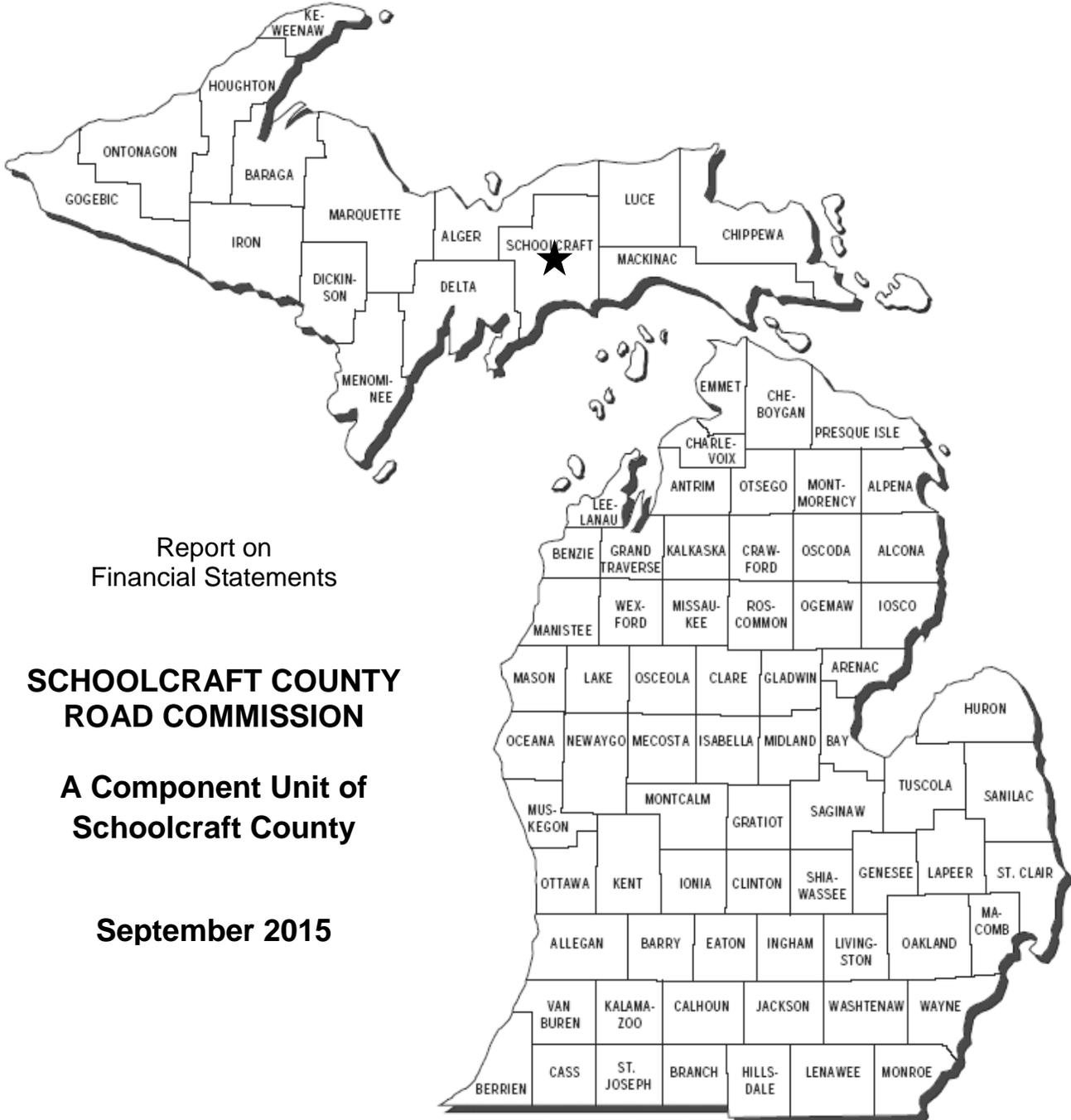


STATE OF MICHIGAN

Rick Snyder, Governor

DEPARTMENT OF TREASURY

Nick A. Khouri
State Treasurer



Report on
Financial Statements

SCHOOLCRAFT COUNTY ROAD COMMISSION

A Component Unit of
Schoolcraft County

September 2015

SCHOOLCRAFT COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

(January 15, 2016)

Dale J. DuFour
Chairperson

Bernard J. Lund
Vice Chairperson

Thomas J. Klarich
Member

Lisa Kleeman
Interim Manager

Lisa Kleeman
Finance Director

COUNTY POPULATION--2010
8,485

STATE EQUALIZED VALUATION--2015
\$460,285,348



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

January 15, 2016

Board of County Road Commissioners
Schoolcraft County Road Commission
332 N. East Road
Manistique, Michigan 49854

Independent Auditor's Report

Dear Commissioners:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and aggregate remaining fund information of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, Michigan, as of and for the fiscal year ended September 30, 2015, and related notes to the financial statements, which collectively comprise the Schoolcraft County Road Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence supporting 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 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, the major fund, and aggregate remaining fund information of the Schoolcraft County Road Commission, as of September 30, 2015, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note L to the basic financial statements, in 2015, the Road Commission adopted the new accounting guidance of GASB No. 68, *Accounting and Financial Reporting for Pensions*, which establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of governmental employers through pension plans. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 9 and the budgetary comparison information in Exhibits I and J and the schedule of funding progress for other post-employment benefits 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 the 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 the sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Schoolcraft County Road Commission's basic financial statements. The accompanying supplementary and related information in Exhibits K through M are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary and related information presented in Exhibits K through M are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 accompanying supplementary and related information presented in Exhibits K through M are fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2016, on our consideration of Schoolcraft County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Schoolcraft County Road Commission's internal control over financial reporting and compliance.

Sincerely,



Cary Jay Vaughn, CPA, CGFM

Audit Manager

Local Government Financial Services Division

SCHOOLCRAFT COUNTY ROAD COMMISSION

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SCHOOLCRAFT COUNTY ROAD COMMISSION

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SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2015

Using this Annual Report

The Schoolcraft County Road Commission's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

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 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 Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road 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 and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net position and how it has changed.
- 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 Road Commission as a Whole

The Statement of Net Position and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above report the Road Commission's net position and changes in them. The reader can think of the Road Commission's net position (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net position are one indicator of whether its financial health is improving or deteriorating.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2015

Reporting the Road Commission's Major Fund

The fund financial statements begin with Exhibit C and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operating Fund, in which all of the Road Commission's activities are accounted. The General Operating Fund is a governmental fund type.

The governmental fund focuses on how money flows into and out of the Road Commission 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 Road 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 Road 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.

The Road Commission as a Whole

The Road Commission's net position increased approximately 23.76% or \$1,713,994 from \$7,213,158 to \$8,927,152 for the fiscal year ending September 30, 2015. The net position and change in net position are summarized below.

Restricted net position, those restricted mainly for Act 51 purposes, increased \$72,946 or approximately 1.69%. The primary reason for the increase in restricted net position was due to a decrease in expenditures related to recognizing pension expense under GASB Statement Number 68. The net investment in capital assets increased approximately 14.23% or \$1,641,048 from the prior fiscal year. This was primarily due to the capital asset additions of \$3,098,138 being more than the depreciation of \$1,488,463 during fiscal year 2015.

SCHOOLCRAFT COUNTY ROAD COMMISSION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2015**

Net position as of the fiscal year ended September 30, 2015, compared to the prior fiscal year end are as follows:

	Governmental Activities 9/30/14	Governmental Activities 9/30/15	Variance Increase (Decrease)	Percentage
Assets				
Current and Other Assets*	\$ 3,245,926 *	\$ 3,315,559	\$ 69,633	2.15%
Net Capital Assets	13,694,070	15,303,745	1,609,675	11.75%
Total Assets	16,939,996	18,619,304	1,679,308	9.91%
Deferred Outflows of Resources				
Deferred Outflows--Pension*	493,944 *	748,738	254,794	51.58%
Liabilities				
Current Liabilities	454,480	303,878	(150,602)	-33.14%
Long-Term Liabilities*	9,670,908 *	9,978,429	307,521	3.18%
Total Liabilities	10,125,388	10,282,307	156,919	1.55%
Deferred Inflows of Resources				
Unavailable Revenue	95,394	158,583	63,189	66.24%
Net Position				
Net Investment in Capital Assets	11,534,299	13,175,347	1,641,048	14.23%
Unrestricted*	(4,321,141) *	(4,248,195)	72,946	1.69%
Total Net Position	\$ 7,213,158	\$ 8,927,152	\$ 1,713,994	23.76%

*Amounts have been restated for the implementation of GASB Statement Number 68.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2015

Changes in Net Position

A summary of changes in net position for the fiscal year ended September 30, 2015, compared to the prior year follows:

	Governmental Activities 2014	Governmental Activities 2015	Increase (Decrease)	Percentage
Program Revenue				
Licenses and Permits	\$ 4,045	\$ 3,670	\$ (375)	-9.27%
Federal Grants	1,028,996	629,320	(399,676)	-38.84%
State Grants	3,288,649	3,446,250	157,601	4.79%
Charges for Services	2,370,426	2,158,952	(211,474)	-8.92%
Contributions	184,278	113,622	(70,656)	-38.34%
Interest & Royalties Earnings	71,408	225,718	154,310	216.10%
General Revenue				
Gain on Sale of Land	-	806	806	100.00%
Gain on Equipment Disposal	3,875	-	(3,875)	-100.00%
Total Revenue	6,951,677	6,578,338	(373,339)	-5.37%
Expenses				
Primary Road Maintenance	957,426	951,316	(6,110)	-0.64%
Local Road Maintenance	653,696	562,632	(91,064)	-13.93%
State Trunkline Maintenance	2,046,140	2,039,309	(6,831)	-0.33%
Private Driveway Snow Plowing	25,699	32,723	7,024	27.33%
Net Equipment Expense	(243,945)	58,471	302,416	-123.97%
Net Administrative Expense	191,362	253,211	61,849	32.32%
Non-Road Project	8,263	1,743	(6,520)	-78.91%
Infrastructure Depreciation	850,459	1,029,667	179,208	21.07%
Compensated Absences	7,369	(18,349)	(25,718)	-349.00%
Other Post-Employment Benefits	15,428	6,194	(9,234)	-59.85%
Other Net Pension Obligations	(104,450)	(117,950)	(13,500)	12.92%
Interest Expense	49,550	65,377	15,827	31.94%
Total Expenses	4,456,997	4,864,344	407,347	9.14%
Change in Net Position	2,494,680	1,713,994	(780,686)	-31.29%
Ending Net Position	14,016,346	7,213,158	(6,803,188)	-48.54%
Restatement to Net Position for Pension Liability See Note M	(6,803,188)	-		
Restated Net Position	\$ 7,213,158	\$ 8,927,152	\$ 1,713,994	23.76%

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2015

The total revenue decreased by \$373,339 or 5.37% from \$6,951,677 in fiscal year 2014 to \$6,578,338 in fiscal year 2015. The most significant variances were decreases in Federal grants, charges for services due to a milder winter, and a decrease in contributions due to less township projects in 2015, offset by an increase in state grants and royalties.

The total expenditures increased by \$407,347 or 9.14% from \$4,456,997 in fiscal year 2014 to \$4,864,344 in fiscal year 2015. The most significant increases in expenses during fiscal year 2015 were related to net equipment expense and infrastructure depreciation due to significant additions from 2014, which were offset by a decrease in local road maintenance.

We feel that Road Commission revenue and expenditures will always vary from year to year depending on many factors, such as level of State/Federal funding for capitalization projects, level of local contributions for both maintenance and preservation, weather conditions that may require more or less maintenance, and State trunkline maintenance and non-maintenance expenses and revenue which vary from year to year.

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund (MTF) monies distributed to the county which are earmarked by law for road and highway purposes.

For the fiscal year ending September 30, 2015, the fund balance of the General Operations Fund increased by \$85,135 as compared to an increase of \$16,945 in the fund balance for the year ending September 30, 2014. Total revenues and other financing sources were \$6,947,152, a decrease of \$544,158 compared with the prior fiscal year which amounted to \$7,491,310 at the end of September 30, 2014. The decrease is primarily from a decrease in federal grants, charges for services, township contributions and proceeds from bonds, offset by a decrease in proceeds from installment purchases.

Total expenditures amounted to \$6,862,017, a decrease of \$612,348 compared to the prior fiscal year which amounted to \$7,474,365 as of September 30, 2014. This change in expenditures was primarily due to a decrease in Primary and Local Road Preservation / Structural Improvements and Maintenance, a decrease in administrative expenses and a decrease in capital outlay due to less capital purchases, offset by an increase in Primary Road Structure Preservation / Structural Improvements due to new bridge projects and an increase in net equipment expense due to higher operating costs and less equipment rentals.

SCHOOLCRAFT COUNTY ROAD COMMISSION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2015**

	<u>2014</u>	<u>2015</u>	<u>Variance</u>	<u>Percent</u>
Revenues				
Licenses and Permits	\$ 4,045	\$ 3,670	\$ (375)	-9.27%
Federal Grants	1,028,996	629,320	(399,676)	-38.84%
State Grants	3,288,649	3,446,250	157,601	4.79%
Contributions	184,278	113,622	(70,656)	-38.34%
Charges for Services	2,360,336	2,157,426	(202,910)	-8.60%
Interest and Royalties	71,408	225,718	154,310	216.10%
Other Revenue	13,965	2,332	(11,633)	-83.30%
Total Revenues	<u>6,951,677</u>	<u>6,578,338</u>	<u>(373,339)</u>	<u>-5.37%</u>
Expenditures				
Public Works	6,772,949	6,607,350	(165,599)	-2.45%
Capital Outlay	416,165	(68,603)	(484,768)	-116.48%
Debt Service	285,251	323,270	38,019	13.33%
Total Expenditures	<u>7,474,365</u>	<u>6,862,017</u>	<u>(612,348)</u>	<u>-8.19%</u>
Excess of Revenues Over (Under)				
Expenditures	(522,688)	(283,679)	239,009	-45.73%
Other Financing Sources (Uses)				
Proceeds From Installment Purchase	509,771	226,520	(283,251)	-55.56%
Proceeds From Bonds Refinancing	29,862	142,294	112,432	376.51%
Total Other Financing Sources (Uses)	<u>539,633</u>	<u>368,814</u>	<u>(170,819)</u>	<u>-31.65%</u>
Net Change in Fund Balance	16,945	85,135	68,190	402.42%
Fund Balance--Beginning	<u>2,276,178</u>	<u>2,293,123</u>	<u>16,945</u>	<u>0.74%</u>
Fund Balance--Ending	<u>\$ 2,293,123</u>	<u>\$ 2,378,258</u>	<u>\$ 85,135</u>	<u>3.71%</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2015

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road 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 revenue budget for fiscal year ending September 30, 2015, was higher than the original budget by \$2,632,543. This was due, in part, to more State and Federal aid than originally anticipated, more state Maintenance funding due to the harsh winter, and more proceeds from installment agreements.

The actual revenue recognized during the current fiscal year was lower than the final amended budget by \$567,599, mainly due to slightly less State / Federal Aid Funds than anticipated.

The final amended expenditure budget for the current fiscal year was \$2,632,543 higher than the original budget, primarily due to higher preservation / structural improvements on primary roads and structures, more state trunkline maintenance due to the harsher winter, and more capital outlay. The actual expenditures recognized during the current fiscal year were \$652,734 lower than the final amended budget. This was primarily due to less preservation / structural improvements to primary structures and less capital outlay than anticipated.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2015

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2015, the Road Commission had \$15,303,745 invested in capital assets as follows:

	<u>9/30/14</u>	<u>9/30/15</u>	<u>Percentage Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 357,407	\$ 357,407	0.00%
Infrastructure--Land and Improvements	<u>1,272,270</u>	<u>1,272,270</u>	<u>0.00%</u>
Subtotal	<u>1,629,677</u>	<u>1,629,677</u>	<u>0.00%</u>
Capital Assets Being Depreciated			
Land Improvements	50,519	50,519	0.00%
Buildings	3,577,261	3,577,261	0.00%
Road Equipment	5,231,470	5,616,911	7.37%
Shop Equipment	178,962	181,490	1.41%
Office Equipment	58,853	59,803	1.61%
Engineer's Equipment	28,439	29,713	4.48%
Depletable Assets	69,508	69,508	0.00%
Infrastructure--Bridges	2,228,321	3,543,186	59.01%
Infrastructure--Roads	<u>12,306,000</u>	<u>13,699,080</u>	<u>11.32%</u>
Subtotal	<u>23,729,333</u>	<u>26,827,471</u>	<u>13.06%</u>
Total Capital Assets	<u>25,359,010</u>	<u>28,457,148</u>	<u>12.22%</u>
Total Accumulated Depreciation	<u>(11,664,940)</u>	<u>(13,153,403)</u>	<u>12.76%</u>
Total Net Capital Assets	<u>\$ 13,694,070</u>	<u>\$ 15,303,745</u>	<u>11.75%</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2015**

The Road Commission reported infrastructure current year asset additions in the amount of \$3,098,138. Infrastructure assets are financed through Federal, State, and local contributions.

Current year's major additions included the following:

Infrastructure	\$ 2,707,945
Equipment	<u>390,193</u>
Total Additions	<u>\$ 3,098,138</u>

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

Debt

The Road Commission currently has debt in the amount of \$2,128,398 for the fiscal year ending September 30, 2015. Bonds on the building amount to \$1,545,000, which will be paid off over a remaining period of twelve (12) years. The Road Commission also owes on two installment purchase contracts for equipment totaling \$578,398 that will be paid off over a remaining period of four (4) years. The Road Commission owes \$5,000 for land in which the final payment is due in four (3) years in 2018. Vested employee benefits long-term debt amounts to \$183,042. More detailed information about the Road Commission's long-term debt is presented in Note E to the financial statements.

The outstanding debt excluding vested employee benefits long-term debt of the Road Commission as of September 30, 2015 was as follows:

	<u>Balances</u> 09/30/14	<u>Balances</u> 09/30/15
2012 MTF Refunding Bonds	\$ 1,645,000	\$ 1,545,000
2008 Land Installment Purchase	5,000	5,000
2014 Installment Purchase - Equipment	378,681	529,441
2014 Installment Purchase - Equipment	<u>131,090</u>	<u>48,957</u>
Total	<u>\$ 2,159,771</u>	<u>\$ 2,128,398</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2015

Economic Factors and Next Year's Budget

The Board considered many factors when setting the fiscal year 2016 budget. One of the factors is the economy. The Road Commission derives approximately 40% of its revenues from the fuel tax and vehicle registration fees collected. While the economy has been recovering slowly over the past few years, increased costs without an increase in revenue have allowed for only a minimum level of maintenance to the roads. In 2015, road funding finally received legislative support in the form of changes to the gas tax, increased registration fees, and the promise of general fund dollars. These road funding changes should provide some level of increased revenue in the coming years.

The above items were considered when adopting the budget for 2016. Amounts available for appropriation in the 2016 budget for projected revenues are \$4,702,781 and projected expenditures are \$4,702,781.

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

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens, and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Schoolcraft County Road Commission administrative offices at Tannery Location, Manistique, Michigan 49854, (906) 341-5634.

SCHOOLCRAFT COUNTY ROAD COMMISSION
STATEMENT OF NET POSITION
September 30, 2015

EXHIBIT A

ASSETS

Current Assets

Cash	\$ 1,603,595
Accounts Receivable	
State Trunkline Maintenance	258,912
Michigan Transportation Fund	319,401
State--Other	207,362
Sundry Accounts	13,200
Inventories	687,145
Prepaid Expenses	60,678

Non-Current Assets

Cash Restricted for Capital Projects	165,266
Capital Assets Nondepreciating	1,629,677
Capital Assets -Net of Accumulated Depreciation	<u>13,674,068</u>

Total Assets 18,619,304

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows--Pension Investments	93,710
Deferred Outflows--Employer Pension Contributions	<u>655,028</u>

Total Deferred Outflows of Resources 748,738

LIABILITIES

Current Liabilities

Accounts Payable	178,854
Due to State of Michigan	23,233
Accrued Liabilities	87,476
Driveway Snow Plowing Deposits	14,315

Noncurrent Liabilities

Advance From State	457,716
Bonds Payable--Due in One Year	100,000
Bonds Payable--Due in More Than One Year	1,445,000
Installment Purchase Agreements Payable--Due in One Year	161,200
Installment Purchase Agreements Payable--Due in More Than One Year	422,198
Vested Employee Benefits Payable--Due in One Year	103,042
Vested Employee Benefits Payable--Due in More than One Year	80,000
Net Other Post-Employment Benefits Obligation	129,954
Net Pension Liability	<u>7,079,319</u>

Total Liabilities 10,282,307

SCHOOLCRAFT COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2015

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 951,316
Local Road Maintenance	562,632
State Trunkline Maintenance	2,039,309
Private Driveway Plowing	32,723
Net Equipment Expense	58,471
Net Administrative Expense	253,211
Non-Road Project	1,743
Infrastructure Depreciation	1,029,667
Compensated Absences	(18,349)
Other Post-Employment Benefits	6,194
Pension Expense	(117,950)
Interest Expense	65,377
	<hr/>
Total Program Expenses	4,864,344
	<hr/>
Program Revenue	
Charges for Services	
License and Permits	3,670
Charges for Services	2,158,952
Operating Grants and Contributions	
Michigan Transportation Funds	1,934,164
Contributions	113,622
Investment & Royalties Earnings	225,718
Capital Grants and Contributions	
Federal Grants	629,320
State Grants	1,512,086
	<hr/>
Total Program Revenue	6,577,532
	<hr/>
Net Program Revenue	1,713,188
General Revenue	
Gain on Sale of Land	806
	<hr/>
Total General Revenues	806
	<hr/>

**SCHOOLCRAFT COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2015**

**EXHIBIT B
(CONTINUED)**

Change in Net Position	1,713,994
Net Position	
Beginning of Year	<u>14,016,346</u>
Restatement to Net Position for Pension Liability (Note M)	(6,803,188)
Restated Net Position--Beginning of Year (Note M)	7,213,158
Restated Net Position--End of Year	<u>\$ 8,927,152</u>

The Notes to Financial Statements are an integral part of this statement.

SCHOOLCRAFT COUNTY ROAD COMMISSION
BALANCE SHEET--GOVERNMENTAL FUND
September 30, 2015

EXHIBIT C

<u>ASSETS</u>	<u>General Operating Fund</u>
Cash	\$ 1,603,595
Receivables	
State Trunkline Maintenance	258,912
Michigan Transportation Fund	319,401
State Department of Transportation--Other	207,362
Sundry Accounts	13,200
Inventories	
Road Materials	481,394
Equipment Parts and Materials	205,751
Prepaid Expenses	60,678
Cash Restricted for Capital Projects	<u>165,266</u>
Total Assets	<u><u>\$ 3,315,559</u></u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</u>	
 LIABILITIES	
Accounts Payable	\$ 178,854
Due to State of Michigan	23,233
Accrued Interest Payable	7,540
Accrued Liabilities	79,936
Advances	
Driveway Plowing	14,315
State of Michigan	<u>457,716</u>
Total Liabilities	<u>761,594</u>
 DEFERRED INFLOWS OF RESOURCES	
Unavailable Revenues--Forest Road Funds	158,583
Unavailable Revenues--Bond Proceeds to be used on Future Capital Projects	<u>17,124</u>
Total Deferred Inflows of Resources	<u>175,707</u>
 FUND BALANCE	
Fund Balance	
Nonspendable:	
Inventory	687,145
Prepaid Expenses	60,678
Restricted for Road Operations	<u>1,630,435</u>
Total Fund Balance	<u>2,378,258</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u><u>\$ 3,315,559</u></u>

The Notes to Financial Statements are an integral part of this statement.

**SCHOOLCRAFT COUNTY ROAD COMMISSION
RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET POSITION
September 30, 2015**

EXHIBIT D

Total Governmental Fund Balance	\$ 2,378,258
Amounts reported for 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 in the funds.	15,303,745
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	(2,441,394)
Bond proceeds to be used in the future were recorded as deferred revenue in the governmental funds, but not in the Statement of Activities (where it is recorded as bonds payable).	17,124
Payments toward underfunded pension liabilities is an expenditure in the governmental funds, but not in the Statement of Activities (where it is recorded as a prepaid).	<u>(6,330,581)</u>
Net Position of Governmental Activities	<u><u>\$ 8,927,152</u></u>

The Notes to Financial Statements are an integral part of this statement.

**SCHOOLCRAFT COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE--
GOVERNMENTAL FUND
For the Fiscal Year Ended September 30, 2015**

EXHIBIT E

	General Operating Fund
	<u> </u>
Revenues	
Licenses and Permits	\$ 3,670
Federal Grants	629,320
State Grants	3,446,250
Contributions from Local Units	113,622
Charges for Services	2,157,426
Interest and Rents	225,718
Other Revenue	<u>2,332</u>
 Total Revenues	 <u>6,578,338</u>
 Expenditures	
Public Works	6,607,350
Capital Outlay	(68,603)
Debt Service	<u>323,270</u>
 Total Expenditures	 <u>6,862,017</u>
 Excess of Revenues Over (Under) Expenditures	 <u>(283,679)</u>
 Other Financing Sources (Uses)	
Proceeds From Bond Refinancing	142,294
Proceeds From Installment Purchase Agreements	<u>226,520</u>
 Total Other Financing Sources (Uses)	 <u>368,814</u>
 Net Change in Fund Balance	 85,135
 Fund Balance--October 1, 2014	 <u>2,293,123</u>
 Fund Balance--September 30, 2015	 <u>\$ 2,378,258</u>

The Notes to Financial Statements are an integral part of this statement.

**SCHOOLCRAFT COUNTY ROAD COMMISSION
RECONCILIATION OF THE GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2015**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ 85,135

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 1,609,675
Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the Statement of Net Position. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Position. (110,921)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense, change in net pension obligation, OPEB). 130,105

Change in Net Position of Governmental Activities \$ 1,713,994

The Notes to Financial Statements are an integral part of this statement.

**SCHOOLCRAFT COUNTY ROAD COMMISSION
STATEMENT OF NET POSITION--
FIDUCIARY FUND
September 30, 2015**

EXHIBIT G

	<u>Pension Trust</u>
<u>ASSETS</u>	
Investments at Fair Market Value	\$ 244,670
Total Assets	<u>244,670</u>
<u>LIABILITIES</u>	
Total Liabilities	<u>-</u>
<u>NET POSITION</u>	
Restricted for Other Post Employment Benefits	<u>\$ 244,670</u>

The Notes to Financial Statements are an integral part of this statement.

**SCHOOLCRAFT COUNTY ROAD COMMISSION
STATEMENT OF CHANGES IN NET POSITION--
FIDUCIARY FUND
For the Fiscal Year Ended September 30, 2015**

EXHIBIT H

	<u>Pension Trust</u>
<u>ADDITIONS</u>	
Contributions	
Employer Contributions	\$ 60,000
Total Contributions	<u>60,000</u>
Investment Earnings	
Interest and Dividends	
Net Increase (Decrease) in Fair Value of Investments	<u>(9,870)</u>
Total Investment Earnings	<u>(9,870)</u>
Net Investment Earnings	<u>(9,870)</u>
Total Additions	<u>50,130</u>
<u>DEDUCTIONS</u>	
Administrative Fees	<u>1,058</u>
Total Deductions	<u>1,058</u>
Changes in Net Position	49,072
Net Position Restricted for Pension Benefits	
Beginning of Year	<u>195,598</u>
End of Year	<u><u>\$ 244,670</u></u>

The Notes to Financial Statements are an integral part of this statement.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2015

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Schoolcraft County Road Commission (Road Commission) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Road Commission.

Reporting Entity

The Road Commission, which is established pursuant to the County Road Law, Michigan Compiled Laws (MCL) 224.1, is governed by an elected 3-member Board of County Road Commissioners (Board). The Road Commission may not issue debt or levy a tax without the approval of the County Board of Commissioners. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors. The taxes would be included as part of the county's total tax levy as well as reported in the County Road Fund.

In accordance with generally accepted accounting principles and the Governmental Accounting Standards Board (GASB) Statement No. 61, "The Financial Reporting Entity," these financial statements present the Road Commission for financial reporting purposes. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Road Commission, a discretely presented component unit of Schoolcraft County.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund (MTF) monies distributed to the county, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission General Operating Fund.

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all non-fiduciary activities of the Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Position presents the Road Commission's assets and liabilities with the difference being reported as either net investment in capital assets or restricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2015

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the General Operating Fund, a governmental fund. The General Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; 2) MTF, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures, generally, are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

MTFs, grants, permits, township contributions, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

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

SCHOOLCRAFT COUNTY ROAD COMMISSION

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2015**

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Restricted Cash

Funds classified as restricted cash as of September 30, 2015, consist of \$165,266 to be used for capital projects.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction, maintenance, equipment repairs, and operations, as used.

Prepaid Expenses

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

Capital Assets

Capital assets, include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the General Operating Fund in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of eight years and all equipment with a C-rate. Such assets are recorded at cost or an estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation

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

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2015

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. In this category, deferred outflows of resources are related to the defined benefit pension plan. The deferred outflows of resources result from two transactions: contributions to the defined pension plan subsequent to the plan's year end through the Road Commission fiscal year end and the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that is applicable to a future reporting period. In this category deferred inflows of resources are related to unavailable revenues for Forest Road funds. Unavailable revenue represents amounts that do not meet the available criteria, such as grants received before the expenditure is incurred.

Compensated Absences (Vacation and Sick Leave)

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year; and a two (2) year maximum accumulation is allowed.

Each regular employee shall earn sick leave with pay at the rate of one (1) day per month upon completion of one (1) year steady employment. Sick leave may be accumulated to a maximum of 105 days. The Road Commission's sick leave benefits policy provides for payment of 100% of the accumulated benefits, to a maximum of 105 days, when an employee takes regular retirement or a disability retirement.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2015

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classifications

In the fund financial statements, governmental funds report the following components of fund balance which comprise a hierarchy based on the extent to which the Road Commission is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

- Nonspendable – includes fund balance amounts that cannot be spent either because (a) it is not in spendable form; or (b) because it is legally or contractually required to be maintained intact. For the Road Commission, the non-spendable balance reflects the inventory on hand in the amount of \$687,145, and prepaid expenses in the amount of \$60,678.
- Restricted – includes fund balance amounts that can be spent only for specific purposes stipulated by the State Constitution, external resource providers, or through enabling legislation.
- Committed – includes fund balance amounts that can be used only for specific purposes determined by a formal action of the government's highest level of decision-making authority.
- Assigned – includes fund balance amounts that are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Fund balance may be assigned by the Engineer/Manager or his/her/their designee.
- Unassigned – is to be used only to report a deficit balance from overspending for specific purposes for which amounts have been restricted, committed, or assigned.

When the Road Commission incurs an expenditure for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the policy of the Road Commission to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, the Road Commission's policy would first use committed amounts, followed by assigned amounts and then unassigned amounts.

The Road Commission does not have a formal minimum balance policy.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2015

NOTE B--STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to Public Act (PA) 2 of 1968, MCL 141.421, which requires the Board of County Road Commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (CAO) (engineer/manager) prepares and submits a proposed operating budget to the Board of County Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year and is approved by the Board. Also, the Board has authorized the CAO to amend the Road Commission budget, when necessary, without increasing the overall budget, by transferring up to 15% from one line-item to another. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

Budget Violations

PA 2 of 1968, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. Although the actual 2015 expenditures were within the final amended budget by a total of \$652,734, some expenditure activities exceeded the amounts appropriated.

Expenditures by activity that exceeded appropriations are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road Routine & Preventive Maintenance	\$ 946,299	\$ 951,316	\$ (5,017)
State Trunkline Maintenance	1,941,284	1,948,763	(7,479)
State Trunkline Non-Maintenance	89,500	90,546	(1,046)
Private Drive Snow Removal	32,000	32,723	(723)
Equipment Expense--Net	(50,619)	58,471	(109,090)
Administrative Expense--Net	236,900	253,211	(16,311)
Other Non-Road Projects	-	1,743	(1,743)

The Road Commission will continue to develop budgetary control procedures to make sure that amendments are made to cover expenditures that may exceed amounts authorized in the General Appropriations Act.

SCHOOLCRAFT COUNTY ROAD COMMISSION

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2015**

NOTE C--DEPOSITS AND INVESTMENTS

MCL 129.91, authorizes the county treasurer to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investments by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Road Commission deposits are in accordance with statutory authority.

The Pension Trust Fund was established with the Constellation Trust Company as governmental trust under Section 115 of the Internal Revenue Code to hold the assets of the retiree health funding vehicle and is administered under the discretion of Constellation Trust Company as fiduciary, directly by (or through a combination of) Constellation Trust Company and the Road Commission's Director of Finance whom directs payment of fund monies for the benefit of eligible employees under the road commission's retiree healthcare benefit program. The Pension Trust Fund investments are authorized by PA 314 of 1965, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. Investments within the Trust are in accordance with statutory authority.

The investment policy adopted by the Board in accordance with PA 20 of 1943, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

	General Operating Fund	Pension Trust Fund	Total
Cash	\$ 1,603,595	\$ -	\$ 1,603,595
Restricted Cash	165,266	-	165,266
Investments	-	244,670	244,670
Total	<u>\$ 1,768,861</u>	<u>\$ 244,670</u>	<u>\$ 2,013,531</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2015

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposits)	\$ 1,766,861
Investments at Fair Market Value	
Within Pension Trust	244,670
Imprest Cash	<u>2,000</u>
Total	<u>\$ 2,013,531</u>

Restricted cash as of September 30, 2015, consists of \$165,266 received as bond proceeds for future capital projects.

The bank balance of the Road Commission's deposits is \$1,800,909, of which \$501,000 is covered by Federal depository insurance.

Non-negotiable certificates of deposits that are placed by the depositors directly with financial institutions and that are subject to a penalty if redeemed before maturity are treated as bank deposits. Because non-negotiable certificates of deposits are deposits, no interest rate risk or credit risk disclosures are required, which are limited to investments.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy authorizes investment in all those that are authorized by law. As stated above, the Road Commission's General Operating Fund did not have any investments in the fiscal year ending September 30, 2015.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

As of September 30, 2015, the Road Commission's General Operating Fund did not have any investments.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds (money market fund) do not have a rating provided by a nationally recognized statistical rating organization.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2015

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

The Road Commission's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over-concentration in a specific maturity, individual financial institution(s), or a specific class of securities.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Road Commission's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Michigan law does not contain legal requirements that would limit the exposure to custodial credit risk for investments. However, the Road Commission's investment policy does contain a safekeeping and custody section that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The Road Commission is not exposed to custodial credit risk for investments.

SCHOOLCRAFT COUNTY ROAD COMMISSION

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2015**

NOTE D--CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Balances <u>10/01/14</u>	Additions	Deductions	Balances <u>09/30/15</u>
Capital Assets Not Being Depreciated				
Land	\$ 357,407	\$ -	\$ -	\$ 357,407
Infrastructure--Land Improvements	1,272,270	-	-	1,272,270
Subtotal	<u>1,629,677</u>	<u>-</u>	<u>-</u>	<u>1,629,677</u>
Capital Assets Being Depreciated				
Land Improvements	50,519	-	-	50,519
Buildings	3,577,261	-	-	3,577,261
Road Equipment	5,231,470	385,441	-	5,616,911
Shop Equipment	178,962	2,528	-	181,490
Office Equipment	58,853	950	-	59,803
Engineer's Equipment	28,439	1,274	-	29,713
Depletable Assets	69,508	-	-	69,508
Infrastructure--Bridges	2,228,321	1,314,865	-	3,543,186
Infrastructure--Roads	12,306,000	1,393,080	-	13,699,080
Total	<u>23,729,333</u>	<u>3,098,138</u>	<u>-</u>	<u>26,827,471</u>
Less Accumulated Depreciation				
Land Improvements	37,046	3,368	-	40,414
Building	1,547,943	110,234	-	1,658,177
Road Equipment	4,406,230	335,790	-	4,742,020
Shop Equipment	158,724	7,591	-	166,315
Office Equipment	43,803	4,739	-	48,542
Engineer's Equipment	27,473	442	-	27,915
Depletable Assets	22,403	-	-	22,403
Infrastructure--Bridges	151,831	70,557	-	222,388
Infrastructure--Roads	5,269,487	955,742	-	6,225,229
Total	<u>11,664,940</u>	<u>1,488,463</u>	<u>-</u>	<u>13,153,403</u>
Net Capital Assets Being Depreciated	<u>12,064,393</u>	<u>1,609,675</u>	<u>-</u>	<u>13,674,068</u>
Total Net Capital Assets	<u>\$ 13,694,070</u>	<u>\$ 1,609,675</u>	<u>\$ -</u>	<u>\$ 15,303,745</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2015**

NOTE D--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 335,790
Indirect Equipment	
Shop Building	110,234
Shop Equipment	7,591
Net Administrative Expenses	
Office Equipment and Furniture	4,739
Engineer Equipment	442
Land Improvements	3,368
Infrastructure Depreciation Expense	1,026,299
 Total Depreciation Expense	 \$ 1,488,463

NOTE E--LONG-TERM DEBT

The general long-term debt obligations of the Road Commission and changes therein, may be summarized as follows:

	Balance 10/01/14	Additions	(Reductions)	Balance 09/30/15	Due in One Year
Bonds Payable					
Michigan Transportation Fund Bonds					
Series 2012	\$ 1,645,000	\$ -	\$ (100,000)	\$ 1,545,000	\$ 100,000
Installment Purchase Contract					
Land--Graves Pit	5,000	-	-	5,000	-
Installment Purchase Contract					
The State Savings Bank--2014 Equipment	378,681	226,520	(75,760)	529,441	116,405
Installment Purchase Contract					
The State Savings Bank--2014 Equipment	131,090	-	(82,133)	48,957	44,795
Vested Employee Benefits					
Vacation and Sick Leave	201,391	-	(18,349)	183,042	80,000
Totals	\$ 2,361,162	\$ 226,520	\$ (276,242)	\$ 2,311,440	\$ 341,200

SCHOOLCRAFT COUNTY ROAD COMMISSION

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2015**

NOTE E--LONG-TERM DEBT (Continued)

The annual interest and principal requirements of the Road Commission's long-term borrowing excluding vested employee benefits may be summarized as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2016	\$ 261,200	\$ 59,721	\$ 320,921
2017	228,985	54,065	283,050
2018	238,283	48,914	287,197
2019	241,843	43,154	284,997
2020	163,087	37,805	200,892
2021-2025	680,000	133,804	813,804
2026-2027	315,000	18,690	333,690
Total	<u>\$ 2,128,398</u>	<u>\$ 396,153</u>	<u>\$ 2,524,551</u>

Bonds Payable

Michigan Transportation Fund Bonds, Series 2012

On June 27, 2012, the County of Schoolcraft approved a \$1,825,000 Michigan Transportation Fund Refunding Bond issue, Series 2012, to refund the 2002 bond issue that was for the purpose of constructing Road Commission buildings. An advance refunding bond issue occurs when a new debt is issued to refinance an existing debt (old debt), but the proceeds must be placed in escrow pending call date or maturity. The difference between the cash flow required to service the old debt and the new debt and complete the refunding is \$230,546. The economic gain from the transaction (difference between the present value of the old debt service requirement and the present value of new debt service requirement, discounted at the effective interest rate on the new debt and adjusted for any additional cash) is \$178,100. The total bond issuance cost, including issuance cost, underwriter's discount, insurance fee, and additional proceeds, was \$18,033. The refunding bonds are payable over the period of 2013 to 2027 at interest rates that range from 1.1% to 4.0%.

SCHOOLCRAFT COUNTY ROAD COMMISSION

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2015**

NOTE E--LONG-TERM DEBT (Continued)

The terms and annual principal and interest requirements are as follows:

Terms: Date of issue was June 27, 2012, in the amount of \$1,825,000 at variable interest rates paid semi-annually with interest ranging from 1.1% to 4.0% commencing on February 1, 2013 through August 1, 2027, and annual principal payments ranging from \$85,000 to \$160,000.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>		<u>Annual</u>
	<u>1-Aug</u>	<u>1-Feb</u>	<u>1-Aug</u>	<u>Total</u>
2016	\$ 100,000	\$ 22,620	\$ 22,620	\$ 145,240
2017	105,000	21,920	21,920	148,840
2018	110,000	21,080	21,080	152,160
2019	115,000	19,980	19,980	154,960
2020	120,000	18,773	18,773	157,546
2021-2025	680,000	66,902	66,902	813,804
2026-2027	315,000	9,345	9,345	333,690
Total	<u>\$ 1,545,000</u>	<u>\$ 180,620</u>	<u>\$ 180,620</u>	<u>\$ 1,906,240</u>

Loans Payable--Land Installment Purchase

In 2008, the Road Commission entered into a land installment purchase agreement to purchase property for \$198,000. The installment purchase agreement required a \$50,000 down payment and principal payments of \$35,750 until 2012, with a final payment of \$5,000 due in 2018, as follows:

<u>Year</u>	<u>Principal</u>
2018	<u>\$ 5,000</u>
Total	<u>\$ 5,000</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2015**

NOTE E--LONG-TERM DEBT (Continued)

Promissory Note Payable--Equipment Purchases

The Road Commission financed the purchase of three trucks with the State Savings Bank of Manistique on July 28, 2014. On January 28, 2015, the Road Commission borrowed additional funds, which were rolled in with this note. The terms and annual principal and interest requirements are as follows:

Terms: Purchase price of \$605,201 at 2.85% interest from February 2015 to January 2020, requiring monthly payments of \$10,836.41 beginning February 28, 2015.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 116,405	\$ 13,632	\$ 130,037
2017	119,823	10,214	130,037
2018	123,283	6,754	130,037
2019	126,843	3,194	130,037
2020	43,087	259	43,346
Total	<u>\$ 529,441</u>	<u>\$ 34,053</u>	<u>\$ 563,494</u>

Loans Payable--Vehicle Purchases

The Road Commission financed the refurbishing two trucks with the State Savings Bank of Manistique on September 29, 2014. The terms and annual principal and interest requirements are as follows:

Terms: Purchase price of \$131,090 at 2.85% interest from October 2014 to September 2017, requiring monthly payments of \$3,803.60 beginning October 29, 2014.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 44,795	\$ 849	\$ 45,644
2017	4,162	11	4,173
Total	<u>\$ 48,957</u>	<u>\$ 860</u>	<u>\$ 49,817</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2015

NOTE E--LONG-TERM DEBT (Continued)

Vested Employee Benefits Payable

Vacation Benefits

Vacation benefits are earned in varying amounts depending on the employee's years of service. Prior to January 1, 1993, the Road Commission's vacation policy required all vacation benefits to be used within the calendar year in which they were credited. New vacation policies provide for all employees to be credited on January 1, 1993, with the vacation benefits they earned for the year 1992, and the 1993 vacation benefits to be credited on a per month basis with employees permitted to accumulate up to a maximum of 2 years of vacation benefits. The liability recorded in the long-term debt for vacation earned but not used, as of September 30, 2015, totaled \$76,018.

Sick Leave Benefits

Sick leave benefits are earned at the rate of one (1) day for each calendar month in which the employee has worked at least 12 days and the maximum accumulation will be 105 days. Upon retirement or death, an employee, or his estate, shall be paid for 100% of accumulated sick leave. The accumulated sick leave of \$107,024 recorded in the long-term debt consists of 100% of the maximum accumulated sick leave as of September 30, 2015.

The Road Commission has estimated the current portion of vested employee benefits payable within one (1) year based on historical trends and current policies regarding usage of these benefits.

NOTE F--DEFERRED COMPENSATION PLAN

The Board offers all Road Commission employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The assets of the plan are held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrator (PEBSCO) is an agent of the employer for purposes of providing direction to the custodian of the account regarding investment of funds, transfer of assets to or from the accounts, and all other matters. In accordance with the provisions of GASB Statement No. 32, the plan balances and activities are not reflected in the Road Commission's financial statements.

SCHOOLCRAFT COUNTY ROAD COMMISSION

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2015**

NOTE G--EMPLOYEES' RETIREMENT SYSTEM

General Information about the Pension Plan

Plan Description: The Road 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 Legislature under PA 135 of 1945 and administered by a nine member Retirement Board. MERS is a nonprofit organization that was granted independence from the State of Michigan pursuant to Public Act 220 of 1996, effective August 15, 1996. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the MERS Web site at www.mersofmich.com or in writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Benefits Provided--Defined Benefit: The Road Commission's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, established and amends the benefit provisions of the participants in MERS.

Table 2

01 - General: Open Division

	2014 Valuation
Benefit Multiplier	2.50% Multiplier (80% Max)
Normal Retirement Age	60
Vesting	6 years
Early Retirement (Unreduced)	55/30
Early Retirement (Reduced)	50/25 55/15
Final Average Compensation	5 years
COLA for Future Retirees	2.50% (Non-Compound)
COLA for Current Retirees	2.50% (Non-Compound)
Employee Contributions	0%
Act 88	Yes (Adopted 7/11/2007)

Employees covered by benefit terms: At the December 31, 2014, measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	39
Inactive employees entitled to but not yet receiving benefits	3
Active employees	19
Total employees covered by MERS Plan	61

SCHOOLCRAFT COUNTY ROAD COMMISSION

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2015**

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Contributions: Const 1963, art 9, § 24 requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the 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.

For the year ending September 30, 2015, the Road Commission's contribution rate was 49.88% based on annual payroll for all employees.

Net Pension Liability

The employer's net pension liability reported as of September 30, 2015, was determined using a measure of the total pension liability and the pension net position as of December 31, 2014. The December 31, 2014, total pension liability was determined by an annual actuarial valuation performed as of that date.

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

Inflation	3.0%-4.0%
Salary Increases	4.5% in the long-term (1.0%, 2.0% and 3.0% for calendar years 2014, 2015 and 2016, respectively)
Investment Rate of Return	8.0%, net of investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2014, valuation were based on the results of the most recent actuarial experience study in 2008.

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 as of December 31, 2014, the measurement date, for each major asset class are summarized in the following table:

SCHOOLCRAFT COUNTY ROAD COMMISSION

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2015**

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	57.50%	5.02%
Global Fixed Income	20.00%	2.18%
Real Assets	12.50%	4.23%
Diversifying Strategies	10.00%	6.56%

Discount rate: The discount rate used to measure the total pension liability is 8.25% for 2014. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

<u>Changes in Net Pension Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Net Position</u>	<u>Net Pension Liability</u>
Balances as of December 31, 2013	\$ 13,402,875	\$ 6,460,400	\$ 6,942,475
Changes for the Year:			
Service Cost	142,426		142,426
Interest	1,071,981		1,071,981
Contributions--Employer		688,346	(688,346)
Net investment income		403,998	(403,998)
Benefit payments, including refunds	(960,761)	(960,761)	-
Administrative expense		(14,781)	14,781
Net changes	<u>253,646</u>	<u>116,802</u>	<u>136,844</u>
Balances as of December 31, 2014	<u>\$ 13,656,521</u>	<u>\$ 6,577,202</u>	<u>\$ 7,079,319</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2015**

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Sensitivity of the Net Pension Liability to changes in the discount rate: The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.25%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1% higher (9.25%) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
	<u> </u>	<u> </u>	<u> </u>
Net Pension Liability as of December 31, 2014		\$ 7,079,319	
Change in Net Pension Liability (NPL)	\$ 1,386,036		\$ (1,187,267)

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

For the year ending September 30, 2015, the Road Commission recognized pension expense of \$731,480. As of September 30, 2015, the Road Commission reported deferred outflows of resources related to pensions from the following sources:

<u>Source</u>	<u>Deferred Outflows of Resources</u>
Employer contributions to the plan subsequent to the measurement date*	\$ 655,028
Net difference between projected and actual earnings on pension plan investments**	<u>93,710</u>
Total	<u>\$ 748,738</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 fiscal year ending September 30, 2016.

**Amounts reported as deferred outflows of resources related to pensions will be recognized in the pension expense. These amounts are presented on the next page.

SCHOOLCRAFT COUNTY ROAD COMMISSION

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2015**

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

<u>Years Ending</u> <u>September 30</u>	<u>Amount</u>
2016	\$ 23,428
2017	23,428
2018	23,428
2019	23,428

NOTE H--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefit claims and participates in the Michigan County Road Commission Self-Insurance Pool (Pool) for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings, and contents) and workers' compensation. The Road Commission's maximum deductible for property and liability coverage and automobile coverage is \$1,000 per occurrence. The maximum liability, per occurrence, for property and liability is \$10,500,000. The automobile coverage provides for limits of liability of \$250,000 each person, \$500,000 each accident, and \$1,000,000 total. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

County road commissions in the State of Michigan established and created a trust fund known as the Pool pursuant to the provisions of PA 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities within the State. The Road Commission became a member of the Pool on March 1, 1986.

The Pool program operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund.

As of September 30, 2015, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road Commission have not exceeded the amount of insurance coverage in any of the past 4 years.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2015

NOTE I--POSTEMPLOYMENT BENEFITS

The Road Commission provides postemployment healthcare benefits in accordance with the labor contract and personnel policy as follows:

Effective December 23, 2009, upon retirement or disability retirement, from age 55 to 65 each employee will receive single subscriber health insurance benefits at a cost of \$224.10 each week paid by the Road Commission. The retiree will be required to reimburse to the Road Commission any costs incurred in excess of this amount. In order to be eligible, retirees must be at least 55 years of age and have worked a minimum of 15 years with the Road Commission. The benefit will cease when the retiree reaches 65 years of age. There were 11 employees that qualified during the fiscal year ending September 30, 2015. The total cost was \$205,330 and the amount reimbursed by retirees was \$41,066 with a net cost to the Road Commission of \$164,264. The expenditures are recognized as the insurance premiums become due.

Funding Status and Funding Progress

For the year ending September 30, 2015, the Road Commission has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of September 30, 2014. The Road Commission's annual other postemployment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer based on the alternate method of actuarial, as provided in accordance with the parameters of GASB Statement No. 45. The valuation computes an ARC, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The valuation computed required contribution and actual funding are summarized as follows:

	2013	2014	2015
Annual Required Contribution	\$ 188,420	\$ 220,557	\$ 220,557
Amount Contributed			
Payments of Current Premiums	(129,849)	(153,795)	(164,264)
Advance Funding	(90,000)	(60,000)	(60,000)
Increase in Net OPEB Obligation	(31,429)	6,762	(3,707)
Adjustment for Interest and Amortization	10353	8,666	9,901
OPEB Obligation--Beginning of Year	129,408	108,332	123,760
OPEB Obligation--End of Year	\$ 108,332	\$ 123,760	\$ 129,954

SCHOOLCRAFT COUNTY ROAD COMMISSION

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2015**

NOTE I--OTHER POSTEMPLOYMENT BENEFITS (Continued)

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the fiscal years ending September 30 were as follows:

	2013	2014	2015
Annual OPEB Costs	\$ 188,420	\$ 220,557	\$ 220,557
Percentage Contributed	116.68%	96.93%	101.68%
Net OPEB Obligation	\$ 108,332	\$ 123,760	\$ 129,954

The schedule of funding progress immediately following the notes to the financial statements presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
9/30/2014	\$ 195,598	\$ 2,190,027	\$ 1,994,429	8.93%	\$ -	N/A

The Road Commission expects to have an actuarial valuation performed every three years.

Significant actuarial assumptions used include:

- 1) Discount rate of 7.00%
- 2) Annual salary increases of 3.00%
- 3) Post-Retirement Interest rate of 7.00%
- 4) Healthcare inflation rate is based on NIH National Health Expenditure Projections, 2005-2020.

NOTE J--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ending September 30, 2015, the Road Commission received \$330,472 in Federal grants for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit.

During the fiscal year ending September 30, 2015, the Road Commission received and expended \$298,848 in Federal grants for negotiated (force account) projects. Negotiated projects are projects that are performed by the Road Commission and are subject to single audit requirements, if the amount expended is \$500,000 or more. A single audit was not required during the fiscal year ending September 30, 2015.

SCHOOLCRAFT COUNTY ROAD COMMISSION

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2015**

NOTE K--STATE TRUNKLINE MAINTENANCE REVENUE

The \$84,467 difference between the State trunkline maintenance revenues of \$2,033,230 and expenditures of \$1,948,763 is primarily due to the following audit results:

<u>Description of Audit</u>	<u>Refunded to Road Commission</u>
State Trunkline Audit Results October 1, 2012 through September 30, 2013	\$ 84,467

NOTE L--CHANGE IN ACCOUNTING PRINCIPLE

During the fiscal year, the Road Commission implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability is now recorded on the government-wide statements and is computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI).

Coinciding with the implementation of GASB Statement No. 68, the Road Commission also implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment to GASB Statement No. 68*. The statement addressed the issue regarding the application of the transition provisions of GASB Statement No. 68 relating to the amounts associated with contributions made by the Road Commission to the defined benefit pension plan after the measurement date of the Road Commission's beginning net pension liability. GASB Statement No. 71 amends GASB Statement No. 68 to require that at transition, the Road Commission recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability.

SCHOOLCRAFT COUNTY ROAD COMMISSION

**NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2015**

NOTE M--RESTATEED BEGINNING NET POSITION

During the current fiscal year, the Road Commission adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Due to the implementation, the government-wide statements now include a net pension liability for unfunded pension obligations. The Statement of Net Position has been restated to record the liability as of October 1, 2014.

	<u>Governmental Activities</u>
Beginning Net Position--October 1, 2014	\$ 14,016,346
Less net pension liability recorded for the implementation of GASB Statement No. 68	(6,942,475)
Less prepaid net pension obligation	(354,657)
Add deferred outflows or resources recorded for the implementation of GASB Statement No. 68	<u>493,944</u>
Restated Beginning Net Position--October 1, 2014	<u><u>\$ 7,213,158</u></u>

NOTE N--UPCOMING REPORTING CHANGE

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirement of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the Road Commission's 2015-2016 fiscal year.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2015

NOTE N--UPCOMING REPORTING CHANGE (Continued)

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, addresses reporting for OPEB plans whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to be included in the financial statements more extensive note disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the Road Commission will, after adoption of GASB Statement No. 75, recognize on the face of the financial statements its net OPEB liability. The Road Commission is currently evaluating the impact these standards will have on the financial statements when adopted. GASB Statement No. 74 is effective for fiscal years beginning after June 15, 2016, whereas GASB Statement No. 75 is effective one year later.

SCHOOLCRAFT COUNTY ROAD COMMISSION
SCHEDULE OF CHANGES IN THE ROAD COMMISSION'S
NET PENSION LIABILITY AND RELATED RATIOS*
For the Fiscal Year Ending September 30, 2015

SCHEDULE 1

	<u>2015</u>
Total Pension Liability	
Service Cost	\$ 142,426
Interest	1,071,981
Benefit payments including employee refunds	<u>(960,761)</u>
Net Change in Total Pension Liability	253,646
Total Pension Liability--Beginning	<u>13,402,875</u>
Total Pension Liability--Ending	<u><u>\$ 13,656,521</u></u>
Plan Fiduciary Net Position	
Contributions--employer	\$ 688,346
Net Investment Income	403,998
Benefit payments including employee refunds	(960,761)
Administrative expense	<u>(14,781)</u>
Net Change in Plan Fiduciary Net Position	116,802
Plan Fiduciary Net Position--Beginning	<u>6,460,400</u>
Plan Fiduciary Net Position--Ending	<u><u>\$ 6,577,202</u></u>
Employer Net Pension Liability	<u><u>\$ 7,079,319</u></u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	48%
Covered Employee Payroll	\$ 1,074,102
Employer's Net Pension Liability as a percentage of covered employee payroll	659%

Notes to schedule:

There were no benefit changes or changes in assumptions or methods affecting the 2014 valuation.

Above dates are based on measurement date, which may not necessarily tie to the fiscal year.

*10-year schedule as required by GASB Statement No. 68 will be built prospectively upon implementation of the standard.

SCHOOLCRAFT COUNTY ROAD COMMISSION
SCHEDULE OF ROAD COMMISSION'S CONTRIBUTIONS
For the Fiscal Year Ending September 30, 2015

SCHEDULE 2

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarial Determined Contributions	\$ 522,776	\$ 492,176	\$ 431,111	\$ 423,182	\$ 414,827	\$ 394,541	\$ 372,983	\$ 328,590	\$ 301,221	\$ 253,725
Contributions in Relation to the actuarially determined contribution	688,347	663,210	564,606	496,688	414,827	394,541	372,983	328,590	301,221	253,725
Contribution deficiency (excess)	\$ (165,571)	\$ (171,034)	\$ (133,495)	\$ (73,506)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 1,074,102	\$ 1,050,832	\$ 1,031,916	\$ 1,111,005	\$ 1,145,011	\$ 1,258,977	\$ 1,268,695	\$ 1,219,310	\$ 1,161,701	\$ 1,258,646
Contributions as a percentage of covered employee payroll	64%	63%	55%	45%	36%	31%	29%	27%	26%	20%

Notes to Schedule:

Actuarial valuation information relative to the determination of contributions:

Valuation Date Actuarially determined contribution rates are calculated as of December 31 each year, which is 18 months prior to the beginning of the fiscal year in which the contributions are required.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	10 year smoothed
Inflation	3.0 to 4.0%
Salary Increases	4.5%, including inflation
Investment rate of return	8.0%
Retirement age	Experienced-based tables of rates that are specific to the type of eligibility condition
Mortality	50% Female / 50% Male 1994 Group Annuity Mortality Table

**SCHOOLCRAFT COUNTY ROAD COMMISSION
SCHEDULE OF FUNDING PROGRESS--
OTHER POSTEMPLOYMENT BENEFITS
For the Fiscal Year Ended September 30, 2015**

SCHEDULE 3

The funding status as of September 30, 2014, the most recent actuarial valuation date is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
9/30/2011	\$ -	\$ 1,982,238	\$ 1,982,238	0.00%	\$ -	N/A
9/30/2014	195,598	2,190,027	1,994,429	8.93%	-	N/A

**SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND--SCHEDULE OF
REVENUES AND OTHER FINANCING SOURCES
BUDGETARY COMPARISON SCHEDULE
For the Fiscal Year Ended September 30, 2015**

EXHIBIT I

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 5,000	\$ 3,600	\$ 3,670	\$ 70
Federal Grants				
Surface Transportation Program	455,754	628,258	628,166	(92)
High Risk Rural Roads	-	-	1,154	1,154
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,340,000	1,382,000	1,382,934	934
Local Road	400,000	400,000	418,179	18,179
Snow Removal	121,000	123,051	123,051	-
Road and Risk Reserve Fund (RRR)	-	28,458	28,458	-
Other State Grants	-	160,201	160,201	-
Economic Development Fund				
Rural Primary (D)	46,237	71,265	71,476	211
Forest Road Funds (E)	177,000	177,000	85,652	(91,348)
State Critical Bridge	-	1,667,488	1,166,299	(501,189)
Contributions From Local Units				
Townships	173,626	113,622	113,622	-
Charges for Services				
State Trunkline Maintenance	1,500,000	2,025,751	2,033,230	7,479
State Trunkline Non-Maintenance	200,000	89,500	90,546	1,046
Private Drive Snow Removal	22,000	31,000	32,723	1,723
Salvage Sales	1,650	926	927	1
Interest and Rents				
Interest Earned	10,000	12,811	14,679	1,868
Rents and Royalties	150,000	196,000	211,039	15,039

**SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND--SCHEDULE OF
REVENUES AND OTHER FINANCING SOURCES
BUDGETARY COMPARISON SCHEDULE**

**EXHIBIT I
(CONTINUED)**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Other Revenue				
Other Non-Road Services	4,000	1,000	1,038	38
Refunds/Rebates	1,000	500	488	(12)
Gain on Sale of Land	1,000	800	806	6
Total Revenue	<u>4,618,267</u>	<u>7,123,231</u>	<u>6,578,338</u>	<u>(544,893)</u>
Other Financing Sources				
Proceeds from Installment Purchase Agreement	100,000	226,520	226,520	-
Proceeds from Bond Refinancing	163,941	165,000	142,294	(22,706)
Total Other Financing Sources	<u>263,941</u>	<u>391,520</u>	<u>368,814</u>	<u>(22,706)</u>
Total Revenue and Other Financing Sources	4,882,208	7,514,751	<u>\$ 6,947,152</u>	<u>\$ (567,599)</u>
Fund Balance--October 1, 2014	<u>2,293,123</u>	<u>2,293,123</u>		
Total Budget	<u>\$ 7,175,331</u>	<u>\$ 9,807,874</u>		

SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND--SCHEDULE OF
EXPENDITURES--BUDGETARY COMPARISON SCHEDULE
For the Fiscal Year Ended September 30, 2015

EXHIBIT J

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvement	\$ 741,332	\$ 1,116,489	\$ 1,074,101	\$ 42,388
Routine and Preventive Maintenance	933,131	946,299	951,316	(5,017)
Local Road				
Preservation/Structural Improvement	277,064	324,161	318,979	5,182
Routine and Preventive Maintenance	486,837	565,497	562,632	2,865
Primary Road Structure				
Preservation/Structural Improvement	163,942	1,856,821	1,314,865	541,956
Local Road Structure				
Preservation-Structural Improvement	-	-	-	-
State Trunkline Maintenance	1,500,000	1,941,284	1,948,763	(7,479)
State Trunkline Non-Maintenance	200,000	89,500	90,546	(1,046)
Private Drive Snow Removal	26,000	32,000	32,723	(723)
Equipment Expense--Net	71	(50,619)		
Direct			\$ 1,163,905	
Indirect			497,761	
Operating			276,514	
Less: Equipment Rentals			<u>(1,879,709)</u>	58,471 (109,090)
Administrative Expense--Net	370,873	236,900		
Administrative Expense			507,564	
Less: Overhead--State			(200,485)	
Overhead--State Non-Maintenance			-	
Overhead--Other			(53,868)	
Purchase Discounts			-	253,211 (16,311)
Other Non-Road Projects	-	-	1,743	(1,743)
Capital Outlay--Net	(140,529)	131,256		
Capital Outlay			390,193	
Less: Depreciation Credits			(458,796)	
Equipment Retirements			<u>-</u>	(68,603) 199,859

**SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND--SCHEDULE OF
EXPENDITURES--BUDGETARY COMPARISON SCHEDULE**

**EXHIBIT J
(CONTINUED)**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Debt Service				
Principal	258,000	258,000	257,893	107
Interest	65,487	67,163	65,377	1,786
Total Expenditures	<u>4,882,208</u>	<u>7,514,751</u>	<u>\$ 6,862,017</u>	<u>\$ 652,734</u>
Fund Balance--September 30, 2015	<u>2,293,123</u>	<u>2,293,123</u>		
Total Budget	<u><u>\$ 7,175,331</u></u>	<u><u>\$ 9,807,874</u></u>		

SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND--
ANALYSIS OF CHANGES IN FUND BALANCES
For the Fiscal Year Ended September 30, 2015

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 3,591,830	\$ 599,270	\$ 2,387,238	\$ 6,578,338
Total Expenditures	<u>3,705,829</u>	<u>946,331</u>	<u>2,209,857</u>	<u>6,862,017</u>
Excess of Revenues Over (Under) Expenditures	<u>(113,999)</u>	<u>(347,061)</u>	<u>177,381</u>	<u>(283,679)</u>
Other Financing Sources (Uses)				
Optional Transfers	(320,353)	320,353	-	-
Interfund Transfers		26,708	(26,708)	
Proceeds from Bond Refinancing	142,294	-	-	142,294
Proceeds from Installment Purchase Agreement	-	-	226,520	226,520
Total Other Financing Sources (Uses)	<u>(178,059)</u>	<u>347,061</u>	<u>199,812</u>	<u>368,814</u>
Net Change in Fund Balance	(292,058)	-	377,193	85,135
Fund Balance--October 1, 2014	<u>292,058</u>	<u>-</u>	<u>2,001,065</u>	<u>2,293,123</u>
Fund Balance--September 30, 2015	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,378,258</u></u>	<u><u>\$ 2,378,258</u></u>

SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND--ANALYSIS OF
REVENUES AND OTHER FINANCING SOURCES
For the Fiscal Year Ended September 30, 2015

EXHIBIT L

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Permits	\$ -	\$ -	\$ 3,670	\$ 3,670
Federal Grants--Negotiated Projects				
Surface Transportation Program	628,166	-	-	628,166
High Risk Rural Roads	1,154	-	-	1,154
State Grants				
Michigan Transportation Fund				
Engineering	7,678	2,322	-	10,000
Allocation	1,382,934	418,179	-	1,801,113
Snow Removal	94,750	28,301	-	123,051
Road and Risk Reserve Funds (RRR)	28,458			28,458
Other State Grants	123,355	36,846		160,201
Economic Development Fund				
Rural Primary (D)	71,476	-	-	71,476
Forest Road Funds (E)	85,652	-	-	85,652
State Critical Bridge Funds	1,166,299	-	-	1,166,299
Contributions From Local Units				
Townships	-	113,622	-	113,622
Charges for Services				
State Trunkline Maintenance	-	-	2,033,230	2,033,230
State Trunkline Non-Maintenance	-	-	90,546	90,546
Private Drive Snow Removal	-	-	32,723	32,723
Salvage Sales	-	-	927	927
Interest and Rents				
Interest Earned	1,908	-	12,771	14,679
Rents and Royalties	-	-	211,039	211,039

**SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND--ANALYSIS OF
REVENUES AND OTHER FINANCING SOURCES
For the Fiscal Year Ended September 30, 2015**

**EXHIBIT L
(CONTINUED)**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Other Revenue				
Other Non-Road Services	-	-	1,038	1,038
Refunds/Rebates	-	-	488	488
Gain on Sale of Land	-	-	806	806
Total Revenue	3,591,830	599,270	2,387,238	6,578,338
Other Financing Sources				
Proceeds from Installment Purchase Agreement	-	-	226,520	226,520
Proceeds from Bond Refinancing	142,294	-	-	142,294
Total Other Financing Sources	142,294	-	226,520	368,814
Total Revenue and Other Financing Sources	\$ 3,734,124	\$ 599,270	\$ 2,613,758	\$ 6,947,152

SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND--
ANALYSIS OF EXPENDITURES
For the Fiscal Year Ended September 30, 2015

EXHIBIT M

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvement	\$ 1,074,101	\$ -	\$ -	\$ 1,074,101
Routine and Preventive Maintenance	951,316	-	-	951,316
Local Road				
Preservation/Structural Improvement	-	318,979	-	318,979
Routine and Preventive Maintenance	-	562,632	-	562,632
Primary Road Structures				
Preservation/Structural Improvement	1,314,865	-	-	1,314,865
Local Road Structures				
Preservation/Structural Improvement	-	-	-	-
State Trunkline Maintenance	-	-	1,948,763	1,948,763
State Trunkline Non-Maintenance	-	-	90,546	90,546
Private Drive Snow Removal	-	-	32,723	32,723
Equipment Expense--Net (Per Exhibit H)	18,888	11,845	27,738	58,471
Administrative Expense--Net (Per Exhibit H)	200,336	52,875	-	253,211
Other Non-Road Projects	-	-	1,743	1,743
Capital Outlay--Net (Per Exhibit H)	-	-	(68,603)	(68,603)
Debt Service				
Principal	100,000	-	157,893	257,893
Interest	46,323	-	19,054	65,377
Total Expenditures	\$ 3,705,829	\$ 946,331	\$ 2,209,857	\$ 6,862,017



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

NICK A. KHOURI
STATE TREASURER

January 15, 2016

Board of County Road Commissioners
Schoolcraft County Road Commission
332 N. East Road
Manistique, Michigan 49854

Independent Auditor's Report

RE: Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards

Dear Commissioners:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, Michigan, as of and for the fiscal year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Schoolcraft County Road Commission's basic financial statements, and have issued our report thereon dated January 15, 2016.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Schoolcraft County Road Commission'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. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schoolcraft County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards, and which is described in the accompanying Schedule of Findings and Responses as Finding 2015-001.

Schoolcraft County Road Commission's Response to Findings

The Schoolcraft County Road Commission's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Schoolcraft County Road Commission's responses and, accordingly, we express no opinion on them.

Purpose of this Report

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

Sincerely,



Cary Jay Vaughn, CPA, CGFM

Audit Manager

Local Government Financial Services Division



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

January 15, 2016

Board of County Road Commissioners
Schoolcraft County Road Commission
332 N. East Road
Manistique, Michigan 49854

RE: Report to Those Charged With Governance

Dear Commissioners:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, Michigan, for the fiscal year ended September 30, 2015, and have issued our report thereon dated January 15, 2016. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in the engagement letter dated October 2, 2015, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Schoolcraft County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the Schoolcraft County Road Commission's financial statements are free of material misstatement, we performed tests of the Schoolcraft County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described in professional standards, is to evaluate the presentation of supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the accounting principles generally accepted in the United States of America, the methods of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or the financial statements themselves.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on November 17, 2015.

Significant Results of the Audit

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Schoolcraft County Road Commission are described in Note A to the financial statements. As described in Note L, during the fiscal year ended September 30, 2015, the Road Commission implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement of net position now includes a liability for unfunded pension costs on the government-wide statements. We noted no transactions entered into by the Schoolcraft County Road Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the governmental activities in the government-wide statements relate to depreciation, the net pension liability, the liability for other post-employment benefits, and the estimate of the current portion of vested employee benefits. Management's estimate of the depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets in accordance with Generally Accepted Accounting Principles. For the pension, estimates and assumptions are determined by MERS and its actuary, based on the Road Commission's negotiations with its bargaining units and resolutions of the Board of County Road Commissioners. For retiree healthcare, the

estimates and assumptions are based on actuarial techniques. Management's estimate of the current portion of vested employee benefits payable within the next year is based on historical trends and current policies regarding the usage of these benefits. We evaluated the key factors and assumptions used to develop the depreciation, the net pension liability, the liability for other post-employment benefits and the current portion of vested employee benefits payable in determining that they are reasonable in relation to the financial statements, taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 15, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Schoolcraft County Road Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Schoolcraft County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Schoolcraft Board of County Road Commissioners and management of the Schoolcraft County Road Commission and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



Cary Jay Vaughn, CPA, CGFM

Audit Manager

Local Government Financial Services Division

SCHOOLCRAFT COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended September 30, 2015

NONCOMPLIANCE WITH STATE STATUTES

Our review and study for compliance with State statutes and regulations revealed the following noncompliance procedures:

Violation of PA 2 of 1968

Finding 2015-001

Condition: During the fiscal year ending September 30, 2015, expenditures were incurred in excess of amounts appropriated in the amended budgets as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road Routine & Preventive Maintenance	\$ 946,299	\$ 951,316	\$ (5,017)
State Trunkline Maintenance	1,941,284	1,948,763	(7,479)
State Trunkline Non-Maintenance	89,500	90,546	(1,046)
Private Drive Snow Removal	32,000	32,723	(723)
Equipment Expense--Net	(50,619)	58,471	(109,090)
Administrative Expense--Net	236,900	253,211	(16,311)
Other Non-Road Projects	-	1,743	(1,743)

Directive: We direct that the Road Commission develop budgetary control procedures which will ensure that expenditures will not exceed amounts authorized in the General Appropriations Act or amendments thereof.

Management's Response: The Road Commission will continue to develop budgetary control procedures to make sure that amendments are made to cover expenditures that may exceed amounts authorized in the General Appropriations Act. However, invariably situations come up in the year end closing process that will cause expenditures to be recorded which will exceed the final amended budgeted amounts on a few of the line-items.