

**Shiawassee County Road Commission  
Corunna, Michigan**

**FINANCIAL STATEMENTS**

**December 31, 2017**



**STEVENS KIRINOVIC & TUCKER P.C.**

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, 2017, 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, 2017, 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, 2018, 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.

*Stevens Kirinovic & Tucker, P.C.*

STEVENS, KIRINOVIC & TUCKER, P.C.  
Certified Public Accountants

May 10, 2018

# **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, 2017. 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 are located on pages 23 through 24. The other supplementary information begins on page 29 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 increased \$181,013 from \$41,919,121 to \$42,100,134 for the year ended December 31, 2017. 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 increase of our net position in 2017 was due to an increase in our current assets due to an increase of Michigan Transportation funding during 2017, a decrease in our capital assets due to depletion/depreciation of equipment and infrastructure, a decrease in current liabilities due to a decrease in accruals at the end of 2017, and a decrease in our non-current liabilities due to a decrease in our pension and OPEB liabilities for 2017.

Net position for the years ended December 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Current assets	\$ 6,120,940	\$ 4,777,542
Capital assets	<u>43,747,094</u>	<u>44,901,152</u>
<b>TOTAL ASSETS</b>	<b>49,868,034</b>	<b>49,678,694</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2,008,824</b>	<b>4,523,883</b>
Current liabilities	454,332	512,399
Noncurrent liabilities	<u>8,986,305</u>	<u>11,622,497</u>
<b>TOTAL LIABILITIES</b>	<b>9,440,637</b>	<b>12,134,896</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b><u>336,087</u></b>	<b><u>148,560</u></b>
Net investment in capital assets	43,747,094	44,901,152
Unrestricted	<u>(1,646,960)</u>	<u>(2,982,031)</u>
<b>TOTAL NET POSITION</b>	<b><u>\$ 42,100,134</u></b>	<b><u>\$ 41,919,121</u></b>

# 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, 2017 and 2016 is as follows.

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
<b>Program revenues</b>		
Charges for services	\$ 1,879,139	\$ 1,439,019
Operating grants and contributions	8,300,282	8,294,730
Capital grants and contributions	2,621,193	720,747
<b>General revenues</b>		
Interest	15,026	14,329
Other	34,885	3,038
<b>TOTAL REVENUES</b>	<b>12,850,525</b>	<b>10,471,863</b>
<b>Expenses</b>		
Primary road	2,927,880	1,698,267
Local road	3,438,960	1,772,484
State trunkline	1,351,972	1,155,177
Administrative - net	660,824	1,461,367
Equipment - net	666,540	877,772
Infrastructure depreciation	3,308,750	3,370,303
Loss on disposal of capital assets	243,268	145,027
Other post-employment benefits expense	71,318	234,885
<b>TOTAL EXPENSES</b>	<b>12,669,512</b>	<b>10,715,282</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ 181,013</b>	<b>\$ (243,419)</b>

### 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, 2017, the fund balance of the General Operating Fund increased \$1,367,571 compared to a decrease of \$1,314,061 in the fund balance for the year ended December 31, 2016. Total operating revenues were \$12,850,525, an increase of \$1,910,063 compared to the year ended December 31, 2016. This difference in revenue resulted primarily from an increase in Michigan Transportation funding of \$1,758,209, a decrease in Federal and State Aid of \$312,352, and an increase in our State Trunkline Maintenance revenues of \$439,414.

Total expenditures were \$11,482,954, a decrease of \$771,569 compared to the year ended December 31, 2016. This change in expenditures is primarily due to a decrease in our State Trunkline expenditure of \$68,634, a decrease in the Preservation – Structural Improvement of \$146,706, due to a decrease in Federal and State Aid during 2017, a decrease in administrative expenditures of \$360,224, a decrease in our equipment expenditures of \$176,588.

## 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:

	<b>General Operating Fund</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenues</b>		
Licenses and permits	\$ 44,170	\$ 45,602
Federal grants	690,958	746,860
State grants	7,661,726	6,159,969
Contributions from local units	2,568,791	2,534,862
Charges for services	1,819,974	1,380,559
Interest and rents	30,021	27,187
Other	34,885	45,423
<b>TOTAL REVENUES</b>	<b>12,850,525</b>	<b>10,940,462</b>
<b>Expenditures</b>		
Current		
Primary roads	4,028,953	4,247,558
Local roads	4,764,910	4,534,863
State trunkline	1,351,972	1,155,177
Administrative - net	663,362	1,023,587
Equipment - net	690,094	866,683
Other	13,935	32,614
Capital outlay	(30,272)	394,041
<b>TOTAL EXPENDITURES</b>	<b>11,482,954</b>	<b>12,254,523</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>1,367,571</b>	<b>(1,314,061)</b>
<b>FUND BALANCE - BEGINNING</b>	<b>3,974,986</b>	<b>5,289,047</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 5,342,557</b>	<b>\$ 3,974,986</b>

#### 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 2017 was \$1,189,188 more than the original budget. The actual revenue recognized during 2017 was more than the final amended budget by \$310,833 mainly 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 3.01% less than what we actually received and State Trunkline revenues.

The final amended expenditure budget for 2017 was \$562,050 more than the original budget primarily due to additional State Trunkline expenditures not originally budgeted. The actual expenditures recognized during 2017 were less than the final amended budget by \$689,996.



# Shiawassee County Road Commission

## Management's Discussion and Analysis

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

As of December 31, 2017, the Commission had invested \$43,747,094 in capital assets, net of accumulated depreciation. This amount represents a net decrease (including additions, deductions, and reclassifications) of \$1,154,058 as follows:

	<u>2017</u>	<u>2016</u>
Capital assets not being depreciated	\$ 4,807,051	\$ 5,273,007
Capital assets being depreciated		
Buildings	3,226,850	3,022,605
Equipment	8,974,573	8,203,130
Infrastructure	73,938,709	75,118,332
Depletable assets	<u>153,402</u>	<u>153,402</u>
<b>SUBTOTAL</b>	<b><u>86,293,534</u></b>	<b><u>86,497,469</u></b>
<b>TOTAL COST OF CAPITAL ASSETS</b>	<b>91,100,585</b>	<b>91,770,476</b>
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b><u>(47,353,491)</u></b>	<b><u>(46,869,324)</u></b>
<b>TOTAL NET CAPITAL ASSETS</b>	<b><u>\$ 43,747,094</u></b>	<b><u>\$ 44,901,152</u></b>

This year's capital asset additions included the following:

Infrastructure - land improvements	\$ 30,179
Buildings	204,245
Equipment	
Roads	722,236
Shop	5,081
Sign shop	890
Office	71,939
Engineer	5,398
Infrastructure	
Roads	2,019,768
Bridges	<u>601,425</u>
<b>TOTAL</b>	<b><u>\$ 3,661,161</u></b>

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

#### Debt

As of December 31, 2017, 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 \$207,037 as of December 31, 2017. More detailed information about the Commission's long-term liabilities is presented in Note D to the financial statements.

### **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 59% 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 \$7,500,477 which is a 1.74% increase to MTF revenues in 2018. The Commission received approximately 20.0% of its revenues from township contributions during 2017. 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 \$1,248,230 in federal and state aid for road projects. In addition, an estimated 46.95 miles of scratch course chip seal, estimated 15.05 miles of chip seal, estimated 3.44 miles of asphalt paving, and estimated 32.22 miles of re-gravel projects will be completed in 2018. The above items were all considered when adopting the budget for 2018. Amounts available for appropriation in the original 2018 budget are \$13,019,635, an increase of \$479,943 from the 2017 final amended budget of \$12,539,692. When considering the 2018 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 Road Commission received additional Local Disbursement Funds during the first quarter of 2018 of \$577,126 which will be used on a scratch course chip seal project on Bennington Road during 2018.

### **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, 2017

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash	\$ 3,545,666
Accounts receivable	14,292
Due from other governmental units	
Federal/State	1,321,177
Local	132,255
Inventory	<u>584,086</u>
Total current assets	5,597,476
Noncurrent assets	
Investments	523,464
Capital assets not being depreciated	4,807,051
Capital assets, net of accumulated depreciation	<u>38,940,043</u>
Total noncurrent assets	<u>44,270,558</u>
TOTAL ASSETS	49,868,034
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to pensions	2,008,824
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	151,290
Accrued liabilities	94,111
Other accrued liabilities	1,894
Current portion of compensated absences	<u>207,037</u>
Total current liabilities	454,332
Noncurrent liabilities	
Advances from other governmental units	531,088
Net pension liability	5,671,175
Net other post-employment benefits obligations	<u>2,784,042</u>
Total noncurrent liabilities	<u>8,986,305</u>
TOTAL LIABILITIES	9,440,637
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	<u>336,087</u>
<b>NET POSITION</b>	
Net investment in capital assets	43,747,094
Unrestricted	<u>(1,646,960)</u>
TOTAL NET POSITION	<u><u>\$ 42,100,134</u></u>

See accompanying notes to financial statements.

Shiawassee County Road Commission

STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

	Governmental Activities
Program expenses	
Primary road	\$ 2,927,880
Local road	3,438,960
State trunkline	1,351,972
Administrative - net	660,824
Equipment - net	666,540
Infrastructure depreciation	3,308,750
Loss on disposal of capital assets	243,268
Other post-employment benefits expense	71,318
	<hr/>
TOTAL PROGRAM EXPENSES	12,669,512
Program revenues	
Charges for services	1,879,139
Operating grants and contributions	8,300,282
Capital grants and contributions	2,621,193
	<hr/>
TOTAL PROGRAM REVENUES	12,800,614
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NET PROGRAM REVENUES	131,102
General revenues	
Interest	15,026
Other	34,885
	<hr/>
TOTAL GENERAL REVENUES	49,911
	<hr/>
CHANGE IN NET POSITION	181,013
Net position, beginning of the year	41,919,121
	<hr/>
Net position, end of the year	<u><u>\$ 42,100,134</u></u>

See accompanying notes to financial statements.

Shiawassee County Road Commission

Governmental Fund

BALANCE SHEET

December 31, 2017

	General Operating Fund
ASSETS	
Cash	\$ 3,545,666
Investments	523,464
Accounts receivable	14,292
Due from other governmental units	
Federal/State	1,321,177
Local	132,255
Inventory	584,086
TOTAL ASSETS	<u>\$ 6,120,940</u>
LIABILITIES	
Accounts payable	\$ 151,290
Accrued liabilities	94,111
Other accrued liabilities	1,894
Advances from other governmental units	531,088
TOTAL LIABILITIES	<u>778,383</u>
FUND BALANCE	
Nonspendable	584,086
Unassigned	4,758,471
TOTAL FUND BALANCE	<u>5,342,557</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 6,120,940</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, 2017

**Total fund balance - governmental fund** **\$ 5,342,557**

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	\$ 91,100,585	
Accumulated depreciation is	<u>(47,353,491)</u>	

Capital assets, net		43,747,094
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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	2,008,824	
Deferred inflows of resources related to pensions	<u>(336,087)</u>	

1,672,737

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	(207,037)	
Net pension liability	(5,671,175)	
Net other post-employment benefits obligation	<u>(2,784,042)</u>	

(8,662,254)

<b>Net position of governmental activities</b>		<b><u>\$ 42,100,134</u></b>
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Shiawassee County Road Commission

Governmental Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended December 31, 2017

	General Operating Fund
REVENUES	
Licenses and permits	\$ 44,170
Intergovernmental	10,921,475
Charges for services	1,819,974
Interest and rents	30,021
Other	34,885
TOTAL REVENUES	12,850,525
EXPENDITURES	
Current	
Primary road	4,028,953
Local road	4,764,910
State trunkline	1,351,972
Administrative - net	663,362
Equipment - net	690,094
Other	13,935
Capital outlay - net	(30,272)
TOTAL EXPENDITURES	11,482,954
NET CHANGE IN FUND BALANCE	1,367,571
Fund balance, beginning of year	3,974,986
Fund balance, end of year	\$ 5,342,557

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, 2017

**Net change in fund balance - governmental fund** **\$ 1,367,571**

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

Capital outlays are reported as expenditures in the 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	\$ 3,408,294	
Equipment and administrative depreciation expense	(1,010,334)	
Infrastructure depreciation expense	<u>(3,308,750)</u>	
 Excess of depreciation expense over capital outlay		 (910,790)

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. (243,268)

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

(Decrease) in deferred outflows of resources related to pensions	(2,515,059)	
(Increase) in deferred inflows of resources related to pensions	(187,527)	
(Increase) in compensated absences	(6,941)	
Decrease in net pension liability	2,748,345	
(Increase) in net other post-employment benefits obligation	<u>(71,318)</u>	
		<u>(32,500)</u>

**Change in net position of governmental activities** **\$ 181,013**

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

**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, 2017

**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, 2017

**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
Bridges	12 - 30 years
Traffic signals	15 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. 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.

11. Net Pension Liability

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

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

**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. 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.

**14. 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.
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, 2017

**NOTE B: DEPOSITS - 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, 2017, are composed of the following:

	Carrying Amount	Bank Balance
Checking accounts	\$ 2,488,294	\$ 2,510,053
Savings accounts	1,057,322	1,057,322
Certificates of deposit	523,464	523,464
	<u>\$ 4,069,080</u>	<u>\$ 4,090,839</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, 2017, the Commission's accounts were insured by the Federal Deposit Insurance Corporation (FDIC) for \$1,000,000 and the amount of \$3,090,839 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, 2017, 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, 2017

**NOTE C: CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2017, was as follows:

	Balance Jan. 1, 2017	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Dec. 31, 2017
Capital assets not being depreciated				
Land	\$ 595,381	\$ -	\$ -	\$ 595,381
Infrastructure - land improvements	4,424,759	30,179	(243,268)	4,211,670
Construction in progress	252,867	-	(252,867)	-0-
Subtotal	5,273,007	30,179	(496,135)	4,807,051
Capital assets being depreciated/depleted				
Buildings	3,022,605	204,245	-	3,226,850
Equipment -				
Road	7,864,376	722,236	(8,995)	8,577,617
Shop	153,842	5,081	(1,226)	157,697
Sign shop	10,175	890	(560)	10,505
Office	114,261	71,939	(22,035)	164,165
Engineering	60,476	5,398	(1,285)	64,589
Infrastructure -				
Roads	52,412,100	2,019,768	(3,797,016)	50,634,852
Bridges	22,246,499	601,425	-	22,847,924
Traffic signals	32,011	-	(3,800)	28,211
Land improvements	427,722	-	-	427,722
Depletable assets	153,402	-	-	153,402
Subtotal	86,497,469	3,630,982	(3,834,917)	86,293,534
Less: accumulated depreciation/depletion				
Buildings	(1,820,976)	(109,923)	-	(1,930,899)
Equipment -				
Road	(5,572,878)	(819,253)	8,995	(6,383,136)
Shop	(117,139)	(8,110)	1,226	(124,023)
Sign shop	(7,291)	(1,184)	560	(7,915)
Office	(95,357)	(14,895)	22,035	(88,217)
Engineering	(50,403)	(1,949)	1,285	(51,067)
Infrastructure -				
Roads	(30,923,006)	(2,831,468)	3,797,016	(29,957,458)
Bridges	(8,073,443)	(475,401)	-	(8,548,844)
Traffic signals	(24,905)	(1,881)	3,800	(22,986)
Land improvements	(30,524)	(55,020)	-	(85,544)
Depletable assets	(153,402)	-	-	(153,402)
Subtotal	(46,869,324)	(4,319,084)	3,834,917	(47,353,491)
Net capital assets being depreciated/depleted	39,628,145	(688,102)	-0-	38,940,043
Capital assets, net	\$ 44,901,152	\$ (657,923)	\$ (496,135)	\$ 43,747,094

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

**NOTE C: CAPITAL ASSETS - CONTINUED**

Depreciation/depletion expense was charged to the following activities:

	<u>Amount</u>
Net equipment expense	
Direct equipment	\$ 911,843
Indirect equipment	70,428
Net administrative expense	28,063
Infrastructure	<u>3,308,750</u>
	<u>\$ 4,319,084</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, 2017:

	<u>Balance Jan. 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2017</u>	<u>Amounts Due Within One Year</u>
Compensated absences	<u>\$ 200,096</u>	<u>\$ 248,234</u>	<u>\$ (241,293)</u>	<u>\$ 207,037</u>	<u>\$ 207,037</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, 2017, the Federal aid received and expended by the Commission was \$690,958 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, 2017

### 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 these 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

Division:	<u>10</u>	<u>11</u>	<u>13</u>	<u>14</u>	<u>15</u>
Open/Closed:	Closed	Closed	Closed	Closed	Open
Benefit Multiplier:	2.50% (80% max)	2.50% (80% max)	2.00% (no max)	2.00% (no max)	1.50% (no max)
Normal Retirement Age:	60	60	60	60	60
Vesting:	10 years	6 years	8 years	10 years	10 years
Early Retirement (Unreduced):	55/25	55/25	-	-	-
Early Retirement (Reduced):	50/25	50/25	50/25	50/25	50/25
	55/15	55/15	55/15	55/15	55/15
Final Average Compensation:	3 years	3 years	3 years	5 years	3 years
COLA:	2.50% (non-compound)	2.50% (non-compound)	-	-	-
Employee Contributions:	7.00%	7.00%	5.00%	5.00%	5.00%
Act 88:	Yes	Yes	Yes	Yes	Yes

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, 2016, valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefits	53
Inactive employees entitled to but not yet receiving benefits	8
Active employees	<u>35</u>
	<u>96</u>

#### 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, 2017, the Commission's monthly contributions were 4.20% based on annual payroll for open divisions.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

**NOTE F: RETIREMENT PLAN - CONTINUED**

Net Pension Liability

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

Actuarial Assumptions

The total pension liability in the December 31, 2016 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	55.5%	8.65%
Global Fixed Income	18.5%	3.76%
Real Assets	13.5%	9.72%
Diversifying Strategies	12.5%	7.50%

Discount Rate

The discount rate used to measure the total pension liability is 8.00%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. 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, 2017

**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 as of December 31, 2015	\$ 20,335,832	\$ 11,916,312	\$ 8,419,520
Changes for the Year			
Service cost	164,733	-	164,733
Interest on total pension liability	1,579,866	-	1,579,866
Changes in benefits	-	-	-0-
Difference between expected and actual experience	(316,063)	-	(316,063)
Changes in assumptions	-	-	-0-
Employer contributions	-	2,744,068	(2,744,068)
Employee contributions	-	92,334	(92,334)
Net investment income	-	1,367,458	(1,367,458)
Benefit payments, including employee refunds	(1,339,758)	(1,339,758)	-0-
Administrative expense	-	(26,980)	26,980
Other changes	(1)	-	(1)
Net changes	88,777	2,837,122	(2,748,345)
Balances as of December 31, 2016	<u>\$ 20,424,609</u>	<u>\$ 14,753,434</u>	<u>\$ 5,671,175</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 8.00%, as well as what the Commission's Net Pension Liability would be using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Net pension liability	<u>\$ 7,880,148</u>	<u>\$ 5,671,175</u>	<u>\$ 3,793,993</u>

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

**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, 2017, the Commission recognized pension expense of \$983,037. The Commission reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 336,087
Changes in assumptions	479,822	-
Net difference between projected and actual earnings on pension plan investments	499,206	-
Contributions subsequent to the measurement date*	<u>1,029,796</u>	<u>-</u>
Total	<u>\$ 2,008,824</u>	<u>\$ 336,087</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, 2018.

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 (\$1,029,796), which will impact the net pension liability in fiscal year 2018, rather than pension expense.

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

<u>Year Ending December 31,</u>	<u>Pension Expense</u>
2018	\$ 315,885
2019	315,886
2020	82,244
2021	(71,074)

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

**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 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, 2017, the Commission has determined an estimated cost of providing post-employment benefits through an actuarial valuation as of December 31, 2017. 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, 2017

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

Funding Progress - continued

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

Annual required contribution (ARC)	\$ 574,165
Interest on net OPEB obligation	182,566
Adjustment to ARC	<u>(372,070)</u>
Annual OPEB cost (expense)	384,661
Amounts contributed:	
Payments of current premium (gross of employee reimbursement)	<u>(313,343)</u>
Increase in net OPEB obligation	71,318
Net OPEB obligation - Beginning of year	<u>2,712,724</u>
Net OPEB obligation - End of year	<u><u>\$ 2,784,042</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>2015</u>	<u>2016</u>	<u>2017</u>
Annual OPEB cost	\$ 523,766	\$ 530,196	\$ 384,661
Percentage contributed	54%	56%	81%
Net OPEB obligation	\$ 2,477,839	\$ 2,712,724	\$ 2,784,042

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

	<u>2017</u>
Actuarial value of assets	\$ 380,985
Actuarial accrued liability (AAL)	4,467,701
Unfunded AAL (UAAL)	4,086,716
Funded ratio	9%
Annual covered payroll	\$ 496,582
Ratio of UAAL to covered payroll	823%

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.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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

**Valuation Methods and Assumptions - continued**

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, 2017, valuation, the individual entry age normal actuarial cost method was used. The assumptions include a 6.73 percent a year rate of investment return with inflation, which is the expected long-term investment returns on plan assets, and a base payroll growth rate of 1.00 percent. There were also annual medical 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 over a period of fourteen (14) 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.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

**NOTE J: FLEXIBLE BENEFITS PLAN - CONTINUED**

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 \$58,504 for the year ended December 31, 2017. During the year ended December 31, 2017, one of those businesses had its ownership transferred and is no longer considered a related party. 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.



Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

**NOTE L: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED**

Fund Balance	
Nonspendable	
Inventory	\$ 584,086
Unassigned	<u>4,758,471</u>
Total Fund Balance	<u>\$ 5,342,557</u>

**NOTE M: UPCOMING ACCOUNTING PRONOUNCEMENTS**

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 comprehensively 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 fiscal year.

In November 2016, the GASB announced Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2019 fiscal year.

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement will increase the usefulness of government's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the 2020 fiscal year.

## REQUIRED SUPPLEMENTARY INFORMATION

Shiawassee County Road Commission

GENERAL OPERATING FUND

BUDGETARY COMPARISON SCHEDULE - REVENUES

Year Ended December 31, 2017

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Licenses and permits				
Permits	\$ 40,000	\$ 42,500	\$ 44,170	\$ 1,670
Intergovernmental				
Federal sources				
Surface Transportation Program	460,000	490,890	490,892	2
Bridge	267,520	134,230	200,066	65,836
State sources				
Motor Vehicle Highway Funds				
Engineering	10,000	10,000	10,000	-0-
Urban road	185,038	176,958	181,545	4,587
Primary road	4,286,761	4,686,761	4,823,982	137,221
Local road	2,134,600	2,282,680	2,356,621	73,941
Other				
Critical bridge	50,160	26,019	37,512	11,493
Other	118,925	252,066	252,066	-0-
Local sources				
Township contributions	2,538,000	2,568,791	2,568,791	-0-
Total intergovernmental	10,051,004	10,628,395	10,921,475	293,080
Charges for services				
State trunkline	1,200,000	1,798,832	1,800,360	1,528
Salvage sales	8,000	19,614	19,614	-0-
Total charges for services	1,208,000	1,818,446	1,819,974	1,528
Interest and rents				
Interest	13,000	14,405	15,026	621
Rents	13,500	14,995	14,995	-0-
Total interest and rents	26,500	29,400	30,021	621
Other				
Gain on equipment disposal	15,000	-	-	-0-
Contributions from private sources	10,000	20,951	34,885	13,934
Total other	25,000	20,951	34,885	13,934
TOTAL REVENUES	\$ 11,350,504	\$ 12,539,692	\$ 12,850,525	\$ 310,833

Shiawassee County Road Commission

GENERAL OPERATING FUND

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES

Year Ended December 31, 2017

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES				
Current				
Primary road				
Preservation - structural improvements	\$ 1,143,000	\$ 1,086,029	\$ 1,085,660	\$ 369
Routine and preventative maintenance	3,006,000	3,055,300	2,943,293	112,007
Total primary road	4,149,000	4,141,329	4,028,953	112,376
Local road				
Preservation - structural improvements	1,454,400	1,335,915	1,321,958	13,957
Routine and preventative maintenance	3,469,000	3,462,266	3,442,952	19,314
Total local road	4,923,400	4,798,181	4,764,910	33,271
State trunkline				
Maintenance	1,200,000	1,150,000	1,086,544	63,456
Non-maintenance	-	266,000	265,428	572
Total state trunkline	1,200,000	1,416,000	1,351,972	64,028
Administrative				
Administration	906,700	863,990	796,158	67,832
Less:				
Handling charges	(1,200)	(1,200)	(925)	(275)
Overhead - State	(120,000)	(120,000)	(118,591)	(1,409)
Purchase discount	(10,000)	(13,500)	(13,280)	(220)
Total administrative - net	775,500	729,290	663,362	65,928
Equipment				
Direct	1,250,000	1,628,500	1,628,216	284
Indirect	599,000	666,050	625,390	40,660
Operating	350,000	328,000	191,873	136,127
Less: Equipment rental	(1,800,000)	(1,800,000)	(1,755,385)	(44,615)
Total equipment - net	399,000	822,550	690,094	132,456
Other				
Miscellaneous	-	14,000	13,935	65
Capital outlay				
Capital outlay	914,000	1,001,600	980,063	21,537
Less:				
Depreciation and depletion	(750,000)	(750,000)	(1,010,335)	260,335
Total capital outlay - net	164,000	251,600	(30,272)	281,872
TOTAL EXPENDITURES	\$ 11,610,900	\$ 12,172,950	\$ 11,482,954	\$ 689,996

Shiawassee County Road Commission

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

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

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

	2016	2015	2014
Total pension liability			
Service cost	\$ 164,733	\$ 168,071	\$ 188,524
Interest	1,579,866	1,535,981	1,503,566
Changes of benefit terms	-	2,725	-
Difference between expected and actual experience	(316,063)	(198,080)	-
Changes of assumptions	-	959,644	-
Benefit payments, including employee refunds	(1,339,758)	(1,323,612)	(1,254,280)
Other	(1)	(4,617)	(1)
Net change in total pension liability	88,777	1,140,112	437,809
Total pension liability, beginning	20,335,832	19,195,720	18,757,911
Total pension liability, ending	<u>\$ 20,424,609</u>	<u>\$ 20,335,832</u>	<u>\$ 19,195,720</u>
Plan fiduciary net position			
Contributions - employer	\$ 2,744,068	\$ 1,530,931	\$ 998,480
Contributions - employee	92,334	87,327	95,537
Net investment income	1,367,458	(175,195)	708,356
Benefit payments, including employee refunds	(1,339,758)	(1,323,612)	(1,254,280)
Administrative expenses	(26,980)	(25,846)	(26,010)
Net change in plan fiduciary net position	2,837,122	93,605	522,083
Plan fiduciary net position, beginning	11,916,312	11,822,707	11,300,624
Plan fiduciary net position, ending	<u>\$ 14,753,434</u>	<u>\$ 11,916,312</u>	<u>\$ 11,822,707</u>
Commission's net pension liability	<u>\$ 5,671,175</u>	<u>\$ 8,419,520</u>	<u>\$ 7,373,013</u>
Plan fiduciary net position as a percentage of the total pension liability	72%	59%	62%
Covered employee payroll	\$ 1,671,608	\$ 1,610,460	\$ 1,777,036
Commission's net pension liability as a percentage of covered employee payroll	339%	523%	415%

Shiawassee County Road Commission

SCHEDULE OF COMMISSION CONTRIBUTIONS

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarial determined contributions <sup>(1)</sup>	\$ 1,029,796	\$ 544,460	\$ 507,661
Contributions in relation to the actuarially determined contribution	<u>1,029,796</u>	<u>2,745,068</u>	<u>1,530,931</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ (2,200,608)</u>	<u>\$ (1,023,270)</u>
Covered employee payroll	\$ 1,812,443	\$ 1,681,219	\$ 1,679,873
Contributions as a percentage of covered employee payroll	57%	163%	91%

<sup>(1)</sup> The actuarially determined contribution was calculated based on projected covered payroll. Employer contributions were made in full based on actual covered payroll. Accordingly, the actuarially-determined contribution has been expressed above as a percentage of actual payroll.

Shiawassee County Road Commission

SCHEDULE OF FUNDING PROGRESS AND COMMISSION CONTRIBUTIONS

Retired Employees Healthcare Plan

Year Ended December 31, 2017

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (a-b/c)
12/31/2017	\$ 380,985	\$ 4,467,701	\$ 4,086,716	9%	\$ 496,582	823%
12/31/2014	296,805	6,278,803	5,981,998	5%	960,704	623%
12/31/2011	229,878	12,191,914	11,962,036	2%	1,092,679	1095%

SCHEDULE OF COMMISSION CONTRIBUTIONS

Year Ended Dec. 31	Annual OPEB Cost	Percent Contributed	Net OPEB Obligation
2017	\$ 384,661	81%	\$ 2,784,042
2016	530,196	56%	2,712,724
2015	523,766	54%	2,477,839

Shiawassee County Road Commission  
NOTE TO SUPPLEMENTARY INFORMATION  
Year Ended December 31, 2017

**NOTE A: EMPLOYEE RETIREMENT SYSTEM**

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

Changes in assumptions: There were no changes in assumptions during plan year 2016.



OTHER SUPPLEMENTARY INFORMATION

Shiawassee County Road Commission  
GENERAL OPERATING FUND  
STATEMENT OF CHANGES IN FUND BALANCE  
Year Ended December 31, 2017

TOTAL REVENUES	\$ 12,850,525
TOTAL EXPENDITURES	<u>11,482,954</u>
NET CHANGE IN FUND BALANCE	1,367,571
Fund balance, beginning of year	<u>3,974,986</u>
Fund balance, end of year	<u><u>\$ 5,342,557</u></u>

Shiawassee County Road Commission  
GENERAL OPERATING FUND  
ANALYSIS OF CHANGES IN FUND BALANCE  
Year Ended December 31, 2017

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	\$ 6,663,639	\$ 4,286,599	\$ 1,900,287	\$ 12,850,525
TOTAL EXPENDITURES	<u>4,525,323</u>	<u>5,499,974</u>	<u>1,457,657</u>	<u>11,482,954</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,138,316	(1,213,375)	442,630	1,367,571
OTHER FINANCING SOURCES (USES)				
Optional transfers in	-	2,000,000	-	2,000,000
Optional transfers out	<u>(2,000,000)</u>	<u>-</u>	<u>-</u>	<u>(2,000,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,000,000)</u>	<u>2,000,000</u>	<u>-0-</u>	<u>-0-</u>
NET CHANGE IN FUND BALANCE	138,316	786,625	442,630	1,367,571
Fund balance, beginning of year	<u>883,399</u>	<u>1,048,282</u>	<u>2,043,305</u>	<u>3,974,986</u>
Fund balance, end of year	<u><u>\$ 1,021,715</u></u>	<u><u>\$ 1,834,907</u></u>	<u><u>\$ 2,485,935</u></u>	<u><u>\$ 5,342,557</u></u>

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES

Year Ended December 31, 2017

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Licenses and permits				
Permits	\$ 9,814	\$ 11,648	\$ 22,708	\$ 44,170
Intergovernmental				
Federal sources	690,958	-	-	690,958
State sources	5,235,333	2,426,393	-	7,661,726
Local sources	724,195	1,844,596	-	2,568,791
Total intergovernmental	6,650,486	4,270,989	-0-	10,921,475
Charges for services				
State trunkline	-	-	1,800,360	1,800,360
Salvage sales	-	-	19,614	19,614
Total charges for services	-0-	-0-	1,819,974	1,819,974
Interest and rents				
Interest	3,339	3,962	7,725	15,026
Rents	-	-	14,995	14,995
Total interest and rents	3,339	3,962	22,720	30,021
Other				
Contributions from private sources	-	-	34,885	34,885
TOTAL REVENUES	<u>\$ 6,663,639</u>	<u>\$ 4,286,599</u>	<u>\$ 1,900,287</u>	<u>\$ 12,850,525</u>

# Shiawassee County Road Commission

## GENERAL OPERATING FUND

### ANALYSIS OF EXPENDITURES

Year Ended December 31, 2017

	Primary Road Fund	Local Road Fund	County Road Commission	Total
<b>EXPENDITURES</b>				
Preservation - structural improvements	\$ 1,085,660	\$ 1,321,958	\$ -	\$ 2,407,618
Routine and preventative maintenance	2,943,293	3,442,952	-	6,386,245
State trunkline	-	-	1,351,972	1,351,972
Administrative expense - net	303,922	359,440	-	663,362
Equipment expense - net	192,448	375,624	122,022	690,094
Other	-	-	13,935	13,935
Capital outlay - net	-	-	(30,272)	(30,272)
<b>TOTAL EXPENDITURES</b>	<b>\$ 4,525,323</b>	<b>\$ 5,499,974</b>	<b>\$ 1,457,657</b>	<b>\$ 11,482,954</b>

Shiawassee County Road Commission

SCHEDULE OF CHANGES IN CAPITAL ASSETS

Year Ended December 31, 2017

	Balance Jan. 1, 2017	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Dec. 31, 2017
Capital assets not being depreciated				
Land	\$ 595,381	\$ -	\$ -	\$ 595,381
Infrastructure - land improvements	4,424,759	30,179	(243,268)	4,211,670
Construction in progress	252,867	-	(252,867)	-0-
Subtotal	5,273,007	30,179	(496,135)	4,807,051
Capital assets being depreciated/depleted				
Buildings	3,022,605	204,245	-	3,226,850
Equipment -				
Road	7,864,376	722,236	(8,995)	8,577,617
Shop	153,842	5,081	(1,226)	157,697
Sign shop	10,175	890	(560)	10,505
Office	114,261	71,939	(22,035)	164,165
Engineering	60,476	5,398	(1,285)	64,589
Infrastructure -				
Roads	52,412,100	2,019,768	(3,797,016)	50,634,852
Bridges	22,246,499	601,425	-	22,847,924
Traffic signals	32,011	-	(3,800)	28,211
Land improvements	427,722	-	-	427,722
Depletable assets	153,402	-	-	153,402
Subtotal	86,497,469	3,630,982	(3,834,917)	86,293,534
Less: accumulated depreciation/depletion				
Buildings	(1,820,976)	(109,923)	-	(1,930,899)
Equipment -				
Road	(5,572,878)	(819,253)	8,995	(6,383,136)
Shop	(117,139)	(8,110)	1,226	(124,023)
Sign shop	(7,291)	(1,184)	560	(7,915)
Office	(95,357)	(14,895)	22,035	(88,217)
Engineering	(50,403)	(1,949)	1,285	(51,067)
Infrastructure -				
Roads	(30,923,006)	(2,831,468)	3,797,016	(29,957,458)
Bridges	(8,073,443)	(475,401)	-	(8,548,844)
Traffic signals	(24,905)	(1,881)	3,800	(22,986)
Land improvements	(30,524)	(55,020)	-	(85,544)
Depletable assets	(153,402)	-	-	(153,402)
Subtotal	(46,869,324)	(4,319,084)	3,834,917	(47,353,491)
Net capital assets being depreciated/depleted	39,628,145	(688,102)	-0-	38,940,043
Capital assets, net	<u>\$ 44,901,152</u>	<u>\$ (657,923)</u>	<u>\$ (496,135)</u>	<u>\$ 43,747,094</u>



STEVENS KIRINOVIC & TUCKER P.C.

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, 2017, 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, 2018.

**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. 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 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.

*Stevens Kirinovic & Tucker, P.C.*

STEVENS, KIRINOVIC & TUCKER, P.C.  
Certified Public Accountants

May 10, 2018