

**Shiawassee County Road Commission  
Corunna, Michigan**

**FINANCIAL STATEMENTS**

**December 31, 2016**

Shiawassee County Road Commission

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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, 2016, 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, 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, budgetary comparison information, and pension and retired employees healthcare schedules, 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, as identified in the table of contents, 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 May 10, 2017, 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, 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

May 10, 2017

# **Shiawassee County Road Commission**

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

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, 2016. 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 financial 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 Financial 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 23 through 24. The other supplementary information begins on page 28 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 \$243,419 from \$41,919,121 to \$42,162,540 for the year ended December 31, 2016. 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 decrease of our net position in 2016 was due to a decrease in our current assets account of State Transportation funds of \$640,260 and a decrease in our current liabilities deferred revenue account from the Local Agency Funding of \$416,308.

Net position for the years ended December 31, 2016 and 2015, is as follows:

	2016	2015
Current and other assets	\$ 4,777,542	\$ 6,276,468
Capital assets	44,901,152	44,792,484
Total assets	49,678,694	51,068,952
Deferred outflows of resources	4,523,883	1,703,940
Current liabilities	512,399	302,953
Noncurrent liabilities	11,622,497	10,307,399
Total liabilities	12,134,896	10,610,352
Deferred inflows of resources	148,560	-
Investment in capital assets	44,901,152	44,792,484
Unrestricted	(2,982,031)	(2,629,944)
Total net position	\$ 41,919,121	\$ 42,162,540

# 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, 2016 and 2015 is as follows.

	2016	2015
Program revenues		
Charges for services	\$ 1,439,019	\$ 1,005,130
Operating grants and contributions	8,294,730	8,485,144
Capital grants and contributions	720,747	543,956
General revenues		
Interest	14,329	4,570
Total revenues	10,471,863	10,038,800
Expenses		
Primary roads	1,698,267	2,221,668
Local roads	1,772,484	1,615,769
State trunkline	1,155,177	942,050
Equipment - net	1,461,367	1,302,176
Administrative - net	877,772	741,811
Infrastructure depreciation	3,370,303	3,375,692
Loss on sale of capital assets	145,027	246,548
Post-employment benefits obligations	234,885	220,347
Total expenses	10,715,282	10,666,061
Change in net position	\$ (243,419)	\$ (627,261)

### 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, 2016, the fund balance of the General Operating Fund decreased \$1,741,651 compared to an increase of \$291,571 in the fund balance for the year ended December 31, 2015. Total operating revenues were \$10,512,872, an increase of \$623,679 compared to the year ended December 31, 2015. This difference in revenue resulted primarily from an increase in Federal funding, Township Participation on projects and State Trunkline revenues.

Total expenditures were \$12,254,523, a decrease of \$2,656,901 compared to the year ended December 31, 2015. This change in expenditures is primarily due to an increase in capital outlay, local road expenditures, State Trunkline expenditures and equipment purchases.

## 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:

	2016	2015
Revenues		
License and permits	\$ 45,602	\$ 44,745
Federal grants	746,860	315,996
State grants	6,159,969	6,349,469
Contributions from local units	2,534,862	2,174,419
Charges for services	1,380,559	946,877
Interest and rents	27,187	18,078
Other	45,423	39,609
Total revenues	10,940,462	9,889,193
Expenditures		
Primary road	4,247,558	4,167,049
Local road	4,534,863	3,144,655
State trunkline	1,155,177	942,050
Equipment - net	866,683	637,805
Administrative - net	1,023,587	797,795
Other	32,614	-
Capital outlay	394,041	(91,732)
Total expenditures	12,254,523	9,597,622
Change in net position	(1,314,061)	291,571
Fund balance - beginning	5,289,047	4,997,476
Fund balance - ending	<u>\$ 3,974,986</u>	<u>\$ 5,289,047</u>

#### 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 2016 was \$489,027 less than the original budget. The actual revenue recognized during 2016 was more than the final amended budget by \$193,799 partly due to an increase in our Michigan Transportation Funding (MTF) in November (received in January 2017) and December (received in February 2017) payments that were budgeted 17.3% less than what we actually received along with an increase in our State Trunkline revenues for 2016.

The final amended expenditure budget for 2016 was \$1,071,002 more than the original budget primarily due to additional road equipment purchases. The actual expenditures recognized during 2016 were less than the final amended budget by \$151,044.



# Shiawassee County Road Commission

## Management's Discussion and Analysis

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

As of December 31, 2016, the Commission had invested \$44,901,152 in capital assets. This amount represents a net increase (including additions, deductions, and reclassifications) of \$108,668 as follows:

	2016	2015
Capital assets not being depreciated		
Land and improvements	\$ 595,381	\$ 595,381
Infrastructure - land improvements	4,424,759	4,312,817
Construction in progress	252,867	509,655
Subtotal	5,273,007	5,417,853
Capital assets being depreciated		
Buildings	3,022,605	3,022,605
Equipment	8,203,130	7,659,398
Infrastructure	75,118,332	74,720,213
Depletable assets	153,402	153,402
Subtotal	86,497,469	85,555,618
Total capital assets	91,770,476	90,973,471
Total accumulated depreciation	(46,869,324)	(46,180,987)
Total net capital assets	\$ 44,901,152	\$ 44,792,484

This year's capital asset additions included the following:

Infrastructure - land improvements	\$ 299,354
Construction in progress	239,754
Equipment	
Road	1,401,540
Shop	6,744
Office	10,556
Engineering	1,379
Infrastructure	
Roads	1,862,064
Bridges	760,375
Land improvements	427,722
	<u>\$ 5,009,488</u>

More detailed information about the Commission's capital assets is presented in Note C to the financial statements.

#### Debt

As of December 31, 2016, 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 \$198,293 as of December 31, 2016. More detailed information about the Commission's long-term liabilities is presented in Note D to the financial statements.

# **Shiawassee County Road Commission**

## **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 2017 budget. One of the factors is the economy. With the passing of recent legislation on road funding, our share of the Michigan Transportation Funds is scheduled to increase starting in 2017. This increase in road funding will be a great start to assisting us in addressing some of our primary roadways. It is our plan to scratch course/chip seal just under 100 miles of roadway across each Township in our county during the next four years beginning in 2018. It is projected to complete approximately 25 miles throughout four (4) Townships, each year.

The Commission derives approximately 51% 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 \$6,964,656 which is a 24% increase to MTF revenues in 2017. The Commission received approximately 23.2% of its revenues from township contributions during 2016. This amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate annually. We are projected to receive \$896,605 in federal and state aid for road projects. In addition, an estimated 20.5 miles of scratch course chip seal, estimated 23 miles of chip seal, estimated 2.5 miles of asphalt paving, and estimated 36 miles of re-gravel projects will be completed in 2017. The Road Commission budget also included much needed repairs to our building, including repairs to our roof, and office area maintenance. The above items were all considered when adopting the budget for 2017. Amounts available for appropriation in the original 2017 budget are \$11,350,504, an increase of \$290,043 from the 2016 budget of \$11,060,461. When considering the 2017 budget, it was not clear from the communications received from the Michigan Department of Transportation what our Michigan Transportation Funding (MTF) appropriation would result in 2017. The original budget only included \$6,616,399. The above MTF projection of \$6,964,656 for 2017 was just released by Michigan Department of Transportation in early April of 2017. This adjustment of \$348,257 will be added to MTF in the 1<sup>st</sup> Budget Amendment during the 2<sup>nd</sup> quarter of 2017. Additionally, the Road Commission will not receive any additional Local Disbursement Funds, which resulted in additional revenue of \$427,528 during 2016.

### **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, 2016

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash	\$ 2,418,366
Accounts receivable	3,669
Due from other governmental units	
State	1,161,471
Local	74,825
Inventory	<u>604,156</u>
Total current assets	4,262,487
Noncurrent assets	
Investments	515,055
Capital assets not being depreciated	5,273,007
Capital assets, net of accumulated depreciation	<u>39,628,145</u>
Total noncurrent assets	<u>45,416,207</u>
TOTAL ASSETS	49,678,694
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to pensions	4,523,883
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	226,362
Accrued liabilities	75,452
Other current liabilities	10,489
Compensated absences	<u>200,096</u>
Total current liabilities	512,399
Noncurrent liabilities	
Advances from other governmental units	490,253
Net pension liability	8,419,520
Net other post-employment benefits obligation	<u>2,712,724</u>
Total noncurrent liabilities	<u>11,622,497</u>
TOTAL LIABILITIES	12,134,896
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	<u>148,560</u>
<b>NET POSITION</b>	
Investment in capital assets	44,901,152
Unrestricted	<u>(2,982,031)</u>
TOTAL NET POSITION	<u><u>\$ 41,919,121</u></u>

See accompanying notes to financial statements.

Shiawassee County Road Commission

STATEMENT OF ACTIVITIES

Year Ended December 31, 2016

	Governmental Activities
Program expenses	
Primary road	\$ 1,698,267
Local road	1,772,484
State trunkline	1,155,177
Equipment - net	1,461,367
Administrative - net	877,772
Infrastructure depreciation	3,370,303
Loss on sale of capital assets	145,027
Post-employment benefits obligation expense	<u>234,885</u>
TOTAL PROGRAM EXPENSES	10,715,282
Program revenues	
Charges for services	1,439,019
Operating grants and contributions	8,294,730
Capital grants and contributions	<u>720,747</u>
TOTAL PROGRAM REVENUES	<u>10,454,496</u>
NET PROGRAM EXPENSES	(260,786)
General revenues	
Interest	<u>14,329</u>
CHANGE IN NET POSITION	(243,419)
Net position, beginning of the year	<u>42,162,540</u>
Net position, end of the year	<u><u>\$ 41,919,121</u></u>

See accompanying notes to financial statements.

Shiawassee County Road Commission

Governmental Fund

BALANCE SHEET

December 31, 2016

	General Operating Fund
ASSETS	\$ 2,418,366
Cash	515,055
Investments	3,669
Accounts receivable	
Due from other governmental units	1,161,471
State	74,825
Local	604,156
Inventory	
TOTAL ASSETS	<u>\$ 4,777,542</u>
LIABILITIES	\$ 226,362
Accounts payable	75,452
Accrued liabilities	10,489
Other accrued liabilities	490,253
Advances from other governmental units	
TOTAL LIABILITIES	802,556
FUND BALANCE	604,156
Nonspendable	3,370,830
Unassigned	
TOTAL FUND BALANCE	<u>3,974,986</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 4,777,542</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, 2016

**Total fund balance - governmental fund** **\$ 3,974,986**

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	\$ 91,770,476	
Accumulated depreciation is	<u>(46,869,324)</u>	
Capital assets, net		44,901,152

Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension liability as of the measurement date. Pension contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual pension plan investment earnings will be deferred over time in the government-wide financial statements. These amounts consist of:

Deferred outflows of resources related to pensions	4,523,883	
Deferred inflows of resources related to pensions	<u>(148,560)</u>	
		4,375,323

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 of:

Compensated absences	(200,096)	
Net pension liability	(8,419,520)	
Net other post-employment benefits obligation	<u>(2,712,724)</u>	
		<u>(11,332,340)</u>

**Net position of governmental activities** **\$ 41,919,121**

Shiawassee County Road Commission

Governmental Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended December 31, 2016

	General Operating Fund
REVENUES	
License and permits	\$ 45,602
Intergovernmental	9,441,691
Charges for services	1,380,559
Interest and rents	27,187
Other	45,423
TOTAL REVENUES	10,940,462
EXPENDITURES	
Current	
Primary road	4,247,558
Local road	4,534,863
State trunkline	1,155,177
Equipment - net	866,683
Administrative - net	1,023,587
Other	32,614
Capital outlay	394,041
TOTAL EXPENDITURES	12,254,523
NET CHANGE IN FUND BALANCE	(1,314,061)
Fund balance, beginning of year	5,289,047
Fund balance, end of year	\$ 3,974,986

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, 2016

**Net change in fund balances - total governmental fund** **\$ (1,314,061)**

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	\$ 4,512,946
Building and equipment depreciation	(846,563)
Infrastructure depreciation	<u>(3,370,303)</u>

Excess of capital outlay over depreciation expense	296,080
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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.

(187,412)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. In the current period these amounts consist of:

(Decrease) in unavailable revenue	(426,214)
(Increase) in deferred inflows of resources related to pensions	<u>(148,560)</u>

(574,774)

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 deferred outflows of resources related to pensions	2,819,943
(Increase) in compensated absences	(1,803)
(Increase) in net pension liability	(1,046,507)
(Increase) in net other post-employment benefits obligation	<u>(234,885)</u>

1,536,748

**Change in net position of governmental activities** **\$ (243,419)**

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**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.

The financial statements of the Commission have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Commission's more significant accounting principles are described below.

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, 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 financial 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 or program 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.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**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 fund balance.

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 sixty (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 GAAP.

6. Cash and Investments

Cash consists of the Commission's checking, savings, and imprest cash. Investments consist of certificates of deposit and are recorded at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

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.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**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 (2) years. Such assets are recorded at historical costs or estimated historical cost. Donated capital assets are recorded at an 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
Equipment -	
Road	5 - 8 years
Shop	10 years
Sign shop	10 years
Office	4 - 10 years
Engineering	4 - 10 years
Infrastructure - roads	5 - 30 years
Infrastructure - bridges	12 - 50 years
Land improvements	10 years

9. Advances From Other Governmental Units

Advances from other governmental units 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.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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

12. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of financial position or balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. *Deferred outflows of resources*, a separate financial statement element, represents a consumption of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. *Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The Commission reports deferred amounts which correspond to the Commission's net pension liability and are related to differences between expected and actual experience, changes in assumptions, differences between projected and actual pension plan investment earnings, and contributions made subsequent to the measurement date. These amounts are deferred in the government-wide financial statements and are recognized as an outflow or inflow of resources in the period to which they apply.

13. Net Pension Liability

The net pension liability is deemed to be a noncurrent liability and is recognized in the government-wide financial statements.

14. 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 reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance.

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: DEPOSITS**

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.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE B: DEPOSITS - CONTINUED**

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.
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, 2016, are composed of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking accounts	\$ 1,362,985	\$ 1,395,227
Savings accounts	1,055,331	1,055,331
Certificates of deposit	<u>515,055</u>	<u>515,055</u>
	<u>\$ 2,933,371</u>	<u>\$ 2,965,613</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, 2016, the Commission's accounts were insured by the Federal Deposit Insurance Corporation (FDIC) for \$1,750,000 and the amount of \$1,215,613 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, 2016, 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.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE B: DEPOSITS - CONTINUED**

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.

**NOTE C: CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2016, was as follows:

	Balance Jan. 1, 2016	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Dec. 31, 2016
Capital assets not being depreciated				
Land and land improvements	\$ 595,381	\$ -	\$ -	\$ 595,381
Infrastructure - land improvements	4,312,817	299,354	(187,412)	4,424,759
Construction in progress	509,655	239,754	(496,542)	252,867
Subtotal	5,417,853	539,108	(683,954)	5,273,007
Capital assets being depreciated/depleted				
Buildings	3,022,605	-	-	3,022,605
Equipment -				
Road	7,339,323	1,401,540	(876,487)	7,864,376
Shop	147,098	6,744	-	153,842
Sign shop	10,175	-	-	10,175
Office	103,705	10,556	-	114,261
Engineering	59,097	1,379	-	60,476
Infrastructure - roads	53,234,089	1,862,064	(2,652,042)	52,444,111
Infrastructure - bridges	21,486,124	760,375	-	22,246,499
Land improvements	-	427,722	-	427,722
Depletable assets	153,402	-	-	153,402
Subtotal	85,555,618	4,470,380	(3,528,529)	86,497,469
Less accumulated depreciation/depletion				
Buildings	(1,728,056)	(92,920)	-	(1,820,976)
Equipment -				
Road	(5,743,152)	(706,213)	876,487	(5,572,878)
Shop	(109,414)	(7,725)	-	(117,139)
Sign shop	(6,329)	(962)	-	(7,291)
Office	(89,088)	(6,269)	-	(95,357)
Engineering	(48,453)	(1,950)	-	(50,403)
Infrastructure - roads	(30,694,000)	(2,905,953)	2,652,042	(30,947,911)
Infrastructure - bridges	(7,609,093)	(464,350)	-	(8,073,443)
Land improvements	-	(30,524)	-	(30,524)
Depletion	(153,402)	-	-	(153,402)
Subtotal	(46,180,987)	(4,216,866)	3,528,529	(46,869,324)
Net capital assets being depreciated/depleted	39,374,631	253,514	-0-	39,628,145
Total capital assets, net	\$ 44,792,484	\$ 792,622	\$ (683,954)	\$ 44,901,152

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE C: CAPITAL ASSETS - CONTINUED**

Depreciation/depletion expense was charged to the following activities:

	<u>Amount</u>
Net equipment expense	
Direct equipment	\$ 781,817
Indirect equipment	56,527
Net administrative expense	8,219
Infrastructure	<u>3,370,303</u>
	<u>\$ 4,216,866</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, 2016:

	<u>Balance Jan. 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2016</u>	<u>Amounts Due Within One Year</u>
Compensated absences	<u>\$ 198,293</u>	<u>\$ 265,266</u>	<u>\$ (263,463)</u>	<u>\$ 200,096</u>	<u>\$ 200,096</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, 2016, the Federal aid received and expended by the Commission was \$746,860 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 \$750,000 or more for negotiated projects.



Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE F: RETIREMENT PLAN**

Plan Description

The Commission participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan's Legislature under Public Act 135 of 1945 and administered by a nine (9) member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing MERS website at [www.mersofmich.com](http://www.mersofmich.com).

Summary of Significant Accounting Policies

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purposes, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Benefits Provided

Benefits provided include plans with multipliers ranging from 1.50% with no maximum to 2.50% with a maximum of 80% of the final average compensation.

Vesting period ranging from 6 to 10 years.

Normal retirement age is 60 with an unreduced benefit at age 55 with 25 years of service or a reduced benefit at 50 with 25 years of service or 55 with 15 years of service, depending on division.

Final average compensation is calculated based on 3 - 5 years, depending on division. Member contributions range from 5.00% to 7.00%, depending on division.

Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the Board of Road Commissioners. Benefit terms may be subject to binding arbitration in certain circumstances.

At the December 31, 2015, valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefits	52
Inactive employees entitled to but not yet receiving benefits	6
Active employees	35
	<hr/>
	93
	<hr/>

Contributions

The Commission is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

During the year ended December 31, 2016, the Commission's monthly contributions were 1.91% based on annual payroll for open divisions.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE F: RETIREMENT PLAN - CONTINUED**

Net Pension Liability

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

Actuarial Assumptions

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

Inflation: 2.5%

Salary increases: 3.75% in the long-term plus a percentage based on age related scale to reflect merit, longevity, and promotional pay increases.

Investment rate of return: 7.75%, net of investment expenses, including inflation.

The mortality table used to project the mortality experience of non-disabled plan members is a 50% Male - 50% Female blend of the following tables: 1. the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%, 2. the RP-2014 Employee Mortality Tables, and 3. the RP-2014 Juvenile Mortality Tables. The mortality table used to project the mortality experience of disabled plan members is a 50% Male - 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables.

The actuarial assumptions used in the valuation were based on the results of the 2009-2013 Five-Year Experience Study.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	57.50%	8.52%
Global Fixed Income	20.00%	5.68%
Real Assets	12.50%	7.73%
Diversifying Strategies	10.00%	10.06%

Discount Rate

The discount rate used to measure the total pension liability is 8.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE F: RETIREMENT PLAN - CONTINUED**

Calculating the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at December 31, 2014	\$ 19,195,720	\$ 11,822,707	\$ 7,373,013
Changes for the year			
Service cost	168,071	-	168,071
Interest on total pension liability	1,535,981	-	1,535,981
Changes in benefits	2,725	-	2,725
Difference between expected and actual experience	(198,080)	-	(198,080)
Changes in assumptions	959,644	-	959,644
Employer contributions	-	1,530,931	(1,530,931)
Employee contributions	-	87,327	(87,327)
Net investment income	-	(175,195)	175,195
Benefit payments, including employee refunds	(1,323,612)	(1,323,612)	-0-
Administrative expense	-	(25,846)	25,846
Other changes	(4,617)	-	(4,617)
Net changes	1,140,112	93,605	1,046,507
Balances as of December 31, 2015	<u>\$ 20,335,832</u>	<u>\$ 11,916,312</u>	<u>\$ 8,419,520</u>

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the Net Pension Liability of the Commission, calculated using the discount rates of 8.25%, as well as what the Commission's Net Pension Liability would be using a discount rate that is 1% lower (7.25%) or 1% higher (9.25%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Net pension liability	<u>\$ 10,663,944</u>	<u>\$ 8,419,520</u>	<u>\$ 6,515,092</u>

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE F: RETIREMENT PLAN - CONTINUED**

Pension Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2016, the Commission recognized pension expense of \$1,120,192. The Commission reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ -	\$ 148,560
Differences in assumptions	719,733	-
Difference between projected and actual earnings on pension plan investments	1,059,082	-
Contributions subsequent to the measurement date*	<u>2,745,068</u>	<u>-</u>
Total	<u>\$ 4,523,883</u>	<u>\$ 148,560</u>

\* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending December 31, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the Commission's contributions to the plan made subsequent to the measurement date (\$2,745,068), which will impact the net pension liability in fiscal year 2017, rather than pension expense.

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

Fiscal Year Ended	Pension Expense
2017	\$ 465,974
2018	465,974
2019	465,975
2020	232,332

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE G: OTHER POST-EMPLOYMENT BENEFITS**

Plan Description

Through the Shiawassee County Road Commission OPEB Benefits plan, a defined benefit plan, the Commission provides hospitalization and medical coverage, as other post-employment benefits (OPEB), on a complimentary basis for all applicable employees who retire after January 1, 1975, 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.

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 (30) 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, 2016, the Commission has determined an estimated cost of providing post-employment benefits through the alternative measurement method of calculation as of December 31, 2014. 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.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE G: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED**

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

Annual required contribution	\$ 464,479
Interest on net OPEB obligation	173,449
Adjustment to annual required contribution	<u>(107,732)</u>
Annual OPEB cost (expense)	530,196
Contributions made	<u>(295,311)</u>
Increase in net OPEB obligation	234,885
Net OPEB obligation - Beginning of year	<u>2,477,839</u>
Net OPEB obligation - End of year	<u><u>\$ 2,712,724</u></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:

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Annual OPEB cost	\$ 520,485	\$ 523,766	\$ 530,196
Percentage contributed	50.29%	53.71%	55.70%
Net OPEB obligation	\$ 2,235,402	\$ 2,477,839	\$ 2,712,724

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

	<u>2014</u>
Actuarial value of assets	\$ 296,805
Actuarial accrued liability (AAL)	6,278,803
Unfunded AAL (UAAL)	(5,981,998)
Funded ratio	4.73%
Annual covered payroll	\$ 960,704
Ratio of UAAL to covered payroll	623%

**Valuation Methods and Assumptions**

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.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE G: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED**

Valuation Methods and Assumptions - continued

In the December 31, 2014, valuation, the individual entry age normal actuarial cost method was used. The 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 valuation study and are based on age. The UAAL is being amortized as a level percentage of active member payroll over a period of twenty-two (22) years. A 30-year amortization period for UAAL 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.

**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 (CRASIF) 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.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**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 \$169,253 for the year ended December 31, 2016. 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.).

*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 nonspendable, 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 the absence of such a policy, resources with the highest level of restriction will be used first.

Fund Balance	
Nonspendable	
Inventory	\$ 604,156
Unassigned	3,370,830
	<hr/>
Total Fund Balance	\$ 3,974,986
	<hr/>



NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE M: CHANGES IN ACCOUNTING PRINCIPLES**

GASB Statement No. 72, *Fair Value Measurement and Application*, was implemented during the year. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

**NOTE N: UPCOMING ACCOUNTING PRONOUNCEMENTS**

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The Statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria. The Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2017 year.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The Statement follows the framework for financial reporting of defined benefit OPEB plans in Statement No. 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. The Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2017 year.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligations as a liability for the first time, and to more comprehensibly and comparably measure the annual costs of OPEB benefits. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2018 year.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Shiawassee County Road Commission

GENERAL OPERATING FUND

BUDGETARY COMPARISON SCHEDULE - REVENUES

Year Ended December 31, 2016

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Licenses and permits				
Permits	\$ 30,000	\$ 41,425	\$ 45,602	\$ 4,177
Intergovernmental				
Federal sources				
Surface Transportation Program	600,296	588,709	588,709	-0-
Critical bridge	-	139,273	165,385	26,112
Other	-	(7,234)	(7,234)	-0-
State sources				
Motor vehicle highway funds				
Engineering	10,000	10,000	10,000	-0-
Primary road	3,635,666	3,626,983	3,667,555	40,572
Local road	1,716,875	1,691,875	1,803,302	111,427
Primary urban road	123,000	81,254	81,254	-0-
Local urban road	57,400	51,829	51,829	-0-
Other				
Local bridge	183,661	26,114	-	(26,114)
Other	-	118,439	118,439	-0-
General fund	427,219	427,590	427,590	-0-
Local sources				
Township contributions	3,120,053	2,534,862	2,534,862	-0-
Total intergovernmental	9,874,170	9,289,694	9,441,691	151,997
Charges for services				
State trunkline maintenance	1,296,020	1,331,020	1,368,646	37,626
Salvage sales	5,000	11,913	11,913	-0-
Total charges for services	1,301,020	1,342,933	1,380,559	37,626
Interest and rents				
Interest	7,000	14,329	14,329	-0-
Rents	13,500	12,858	12,858	-0-
Total interest and rents	20,500	27,187	27,187	-0-
Other				
Gain from sale of equipment	-	42,385	42,385	-0-
Contributions from private sources	10,000	3,039	3,038	(1)
Total other	10,000	45,424	45,423	(1)
TOTAL REVENUES	\$ 11,235,690	\$ 10,746,663	\$ 10,940,462	\$ 193,799

Shiawassee County Road Commission

GENERAL OPERATING FUND

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES

Year Ended December 31, 2016

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES				
Current				
Primary road				
Preservation - structural improvements	\$ 1,447,102	\$ 1,315,939	\$ 1,315,939	\$ -0-
Maintenance	3,394,608	2,931,622	2,931,619	3
Total primary road	4,841,710	4,247,561	4,247,558	3
Local road				
Preservation - structural improvements	1,488,000	1,238,387	1,238,386	1
Maintenance	2,917,535	3,296,478	3,296,477	1
Total local road	4,405,535	4,534,865	4,534,863	2
State trunkline				
Maintenance	1,296,020	1,196,020	1,155,177	40,843
Equipment				
Direct	1,100,000	1,768,991	1,768,325	666
Indirect	600,500	745,584	743,288	2,296
Operating	450,000	173,295	173,295	-0-
Less: equipment rental	(1,800,000)	(1,818,225)	(1,818,225)	-0-
Total equipment	350,500	869,645	866,683	2,962
Administrative				
Administration	761,500	1,224,328	1,138,689	85,639
Less:				
Handling charges	(500)	(983)	(983)	-0-
Overhead - state	(120,000)	(105,577)	(105,578)	1
Purchase discount	(5,000)	(8,541)	(8,541)	-0-
Total administrative	636,000	1,109,227	1,023,587	85,640
Other				
Other	12,000	32,616	32,614	2
Capital outlay				
Capital outlay	512,800	1,382,103	1,360,511	21,592
Less:				
Depreciation and depletion	(600,000)	(846,470)	(846,470)	-0-
Equipment retirements	(120,000)	(120,000)	(120,000)	-0-
Total capital outlay	(207,200)	415,633	394,041	21,592
TOTAL EXPENDITURES	\$ 11,334,565	\$ 12,405,567	\$ 12,254,523	\$ 151,044

Shiawassee County Road Commission

SCHEDULE OF CHANGES IN COMMISSION'S NET PENSION LIABILITY AND RELATED RATIOS

Last Two Measurement Dates (Ultimately ten years will be displayed)

(Amounts were determined as of 12/31 of each year)

	2015	2014
Total pension liability		
Service cost	\$ 168,071	\$ 188,524
Interest	1,535,981	1,503,566
Changes of benefit terms	2,725	-
Difference between expected and actual experience	(198,080)	-
Changes of assumptions	959,644	-
Benefit payments including employee refunds	(1,323,612)	(1,254,280)
Other	(4,617)	(1)
Net change in total pension liability	1,140,112	437,809
Total pension liability, beginning	19,195,720	18,757,911
Total pension liability, ending	<u>\$ 20,335,832</u>	<u>\$ 19,195,720</u>
Plan fiduciary net position		
Contributions - employer	\$ 1,530,931	\$ 998,480
Contributions - employee	87,327	95,537
Net investment income	(175,195)	708,356
Benefit payments, including employee refunds	(1,323,612)	(1,254,280)
Administrative expense	(25,846)	(26,010)
Net change in plan fiduciary net position	93,605	522,083
Plan fiduciary net position, beginning	11,822,707	11,300,624
Plan fiduciary net position, ending	<u>\$ 11,916,312</u>	<u>\$ 11,822,707</u>
Commission's net pension liability	<u>\$ 8,419,520</u>	<u>\$ 7,373,013</u>
Plan fiduciary net position as a percentage of the total pension liability	59%	62%
Covered employee payroll	\$ 1,610,460	\$ 1,777,036
Commission's net pension liability as a percentage of covered employee payroll	523%	415%

Shiawassee County Road Commission

SCHEDULE OF COMMISSION CONTRIBUTIONS

Last Two Fiscal Years (Ultimately ten fiscal years will be displayed)

(Amounts were determined as of 12/31 of each fiscal year)

	<u>2016</u>	<u>2015</u>
Actuarially determined contributions	\$ 544,460	\$ 507,661
Contributions in relation to the actuarially determined contribution	<u>2,745,068</u>	<u>1,530,931</u>
Contribution deficiency (excess)	<u>\$ (2,200,608)</u>	<u>\$ (1,023,270)</u>
Covered employee payroll	\$ 1,681,219	\$ 1,679,873
Contributions as a percentage of covered employee payroll	163%	91%

Shiawassee County Road Commission

SCHEDULE OF FUNDING PROGRESS AND COMMISSION CONTRIBUTIONS

Retired Employees Healthcare Plan

Year Ended December 31, 2016

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll
12/31/2014	\$ 296,805	\$ 6,278,803	\$ (5,981,998)	4.73%	\$ 960,704	623%
12/31/2011	229,878	12,191,914	(11,962,036)	1.89%	1,092,679	1095%
12/31/2008	-	14,736,962	(14,736,962)	0.00%	1,200,784	1227%

SCHEDULE OF COMMISSION CONTRIBUTIONS

Year Ended Dec. 31	Annual OPEB Cost	Percent Contributed	OPEB Obligation
2016	\$ 530,196	56%	\$ 2,712,724
2015	523,766	54%	2,477,839
2014	520,485	50%	2,235,402

Shiawassee County Road Commission

NOTE TO SUPPLEMENTARY INFORMATION

Year Ended December 31, 2016

**NOTE B: EMPLOYEE RETIREMENT SYSTEM**

Changes of benefits terms: There were no changes of benefit terms during fiscal year 2016.

Changes in assumptions: Assumption changes as a result of the 2009-2013 Five-Year Experience Study were adopted by MERS for use in the December 31, 2015 annual pension valuation.

For amounts reported prior to the December 31, 2015, actuarial valuation, the expectation of retired life mortality was based on the 1994 Group Annuity Mortality table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table was used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members. For the December 31, 2015, actuarial valuation, the mortality table was adjusted to reflect longer lifetimes. The mortality table used to project the mortality experience of nondisabled plan members is a 50% Male - 50% Female blend of the following tables: 1. the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%, 2. the RP-2014 Employee Mortality Tables, and 3. the RP-2014 Juvenile Mortality Tables. The mortality table used to project the mortality experience of disabled plan members is a 50% Male - 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables.

The assumed annual rate of investment return, net of all expenses, was lowered from 8% to 7.75%.



## **OTHER SUPPLEMENTARY INFORMATION**

Shiawassee County Road Commission  
GENERAL OPERATING FUND  
STATEMENT OF CHANGES IN FUND BALANCE  
Year Ended December 31, 2016

TOTAL REVENUES	\$ 10,940,462
TOTAL EXPENDITURES	<u>12,254,523</u>
CHANGE IN FUND BALANCE	(1,314,061)
Fund balance, beginning of year	<u>5,289,047</u>
Fund balance, end of year	<u><u>\$ 3,974,986</u></u>

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF CHANGES IN FUND BALANCE

Year Ended December 31, 2016

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	\$ 5,908,357	\$ 3,541,276	\$ 1,490,829	\$ 10,940,462
TOTAL EXPENDITURES	4,961,847	5,487,620	1,805,056	12,254,523
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	946,510	(1,946,344)	(314,227)	(1,314,061)
OTHER FINANCING SOURCES (USES)				
Optional transfers in	-	1,000,000	-	1,000,000
Optional transfers out	(1,000,000)	-	-	(1,000,000)
TOTAL OTHER FINANCING SOURCES (USES)	(1,000,000)	1,000,000	-0-	-0-
CHANGE IN FUND BALANCES	(53,490)	(946,344)	(314,227)	(1,314,061)
Fund balance, beginning of year	936,889	1,994,626	2,357,532	5,289,047
Fund balance, end of year	\$ 883,399	\$ 1,048,282	\$ 2,043,305	\$ 3,974,986

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES

Year Ended December 31, 2016

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Licenses and permits				
Permits	\$ -	\$ -	\$ 45,602	\$ 45,602
Intergovernmental				
Federal sources	720,746	26,114	-	746,860
State sources	4,183,102	1,976,867	-	6,159,969
Local sources	1,001,971	1,532,891	-	2,534,862
Total intergovernmental	5,905,819	3,535,872	-0-	9,441,691
Charges for services				
State trunkline maintenance	-	-	1,368,646	1,368,646
Salvage sales	-	-	11,913	11,913
Total charges for services	-0-	-0-	1,380,559	1,380,559
Interest and rents				
Interest	2,538	5,404	6,387	14,329
Rents	-	-	12,858	12,858
Total interest and rents	2,538	5,404	19,245	27,187
Other				
Gain on sale of equipment	-	-	42,385	42,385
Contributions from private sources	-	-	3,038	3,038
Total other	-0-	-0-	45,423	45,423
TOTAL REVENUES	<u>\$ 5,908,357</u>	<u>\$ 3,541,276</u>	<u>\$ 1,490,829</u>	<u>\$ 10,940,462</u>

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF EXPENDITURES

Year Ended December 31, 2016

	Primary Road Fund	Local Road Fund	County Road Commission	Total
EXPENDITURES				
Preservation -				
Structural improvements	\$ 1,315,939	\$ 1,238,386	\$ -	\$ 2,554,325
Maintenance	2,931,619	3,296,477	-	6,228,096
State trunkline	-	-	1,155,177	1,155,177
Equipment expense - net	219,238	424,221	223,224	866,683
Administrative expense - net	495,051	528,536	-	1,023,587
Other	-	-	32,614	32,614
Capital outlay - net	-	-	394,041	394,041
TOTAL EXPENDITURES	<u>\$ 4,961,847</u>	<u>\$ 5,487,620</u>	<u>\$ 1,805,056</u>	<u>\$ 12,254,523</u>

Shiawassee County Road Commission

SCHEDULE OF CHANGES IN CAPITAL ASSETS

Year Ended December 31, 2016

	Balance Jan 1, 2016	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Dec. 31, 2016
<b>CAPITAL ASSETS NOT BEING DEPRECIATED</b>				
Land and land improvements	\$ 595,381	\$ -	\$ -	\$ 595,381
Infrastructure - land improvements	4,312,817	299,354	(187,412)	4,424,759
Construction in progress	509,655	239,754	(496,542)	252,867
Subtotal	5,417,853	539,108	(683,954)	5,273,007
<b>CAPITAL ASSETS BEING DEPRECIATED/DEPLETED</b>				
Buildings	3,022,605	-	-	3,022,605
Equipment -				
Road	7,339,323	1,401,540	(876,487)	7,864,376
Shop	147,098	6,744	-	153,842
Sign shop	10,175	-	-	10,175
Office	103,705	10,556	-	114,261
Engineering	59,097	1,379	-	60,476
Infrastructure - roads	53,234,089	1,862,064	(2,652,042)	52,444,111
Infrastructure - bridges	21,486,124	760,375	-	22,246,499
Land improvements	-	427,722	-	427,722
Depletable assets	153,402	-	-	153,402
Subtotal	85,555,618	4,470,380	(3,528,529)	86,497,469
<b>LESS ACCUMULATED DEPRECIATION/DEPLETION</b>				
Buildings	(1,728,056)	(92,920)	-	(1,820,976)
Equipment -				
Road	(5,743,152)	(706,213)	876,487	(5,572,878)
Shop	(109,414)	(7,725)	-	(117,139)
Sign shop	(6,329)	(962)	-	(7,291)
Office	(89,088)	(6,269)	-	(95,357)
Engineering	(48,453)	(1,950)	-	(50,403)
Infrastructure - roads	(30,694,000)	(2,905,953)	2,652,042	(30,947,911)
Infrastructure - bridges	(7,609,093)	(464,350)	-	(8,073,443)
Land improvements	-	(30,524)	-	(30,524)
Depletion	(153,402)	-	-	(153,402)
Subtotal	(46,180,987)	(4,216,866)	3,528,529	(46,869,324)
Net capital assets being depreciated/depleted	39,374,631	253,514	-0-	39,628,145
Total capital assets, net	\$ 44,792,484	\$ 792,622	\$ (683,954)	\$ 44,901,152

## 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the 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, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated May 10, 2017.

#### 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 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. 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 results 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

May 10, 2017