operating Fund budget vs. actual schedules is located on pages 20 through 21. The other supplementary information begins on page 22 and provides detailed information about the major fund.

Shiawassee County Road Commission

Management's Discussion and Analysis

Governmental funds focus on how money flows into and out of this fund and the balances left at year-end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE

The Commission's net position decreased \$1,132,996 from \$48,563,488 to \$47,430,492 for the year ended December 31, 2013. The net position and change in net position are summarized below.

Net Position

Restricted net position have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The primary reason for the decreases of net position in 2013 was due to a reduction of road preservation projects which is a result of the lack of funding for infrastructure improvements.

Net position for the years ended December 31, 2013 and 2012, is as follows:

	2013	2012
Current and other assets	\$ 6,090,023	\$ 5,589,366
Capital assets	43,878,512	45,075,186
Total assets	49,968,535	50,664,552
Current liabilities	383,102	252,212
Noncurrent liabilities	2,154,941	1,848,852
Total liabilities	2,538,043	2,101,064
Investment in capital assets	43,878,512	45,075,186
Unrestricted	3,551,980	3,488,302
Total net position	\$ 47,430,492	\$ 48,563,488

Shiawassee County Road Commission

Management's Discussion and Analysis

Changes in Net Position

A summary of changes in net position for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012
Program Revenues		
Charges for services	\$ 1,319,921	\$ 1,043,542
Operating grants and contributions	5,031,706	3,940,370
Capital grants and contributions	3,037,370	4,219,255
General Revenues		
Interest	3,674	4,071
Other	83,291	43,739
Total Revenues	9,475,962	9,250,977
Expenses		
Primary roads	2,806,625	1,699,938
Local roads	1,929,906	2,528,759
State trunkline	1,128,525	881,728
Equipment - net	384,431	594,599
Administrative - net	539,567	555,491
Infrastructure depreciation	3,368,302	3,401,871
Post-employment benefits obligations	451,602	399,700
Total Expenses	10,608,958	10,062,086
Change in Net Position	\$ (1,132,996)	\$ (811,109)

The General Operating Fund

The Commission's General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes. For the year ended December 31, 2013, the fund balance of the General Operating Fund increased \$281,927 compared to an increase of \$235,585 in the fund balance for the year ended December 31, 2012. Total operating revenues were \$9,475,962, an increase of \$224,985 compared to the year ended December 31, 2012. This difference in revenue resulted primarily from an increase in winter maintenance on state trunklines.

Total expenditures were \$9,194,035, an increase of \$178,643 as compared to last year. This change in expenditures is primarily due to an increase in winter maintenance costs.

Shiawassee County Road Commission

Management's Discussion and Analysis

A summary of changes in the fund level financial information of the General Operating Fund is as follows:

	2013	2012
Revenues		
License and permits	\$ 22,188	\$ 17,953
Federal grants	793,719	817,131
State grants	5,349,734	5,291,940
Contributions from local units	1,925,623	2,050,556
Charges for services	1,284,543	1,011,633
Interest	16,864	18,024
Other	83,291	43,740
Total revenues	9,475,962	9,250,977
Expenditures		
Primary road	4,132,590	3,912,545
Local road	2,873,694	3,371,532
State trunkline	1,175,196	982,508
Equipment - net	145,036	256,158
Administrative - net	572,822	655,014
Capital outlay	294,697	(162,365)
Total expenditures	9,194,035	9,015,392
Change in net position	281,927	235,585
Fund balance - beginning	4,733,540	4,497,955
Fund balance - ending	\$ 5,015,467	\$ 4,733,540

BUDGETARY HIGHLIGHTS

Prior to the beginning of any year, the Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2013 was \$434,236 more than the original budget. The actual revenue recognized during 2013 was less than the final amended budget by \$35,774 mainly due to lower than anticipated Federal Aid.

The final amended expenditure budget for 2013 was \$169,575 more than the original budget primarily due to additional capital outlay projects. The actual expenditures recognized during 2013 were less than the final amended budget by \$73,036.

Shiawassee County Road Commission

Management's Discussion and Analysis

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2013, the Commission had invested \$43,878,512 in capital assets. This amount represents a net decrease (including additions, deductions, and reclassifications) of \$1,196,674 as follows:

	<u>2013</u>	<u>2012</u>
Capital Assets Not Being Depreciated		
Land and improvements	\$ 595,381	\$ 595,381
Infrastructure - land improvements	<u>4,684,616</u>	<u>4,702,237</u>
Subtotal	5,279,997	5,297,618
Capital Assets Being Depreciated		
Buildings	3,022,605	2,993,921
Equipment	7,209,695	6,744,997
Infrastructure	73,791,147	74,193,665
Depletable assets	<u>153,402</u>	<u>153,402</u>
Subtotal	<u>84,176,849</u>	<u>84,085,985</u>
Total Capital Assets	89,456,846	89,383,603
Total Accumulated Depreciation	<u>(45,578,334)</u>	<u>(44,308,417)</u>
Total Net Capital Assets	<u>\$ 43,878,512</u>	<u>\$ 45,075,186</u>

This year's capital asset additions included the following:

Infrastructure - land improvements	\$ 139,998
Buildings	28,684
Equipment	
Road	627,948
Shop	2,136
Engineering	5,190
Infrastructure	
Roads	1,408,336
Bridges	<u>486,219</u>
	<u>\$ 2,698,511</u>

During 2013, the Commission traded in and/or disposed of road equipment, infrastructure, and infrastructure - land improvements with a purchase amount of \$2,625,268 and related depreciation of \$2,467,237. More detailed information about the Commission's capital assets is presented in Note C to the financial statements.

Debt

As of December 31, 2013, the Commission had no outstanding loans.

Debt obligations include accrued compensated absences related to vacation pay and sick leave and related payroll taxes in the amount of \$224,051 as of December 31, 2013. More detailed information about the Commission's long-term liabilities is presented in Note D to the financial statements.

Management's Discussion and Analysis

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The board of county road commissioners considered many factors when setting the fiscal year 2014 budget. One of the factors is the economy. The Commission derives approximately 50% of its revenues from the Michigan Transportation Fund (MTF) fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Commission will receive \$5,074,000, which is equal to MTF revenues in 2013. The Commission received approximately 20% of its revenues from township contributions during 2013. This amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. During 2014, we expect to receive at least \$1,105,000 in federal and state aid for road projects. The above items were considered when adopting the budget for 2014. Amounts available for appropriation in the budget are \$9,380,500, a decrease of \$30,875 over the 2013 budget of \$9,411,375.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the motoring public, citizens, and other interested parties a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Commission's administrative offices at 701 West Corunna Ave., Corunna, Michigan 48817.

BASIC FINANCIAL STATEMENTS

Shiawassee County Road Commission

STATEMENT OF NET POSITION

December 31, 2013

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 3,795,371
Due from other governmental units	
State	1,084,033
Local	127,513
Inventory	<u>345,853</u>
Total current assets	5,352,770
Noncurrent assets	
Net pension asset	737,253
Capital assets not being depreciated	5,279,997
Capital assets, net of accumulated depreciation	<u>38,598,515</u>
Total noncurrent assets	<u>44,615,765</u>
TOTAL ASSETS	49,968,535
LIABILITIES	
Current liabilities	
Accounts payable	82,985
Accrued liabilities	75,264
Other current liabilities	802
Current portion of compensated absences	<u>224,051</u>
Total current liabilities	383,102
Noncurrent liabilities	
Advances from other governmental units	178,252
Net other post-employment benefits obligation	<u>1,976,689</u>
Total noncurrent liabilities	<u>2,154,941</u>
TOTAL LIABILITIES	<u>2,538,043</u>
NET POSITION	
Investment in capital assets	43,878,512
Unrestricted	<u>3,551,980</u>
TOTAL NET POSITION	<u><u>\$ 47,430,492</u></u>

See accompanying notes to financial statements.

Shiawassee County Road Commission

STATEMENT OF ACTIVITIES

Year Ended December 31, 2013

	<u>Governmental Activities</u>
Program expenses	
Primary road	\$ 2,806,625
Local road	1,929,906
State trunkline	1,128,525
Equipment - net	384,431
Administrative - net	539,567
Infrastructure depreciation	3,368,302
Post-employment benefits obligation expense	<u>451,602</u>
TOTAL PROGRAM EXPENSES	10,608,958
Program revenues	
Charges for services	1,319,921
Operating grants and contributions	5,031,706
Capital grants and contributions	<u>3,037,370</u>
TOTAL PROGRAM REVENUES	<u>9,388,997</u>
NET PROGRAM EXPENSES	(1,219,961)
General revenues	
Interest	3,674
Other	<u>83,291</u>
TOTAL GENERAL REVENUES	<u>86,965</u>
CHANGE IN NET POSITION	(1,132,996)
Net position, beginning of the year	<u>48,563,488</u>
Net position, end of the year	<u><u>\$ 47,430,492</u></u>

See accompanying notes to financial statements.

Shiawassee County Road Commission

Governmental Fund

BALANCE SHEET

December 31, 2013

	<u>General Operating Fund</u>
ASSETS	
Cash	\$ 3,795,371
Due from other governmental units	
State	1,084,033
Local	127,513
Inventory	<u>345,853</u>
TOTAL ASSETS	<u>\$ 5,352,770</u>
LIABILITIES	
Accounts payable	\$ 82,985
Accrued liabilities	75,264
Other accrued liabilities	802
Advances from other governmental units	<u>178,252</u>
TOTAL LIABILITIES	337,303
FUND BALANCE	
Nonspendable for inventory	345,853
Unassigned	<u>4,669,614</u>
TOTAL FUND BALANCE	<u>5,015,467</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 5,352,770</u>

See accompanying notes to financial statements.

Shiawassee County Road Commission

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION

December 31, 2013

Total fund balance - governmental fund **\$ 5,015,467**

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

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

The cost of capital assets is	\$ 89,456,846	
Accumulated depreciation is	<u>(45,578,334)</u>	
Capital assets, net		43,878,512

Some assets are not current financial resources and therefore are not reported in the Governmental Fund Balance Sheet.

Net pension asset		737,253
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Fund Balance Sheet. Long-term liabilities at year-end consist

Net other post-employment benefits obligation	1,976,689	
Compensated absences	<u>224,051</u>	
		<u>(2,200,740)</u>

Net position of governmental activities		<u>\$ 47,430,492</u>
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Shiawassee County Road Commission

Governmental Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended December 31, 2013

	<u>General Operating Fund</u>
REVENUES	
License and permits	\$ 22,188
Intergovernmental	8,069,076
Charges for services	1,284,543
Interest and rents	16,864
Other	<u>83,291</u>
TOTAL REVENUES	9,475,962
EXPENDITURES	
Current	
Primary road	4,132,590
Local road	2,873,694
State trunkline	1,175,196
Equipment - net	145,036
Administrative - net	572,822
Capital outlay	<u>294,697</u>
TOTAL EXPENDITURES	<u>9,194,035</u>
NET CHANGE IN FUND BALANCE	281,927
Fund balance, beginning of year	<u>4,733,540</u>
Fund balance, end of year	<u><u>\$ 5,015,467</u></u>

See accompanying notes to financial statements.

Shiawassee County Road Commission

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2013

Net change in fund balances - total governmental fund \$ 281,927

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

Capital outlays are reported as expenditures in governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 2,698,511	
Building and equipment depreciation	(368,852)	
Infrastructure depreciation	<u>(3,368,302)</u>	
Excess of depreciation expense over capital outlay		(1,038,643)

In the statement of activities, only the gain or loss on the sale of the capital assets is reported, whereas in the governmental fund, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of capital assets sold. (158,031)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental fund. These activities consist of:

Increase in net pension asset	233,353	
(Increase) in other post-employment benefits obligations	(454,852)	
Decrease in compensated absences	<u>3,250</u>	
		(218,249)

Change in net position of governmental activities \$ (1,132,996)

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Shiawassee County Road Commission (the "Commission") is a component unit of Shiawassee County, Michigan. The Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, and contributions from other local units of government for work performed for road projects throughout the county.

The Commission, which is established pursuant to the County Road Law (MCL 224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Commission. The Commission provides services to sixteen (16) Townships in Shiawassee County and maintains over 1,094 miles of local and primary roads.

1. Reporting Entity

The Commission is required by Public Act 51 of the State of Michigan to have an audit performed of its operations. This financial report has been prepared to meet this State requirement.

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statements No. 39 and No. 61); these financial statements are exclusive presentations of the financial condition and results of operations of the Commission. The Commission is considered a component unit of Shiawassee County, Michigan and is discretely presented in Shiawassee County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Corunna, Michigan.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities (the government-wide statements) present information for the Commission as a whole.

The Statement of Activities presents the direct functional expenses of the Commission and the program revenues that support them. Direct expenses are specifically associated with a service, program, or Commission and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and shows how governmental functions are either self-financing or supported by the general revenues of the Commission.

FUND FINANCIAL STATEMENTS

The Commission uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Commission's individual major fund.

The major fund of the Commission is:

- a. The General Operating Fund is used to account for all financial resources of the Commission, which are restricted to expenditures for specified county road related purposes.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The governmental fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues which are considered measurable, but not available, are recorded as a receivable and unavailable revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

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

5. Budgets and Budgetary Accounting

The annual budget of the Commission is prepared by management and approved by the Board. Any revisions to the original budget are approved by the Board before the end of the fiscal year. The budget for the General Operating Fund is adopted on the modified accrual basis of accounting, which is consistent with Generally Accepted Accounting Principles (GAAP).

6. Cash

Cash consists of the Commission's checking and savings accounts and imprest cash.

7. Inventory

Inventory of road materials and equipment parts are recognized using the consumption method (inventory is recorded as an expenditure when it is used). Inventory is stated at average cost.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

8. Capital Assets

Capital assets are reported under governmental activities within the operating fund in the government-wide financial statements. Capital assets are defined by the Commission as assets with an initial individual cost of more than \$200 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 required major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 - 50 years
Road Equipment	5 - 8 years
Shop Equipment	10 years
Engineering Equipment	4 - 10 years
Office Equipment	4 - 10 years
Infrastructure - Roads	5 - 30 years
Infrastructure - Bridges	12 - 50 years

9. Advances From Other Units of Government

Advances from other units of government consist of amounts received from other units of government based on agreements for specified projects for which work has not yet begun.

10. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under the governmental activities within the Statement of Net Position.

11. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount along with related payroll taxes is recorded in the government-wide financial statements.

12. Deferred Outflows/Inflows 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, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

12. Deferred Outflows/Inflows of Resources - continued

In addition to liabilities, the statement of net 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 and will not be recognized as an inflow of resources (revenue) until then.

Currently, the Commission does not report any deferred inflows or outflows of resources.

13. Equipment Rentals

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

14. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, the disclosure 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.

15. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Commission. All Commission receipts are deposited with the Shiawassee County Treasurer's Office, and in order to make disbursements, the Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer. All funds of the Commission are held with the County Treasurer in separate accounts in the Commission's name.

In accordance with Michigan Compiled Laws, the Commission is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE B: CASH - CONTINUED

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Commission's bank deposits at December 31, 2013, are composed of the following:

	Carrying Amount	Bank Balance
Checking accounts	\$ 2,490,229	\$ 2,490,229
Savings accounts	1,305,092	1,305,092
	<u>\$ 3,795,321</u>	<u>\$ 3,795,321</u>

Bank deposits of the Commission are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Commission. As of December 31, 2013, the Commission's accounts were insured by the FDIC for \$2,000,000 and the amount of \$1,795,321 was uninsured and uncollateralized. The cash caption on the balance sheet includes \$50 in imprest cash.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of December 31, 2013, the Commission did not have any investments that would be subject to rating.

Interest rate risk

The Commission has adopted a policy that indicates how the Commission will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Commission has adopted a policy that indicates how the Commission will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Commission's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Commission has adopted a policy that indicates how the Commission will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments of collateral securities that are in possession of an outside party. There were no such investments in the current year.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE C: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2013, was as follows:

	Balance Jan. 1, 2013	Additions	Deletions	Balance Dec. 31, 2013
Capital assets not being depreciated				
Land and land improvements	\$ 595,381	\$ -	\$ -	\$ 595,381
Infrastructure - land improvements	4,702,237	139,998	(157,619)	4,684,616
Subtotal	5,297,618	139,998	(157,619)	5,279,997
Capital assets being depreciated/depleted				
Buildings	2,993,921	28,684	-	3,022,605
Equipment -				
Road	6,385,450	627,948	(164,100)	6,849,298
Shop	152,034	2,136	(6,476)	147,694
Sign shop	10,175	-	-	10,175
Office	126,667	-	-	126,667
Engineering	70,671	5,190	-	75,861
Infrastructure - roads	53,618,651	1,408,336	(2,297,073)	52,729,914
Infrastructure - bridges	20,575,014	486,219	-	21,061,233
Depletable assets	153,402	-	-	153,402
Subtotal	84,085,985	2,558,513	(2,467,649)	84,176,849
Less accumulated depreciation/depletion				
Buildings	(1,427,300)	(100,985)	-	(1,528,285)
Equipment -				
Road	(5,853,232)	(253,106)	164,100	(5,942,238)
Shop	(97,045)	(10,183)	6,064	(101,164)
Sign shop	(3,305)	(1,102)	-	(4,407)
Office	(118,403)	(2,469)	-	(120,872)
Engineering	(68,198)	(1,007)	-	(69,205)
Infrastructure - roads	(30,283,319)	(2,937,079)	2,297,073	(30,923,325)
Infrastructure - bridges	(6,304,213)	(431,223)	-	(6,735,436)
Depletion	(153,402)	-	-	(153,402)
Subtotal	(44,308,417)	(3,737,154)	2,467,237	(45,578,334)
Net capital assets being depreciated/depleted	39,777,568	(1,178,641)	(412)	38,598,515
Total Net Capital Assets	\$ 45,075,186	\$ (1,038,643)	\$ (158,031)	\$ 43,878,512

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE C: CAPITAL ASSETS - CONTINUED

Depreciation/Depletion expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 253,104
Indirect Equipment	102,334
Net Administrative Expense	13,414
Infrastructure	<u>3,368,302</u>
	<u>\$ 3,737,154</u>

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the Commission for the year ended December 31, 2013:

	<u>Balance Jan. 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2013</u>	<u>Amounts Due Within One Year</u>
Compensated Absences	<u>\$ 227,301</u>	<u>\$ 273,436</u>	<u>\$ (276,686)</u>	<u>\$ 224,051</u>	<u>\$ 224,051</u>

Compensated Absences - Vacation and Sick Leave

In accordance with Commission personnel policies and/or contracts negotiated with various employee groups of the Commission, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts.

Accumulated vacation and sick leave and related payroll taxes represents a liability to the Commission, which is presented as a current liability in the current year because management estimates that usage in any given year will be the same percentage as the usage of the outstanding balance from the previous year.

NOTE E: FEDERAL FINANCIAL ASSISTANCE

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2013, the Federal aid received and expended by the Commission was \$793,719 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered 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. The Commission would be subject to single audit requirements if it expended \$500,000 or more for negotiated projects.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE F: EMPLOYEE RETIREMENT SYSTEM

The Commission participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time employees are covered by the retirement system.

The benefits and conditions outlined below are for general information only. Public Act 427 of 1984, as amended, covers the benefits and conditions of the Municipal Retirement systems.

Normal Retirement:

Age 55 with 25 or more years of credited service

Age 60 with 10 or more years of credited service (reduced to 8 or 6 years depending on benefits)

Mandatory Retirement: None

Deferred Retirement:

The termination of membership before age 60, other than by retirement or death, after 10 years of credited service is considered a deferred retirement. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Benefit allowances are computed based on the applicable criteria as detailed within the plan. Death and disability benefits are also provided.

Funding Policy

Covered employees can contribute between 0% and 10% of their annual salary to the retirement system. Employees must contribute 5% of annual compensation. The Commission is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended December 31, 2013, the Commission's annual pension cost of \$477,643 for the plan was equal to the Commission's required contribution; in addition to the annual pension cost, the Commission contributed \$233,353 to the plan during the current year. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2011, using the entry age normal cost funding method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases depending on age, merit, longevity, and promotional salary increases. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE F: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Three (3) year trend information

	Year Ended December 31,		
	2010	2011	2012
Actuarial value of assets	\$ 11,228,007	\$ 11,184,668	\$ 11,687,939
Actuarial accrued liability (AAL)	17,529,557	18,011,571	18,114,973
Unfunded AAL	6,301,550	6,826,903	6,427,034
Funded ratio	64%	62%	65%
Covered payroll	\$ 1,988,518	\$ 1,988,131	\$ 1,861,780
UAAL as a percentage of covered payroll	317%	343%	345%

	Year Ended December 31,		
	2011	2012	2013
Annual pension cost	\$ 427,438	\$ 433,348	\$ 477,643
Percentage of APC contributed	100%	216%	149%
Net pension asset	\$ -	\$ 503,900	\$ 233,353

This trend information was obtained from the most recently issued actuarial reports.

NOTE G: OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Commission provides hospitalization and medical coverage on a complimentary basis for employees who retire after January 1, 1975, as other post-employment benefits (OPEB) to all applicable employees, in accordance with the union agreements and/or personnel policies. The following are the Governmental Accounting Standards Board (GASB) Statement No. 45 required disclosures and these disclosures have been implemented prospectively by the Commission.

- Employees retiring between January 1, 1975, and December 31, 1991, will receive employer paid coverage for the retiree only. Coverage will be the same as the coverage for active employees.
- Employees retiring between January 1, 1992, and December 31, 1998, will receive employer paid coverage for the retiree and his or her spouse. Spouse shall be the person the employee was married to at the time of retirement. Coverage will be the same as the coverage for active employees.
- Employees retiring on or after January 1, 1999, and who have a seniority date prior to December 31, 1998, will receive employer paid coverage for the retiree only, unless they have a minimum of 25 years of seniority and are at least 55 years of age, then the employer will also pay for spouse coverage. Spouse shall be the person the employee was married to at the time of retirement. Coverage will be the same as the coverage for active employees.
- Employees hired after December 31, 1998, will not receive employer paid health care coverage upon retirement. They may continue their coverage by paying the monthly premium.

The plan does not issue a separate stand-alone financial statement.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE G: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Funding Policy

The Commission's annual other post-employment benefit (OPEB) cost is calculated based on the *annual required contribution of the employer* (ARC). The Commission has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The Commission has no obligation to make contributions in advance of when the premiums are due for payment (i.e., may be financed on a "pay-as-you-go" basis). The only current contributions being made are to pay the actual current premiums of the retirees. That amount was less than the annual required contribution and is reflected in the schedule that follows. Administrative costs of the plan are paid for by the Commission.

Funding Progress

For the year ended December 31, 2013, the Commission has determined an estimated cost of providing post-employment benefits through the alternative measurement method of calculation as of December 31, 2011. The calculation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed thirty (30) years.

The Commission's computed contribution and actual funding is summarized as follows:

Annual required contribution	\$ 810,620
Interest on net OPEB obligation	106,529
Adjustment to annual required contribution	<u>(81,585)</u>
Annual OPEB cost (expense)	835,564
Contributions made	<u>(380,712)</u>
Increase in net OPEB obligation	454,852
Net OPEB obligation - Beginning of year	<u>1,521,837</u>
Net OPEB obligation - End of year	<u>\$ 1,976,689</u>

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the years ended December 31, were as follows:

	2011	2012	2013
Annual OPEB cost	\$ 827,314	\$ 830,707	\$ 835,564
Percentage contributed	68.94%	51.88%	45.56%
Net OPEB obligation	\$ 1,122,137	\$ 1,521,837	\$ 1,976,689

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE G: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

The current funding progress of the plan as of the applicable December 31 is as follows:

	2008	2011
Actuarial value of assets	\$ -	\$ 229,878
Actuarial accrued liability (AAL)	14,736,962	12,191,914
Unfunded AAL (UAAL)	(14,736,962)	(11,962,036)
Funded ratio	0%	1.89%
Annual covered payroll	\$ 1,200,784	\$ 1,092,679
Ratio of UAAL to covered payroll	1227%	1095%

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumption about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of the plan and the annual required contributions of the Commission are subject to constant changes and modifications as actual results are compared with past expectations and new estimates and assumptions are made about the future.

Projections of retiree benefits for financial reporting purposes are based on current plan activities as it is handled by the Commission and the benefits are received by the eligible plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Commission and plan members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2011, actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions include a 7.0 percent a year rate of investment return, compounded annually net after investment expense, which is the expected long-term investment returns on plan assets, and a base payroll growth rate of 3.0 percent. There were also merit and seniority salary rate increase assumptions taken into consideration and those are detailed in the actuarial study and are based on age. The UAAL is being amortized as a level percentage of active member payroll over a period of thirty (30) years. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with GASB requirements.

NOTE H: CONTINGENT LIABILITIES

The Commission participates in a number of Federal and State assisted grant programs which are subject to compliance audits. The programs and the periodic program compliance audits of many of the programs have not yet been conducted, completed, or resolved. Accordingly, the Commission's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Commission expects such amounts, if any, to be immaterial.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE I: RISK MANAGEMENT

The Commission participates in a pool, the Michigan County Road Commission Self-Insurance Pool, with other municipalities, for claims relating to general liability, trunkline, excess liability, auto liability, directors' and officers' liability, errors and omissions and physical damage. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to a special assessment to make up the deficiency. The Commission has not been informed of any special assessments being required.

The Commission participates in the County Road Association Self-Insurance Fund for workers' compensation insurance and has full statutory coverage for workers' disability compensation and employers' liability as granted by the State of Michigan under Chapter 6, Section 418.611 of the Workers' Disability Compensation Act. The Commission has no liability for additional assessments based on the claims filed against the fund nor do they have rights to dividends.

NOTE J: FLEXIBLE BENEFITS PLAN

In November 1993, the Commission implemented a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Service Code. The plan is available to all employees following 30 days of employment. The plan permits them to reduce their salary and put these amounts into a flexible benefits account up to certain limits. The plan allows the employee to reduce their salary and apply it to required premium payments. A participating employee may elect instead a cash alternative to supplement salary compensation in lieu of a nontaxable health benefit. An employee's elected cash alternative will be considered a taxable benefit under the Flexible Benefit Plan.

The plan is administered by the Shiawassee County Road Commission.

NOTE K: RELATED PARTY TRANSACTIONS

The Commission engages in business transactions with three (3) vendors, Stechschulte Gas & Oil Co., D&D Truck & Trailer, and Constine Gravel Company, which are owned and operated by the various family members of one of the Commissioners. These transactions are made in the normal course of business and amounted to \$359,751 for the year ended December 31, 2013. The Commissioner related to the above parties abstained from voting on all contracts related to these vendors.

NOTE L: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five (5) fund balance classifications under this standard.

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE L: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, the Commission's highest level of decision-making authority is the Board. The formal action that is required to be taken to establish and modify or rescind a fund balance commitment is a Board motion.

For assigned fund balance, the Board has not approved a policy indicating who is authorized to assign amounts to a specific purpose. As a result, this authority is retained by the Board.

The Commission has not adopted a policy that defines the order of usage for fund balance amounts classified as restricted, committed, assigned, or unassigned. In absence of such a policy, resources with the highest level of restriction will be used first.

NOTE M: CHANGE IN ACCOUNTING PRINCIPLE

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was implemented during the current year. This statement established accounting and financial reporting standards that reclassified, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

NOTE N: UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the Commission's 2015 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Shiawassee County Road Commission

GENERAL OPERATING FUND

BUDGETARY COMPARISON SCHEDULE - REVENUES

Year Ended December 31, 2013

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Licenses and permits				
Permits	\$ 15,000	\$ 21,638	\$ 22,188	\$ 550
Intergovernmental				
Federal sources				
Critical bridge	1,042,500	1,012,515	793,719	(218,796)
State sources				
Motor vehicle highway funds				
Engineering	10,000	10,000	10,000	-0-
Primary road	3,187,000	3,400,000	3,358,378	(41,622)
Local road	1,557,000	1,596,000	1,639,398	43,398
Primary urban road	120,000	125,100	123,583	(1,517)
Local urban road	58,000	57,000	57,853	853
Critical bridge	-	-	160,522	160,522
Local sources				
Township contributions	2,280,000	1,917,947	1,917,947	-0-
Other contributions	8,500	7,676	7,676	-0-
Total intergovernmental	8,263,000	8,126,238	8,069,076	(57,162)
Charges for services				
State trunkline maintenance	777,000	1,254,860	1,276,534	21,674
Salvage sales	5,000	8,009	8,009	-0-
Total charges for services	782,000	1,262,869	1,284,543	21,674
Interest and rents	17,500	17,700	16,864	(836)
Other				
Medicare drug subsidy	-	18,703	18,703	-0-
Gain from sale of equipment	-	64,588	64,588	-0-
Total other	-0-	83,291	83,291	-0-
TOTAL REVENUES	\$ 9,077,500	\$ 9,511,736	\$ 9,475,962	\$ (35,774)

Shiawassee County Road Commission

GENERAL OPERATING FUND

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES

Year Ended December 31, 2013

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES				
Current				
Primary road				
Maintenance	\$ 2,650,000	\$ 2,825,000	\$ 2,821,945	\$ 3,055
Preservation - structural improvements	1,600,000	1,320,000	1,310,645	9,355
Total primary road	4,250,000	4,145,000	4,132,590	12,410
Local road				
Maintenance	2,400,000	2,168,507	2,159,221	9,286
Preservation - structural improvements	725,000	725,000	714,473	10,527
Total local road	3,125,000	2,893,507	2,873,694	19,813
State trunkline				
Maintenance	777,000	1,185,000	1,175,196	9,804
Equipment				
Direct	1,200,000	1,015,000	1,009,583	5,417
Indirect	540,000	530,000	525,753	4,247
Operating	400,000	350,000	339,328	10,672
Less: equipment rental	(1,800,000)	(1,729,700)	(1,729,628)	(72)
Total equipment	340,000	165,300	145,036	20,264
Administrative				
Administration	724,996	700,000	695,412	4,588
Less:				
Handling charges	(500)	(1,084)	(1,085)	1
Overhead - state	(85,000)	(115,450)	(115,457)	7
Purchase discount	(4,000)	(6,050)	(6,048)	(2)
Total administrative	635,496	577,416	572,822	4,594
Capital outlay				
Capital outlay	320,000	670,000	663,958	6,042
Less:				
Depreciation and depletion	(350,000)	(369,152)	(369,261)	109
Total capital outlay	(30,000)	300,848	294,697	6,151
TOTAL EXPENDITURES	<u>\$ 9,097,496</u>	<u>\$ 9,267,071</u>	<u>\$ 9,194,035</u>	<u>\$ 73,036</u>

OTHER SUPPLEMENTARY INFORMATION

Shiawassee County Road Commission
GENERAL OPERATING FUND
STATEMENT OF CHANGES IN FUND BALANCE
Year Ended December 31, 2013

TOTAL REVENUES	\$ 9,475,962
TOTAL EXPENDITURES	<u>9,194,035</u>
CHANGE IN FUND BALANCE	281,927
Fund balance, beginning of year	<u>4,733,540</u>
Fund balance, end of year	<u><u>\$ 5,015,467</u></u>

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF CHANGES IN FUND BALANCE

Year Ended December 31, 2013

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	\$ 5,222,744	\$ 2,842,957	\$ 1,410,261	\$ 9,475,962
TOTAL EXPENDITURES	<u>4,519,310</u>	<u>3,169,187</u>	<u>1,505,538</u>	<u>9,194,035</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	703,434	(326,230)	(95,277)	281,927
OTHER FINANCING SOURCES (USES)				
Optional transfers in	-	523,303	-	523,303
Optional transfers out	<u>(523,303)</u>	<u>-</u>	<u>-</u>	<u>(523,303)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(523,303)</u>	<u>523,303</u>	<u>-0-</u>	<u>-0-</u>
CHANGE IN FUND BALANCES	180,131	197,073	(95,277)	281,927
Fund balance, beginning of year	<u>651,002</u>	<u>1,299,959</u>	<u>2,782,579</u>	<u>4,733,540</u>
Fund balance, end of year	<u>\$ 831,133</u>	<u>\$ 1,497,032</u>	<u>\$ 2,687,302</u>	<u>\$ 5,015,467</u>

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES

Year Ended December 31, 2013

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Licenses and permits				
Permits	\$ -	\$ -	\$ 22,188	\$ 22,188
Intergovernmental				
Federal sources	793,719	-	-	793,719
State sources	3,649,202	1,700,532	-	5,349,734
Local sources	779,318	1,141,416	4,889	1,925,623
Total intergovernmental	5,222,239	2,841,948	4,889	8,069,076
Charges for services				
State trunkline maintenance	-	-	1,276,534	1,276,534
Salvage sales	-	-	8,009	8,009
Total charges for services	-0-	-0-	1,284,543	1,284,543
Interest and rents	505	1,009	15,350	16,864
Other				
Medicare drug subsidy	-	-	18,703	18,703
Gain on disposal of equipment	-	-	64,588	64,588
Total other	-0-	-0-	83,291	83,291
TOTAL REVENUES	<u>\$ 5,222,744</u>	<u>\$ 2,842,957</u>	<u>\$ 1,410,261</u>	<u>\$ 9,475,962</u>

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF EXPENDITURES

Year Ended December 31, 2013

	Primary Road Fund	Local Road Fund	County Road Commission	Total
EXPENDITURES				
Preservation -				
Structural improvements	\$ 1,310,645	\$ 714,473	\$ -	\$ 2,025,118
Maintenance	2,821,945	2,159,221	-	4,981,166
State trunkline	-	-	1,175,196	1,175,196
Equipment expense - net	48,191	61,200	35,645	145,036
Administrative expense - net	338,529	234,293	-	572,822
Capital outlay - net	-	-	294,697	294,697
TOTAL EXPENDITURES	<u>\$ 4,519,310</u>	<u>\$ 3,169,187</u>	<u>\$ 1,505,538</u>	<u>\$ 9,194,035</u>

Shiawassee County Road Commission

SCHEDULE OF CHANGES IN CAPITAL ASSETS

Year Ended December 31, 2013

	Balance Jan 1, 2013	Additions	Deletions	Balance Dec. 31, 2013
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land and land improvements	\$ 595,381	\$ -	\$ -	\$ 595,381
Infrastructure - land improvements	4,702,237	139,998	(157,619)	4,684,616
Subtotal	5,297,618	139,998	(157,619)	5,279,997
CAPITAL ASSETS BEING DEPRECIATED/DEPLETED				
Buildings	2,993,921	28,684	-	3,022,605
Equipment -				
Road	6,385,450	627,948	(164,100)	6,849,298
Shop	152,034	2,136	(6,476)	147,694
Sign shop	10,175	-	-	10,175
Office	126,667	-	-	126,667
Engineering	70,671	5,190	-	75,861
Infrastructure - roads	53,618,651	1,408,336	(2,297,073)	52,729,914
Infrastructure - bridges	20,575,014	486,219	-	21,061,233
Depletable assets	153,402	-	-	153,402
Subtotal	84,085,985	2,558,513	(2,467,649)	84,176,849
LESS ACCUMULATED DEPRECIATION/DEPLETION				
Buildings	(1,427,300)	(100,985)	-	(1,528,285)
Equipment -				
Road	(5,853,232)	(253,106)	164,100	(5,942,238)
Shop	(97,045)	(10,183)	6,064	(101,164)
Sign shop	(3,305)	(1,102)	-	(4,407)
Office	(118,403)	(2,469)	-	(120,872)
Engineering	(68,198)	(1,007)	-	(69,205)
Infrastructure - roads	(30,283,319)	(2,937,079)	2,297,073	(30,923,325)
Infrastructure - bridges	(6,304,213)	(431,223)	-	(6,735,436)
Depletion	(153,402)	-	-	(153,402)
Subtotal	(44,308,417)	(3,737,154)	2,467,237	(45,578,334)
Net capital assets being depreciated/depleted	39,777,568	(1,178,641)	(412)	38,598,515
Total Net Capital Assets	\$ 45,075,186	\$ (1,038,643)	\$ (158,031)	\$ 43,878,512

Principals

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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

Board of County Road Commissioners
Shiawassee County
Corunna, 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 Shiawassee County Road Commission (the Commission), a component unit of Shiawassee County, Michigan, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated April 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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 result of that testing, and not to provide an opinion on the effectiveness of the 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 Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 28, 2014