

**Schoolcraft County Road Commission**

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**BASIC FINANCIAL STATEMENTS**

**September 30, 2016**

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**BOARD OF COUNTY ROAD COMMISSIONERS**

Dale DuFour  
Chairman

Bernard Lund  
Vice-Chairman

Thomas Klarich  
Board Member

William Poniatoski  
Board Member

Daniel LaFoille Sr.  
Board Member

Bradley Stauffer  
Manager

Lisa Kleeman  
Finance Director

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

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

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, 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 year ended September 30, 2016, and related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Michigan Public Act 51 of 1951, as amended. 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 about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major fund and the aggregate remaining fund information of the Schoolcraft County Road Commission, as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison schedules on pages 4 through 8, pages 34 through 36 and pages 37 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Schoolcraft County Road Commission's basic financial statements. The schedules of analysis are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Board of County Road Commissioners  
Schoolcraft County Road Commission

***Other Reporting Required by Government Auditing Standards and Michigan Public Act 51 of 1951, as Amended***

In accordance with *Government Auditing Standards and Michigan Public Act 51 of 1951* as amended, we have also issued our reports dated November 22, 2016 on our consideration of the 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards and Michigan Public Act 51 of 1951* as amended in considering the Schoolcraft County Road Commission's internal control over financial reporting and compliance.



**Anderson, Tackman & Company, PLC  
Certified Public Accountants  
Kincheloe, Michigan**

November 22, 2016

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

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### 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.

### 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 of 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 the 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.

### Reporting the Road Commission's Major Fund

Our analysis of the Road Commission's major fund begins on page 11. The fund financial statements begin on page 37 and provide detailed information about the major fund. The Road Commission currently has one governmental fund, the general operations fund, in which all of the Road Commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the 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 decreased approximately 5% from \$8,927,152 to \$8,475,165 for the year ended September 30, 2016. The net position and change in net position are summarized below.

Restricted net position, the part of net position that can be used to finance day-to-day operations with constraints established by debt covenants enabling legislation or other legal requirements decreased. The primary reason for the decrease was due to pension obligations.

Net position as of the years ended September 30, 2015 and 2016 is as follows:

	Governmental Activities	Governmental Activities
	<u>2015</u>	<u>2016</u>
Current and Other Assets	\$ 3,315,559	\$ 3,424,230
Capital Assets	<u>15,303,745</u>	<u>14,718,625</u>
Total Assets	<u>18,619,304</u>	<u>18,142,855</u>
Deferred Outflows of Resources	<u>748,738</u>	<u>1,899,827</u>
Current Liabilities	668,120	877,633
Other Liabilities	<u>9,614,187</u>	<u>10,386,138</u>
Total Liabilities	<u>10,282,307</u>	<u>11,263,771</u>
Deferred Inflows of Resources	<u>158,583</u>	<u>303,746</u>
Net Position		
Net Investment in Capital Assets	13,175,347	12,851,526
Restricted for County Road	<u>(4,248,195)</u>	<u>(4,376,361)</u>
Total Net Position	<u>\$ 8,927,152</u>	<u>\$ 8,475,165</u>

A summary of changes in net position for the years ended September 30, 2015 and 2016 is as follows:

	Governmental Activities <u>2015</u>	Governmental Activities <u>2016</u>
Program Revenues		
Charges for Services	\$ 2,162,622	\$ 1,986,737
Operating Grants and Contributions	2,047,786	2,089,975
Capital Grants and Contributions	2,141,406	1,042,594
Interest Earnings and Rent	225,718	17,520
Gain on Equipment Disposals	<u>806</u>	<u>1,700</u>
Total Revenues	<u>6,578,338</u>	<u>5,138,526</u>
Program Expenses		
Primary Roads	951,316	1,016,717
Local Roads	562,632	581,657
Interest Expense	2,039,309	1,840,986
State Maintenance	65,377	59,387
Employee Benefit Changes	(95,639)	276,832
Equipment Expenses	58,471	157,088
Administrative	253,211	489,210
Infrastructure Depreciation	<u>1,029,667</u>	<u>1,168,636</u>
Total Expenses	<u>4,864,344</u>	<u>5,590,513</u>
Changes in Net Position	1,713,994	(451,987)
Beginning Net Position	<u>7,213,158</u>	<u>8,927,152</u>
Ending Net Position	<u>\$ 8,927,152</u>	<u>\$ 8,475,165</u>

**The Road Commission's Fund**

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2016, the fund balance of the general operations fund increased \$133,141 as compared to an increase of \$85,135 in the fund balance for the year ended September 30, 2015. Total revenues were \$5,155,649, a decrease of \$1,422,689 as compared to last year. This change in revenues resulted primarily from federal and state sources.

Total expenditures were \$5,022,508, a decrease of \$1,836,509 as compared to last year. This change in expenditures is primarily the decrease in primary road projects in the current year.

**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 revenue budget for 2016 was more than the actual receipts by \$5,763. This was due, in a large part, to the projection of federal, state and local road participations. The Road Commission budgets for the receipt of funds for projects on primary and local roads.

Road Commission expenditures were projected at \$5,203,571 while actual expenditures were \$5,022,508. This resulted in total expenditures under budget by \$181,063. There are two items that account for the variance in the projection of the budget.

**Capital Asset and Debt Administration**

**Capital Assets**

The Road Commission had the following amounts invested in capital assets as follows:

	<u>2015</u>	<u>2016</u>
Capital Assets Not Being Depreciated		
Land and Improvements	\$ <u>1,629,677</u>	\$ <u>1,629,677</u>
Other Capital Assets		
Buildings and Improvements	3,627,780	3,627,780
Road Equipment	5,616,911	5,623,106
Other Equipment	340,514	341,110
Infrastructure and Improvements	<u>17,242,266</u>	<u>18,284,861</u>
Total Capital Assets at Historic Cost	<u>26,827,471</u>	<u>27,876,857</u>
Total Accumulated Depreciation	<u>(13,153,403)</u>	<u>(14,787,909)</u>
Total Net Capital Assets	<u>\$ 15,303,745</u>	<u>\$ 14,718,625</u>

Major additions included the following:

Reconstruction of Bridges	\$ <u>1,314,865</u>	\$ <u>558,844</u>
Various Resurfacing Projects	\$ <u>1,393,080</u>	\$ <u>483,751</u>
Buildings/Trucks/Equipment	\$ <u>390,193</u>	\$ <u>84,161</u>

## Debt

The Road Commission has limited debt obligations as reported in Note 8. Notes issued have been paid currently and no new installments were executed during 2016. The Road Commission has long-term debt in the amount of \$10,654,687 which represents vested employee benefits, OPEB obligations, pension liabilities, and notes payable.

## **Economic Factors and Next Year's Budget**

The Board of County Road Commissioners considered many factors when adopting the fiscal year 2017 budget. One of the factors is the economy. The Road Commission derives approximately 54% of its revenues from the fuel tax collected. Fuel economy and other factors have resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed.

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 equitably 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 the road commission's 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 332N East Road, Manistique, Michigan 49854.

## **Basic Financial Statements**

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# Schoolcraft County Road Commission

## Statement of Net Position September 30, 2016

### ASSETS

Cash and Equivalents	\$ 1,867,696
Accounts Receivable:	
Michigan Transportation Fund	482,824
Due on County Road Agreements	60,529
Due from State	286,497
Sundry Accounts	7,573
Inventories:	
Road Materials	464,470
Equipment, Parts and Materials	190,700
Prepaid Items	63,941
Capital Assets (Not Depreciated)	1,629,677
Capital Assets (Net of Accumulated Depreciation)	<u>13,088,948</u>
Total Assets	<u>18,142,855</u>

### DEFERRED OUTFLOWS OF RESOURCES

Pension changes and contributions	<u>1,899,827</u>
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### LIABILITIES

Accounts Payable	57,266
Accrued Liabilities	34,748
Advances	497,430
Interest Payable	7,307
Other	12,333
Bonds & Notes Payable - Due within one year	228,941
Bonds & Notes Payable - Due in more than one year	1,638,158
Vested Employee Benefits- Due within one year	39,608
Vested Employee Benefits- Due in more than one year	95,872
Net Pension Liability - Due in more than one year	8,500,481
Other Postemployment Benefits - Due in more than one year	<u>151,627</u>
Total Liabilities	<u>11,263,771</u>

### DEFERRED INFLOWS OF RESOURCES

State Grants	<u>303,746</u>
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### NET POSITION

Net Investment in Capital Assets	12,851,526
Unrestricted (Deficit)	<u>(4,376,361)</u>
Total Net Position	<u>\$ 8,475,165</u>

# Schoolcraft County Road Commission

## Statement of Activities For the Year Ended September 30, 2016

Program Expenses:	
Primary Road Maintenance and Preventive Maintenance	\$ 1,956,276
Local Road Maintenance and Preventive Maintenance	810,734
State Trunkline	1,840,986
Net Equipment Expense	157,088
Net Administrative Expense	489,210
Employee Benefit Changes	244,184
Interest Expense	59,387
Other	32,648
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Total Program Expenses	5,590,513
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Program Revenues:	
Charges for Services:	
Licenses and Permits	2,745
Charges for Services	1,983,992
Operating Grants and Contributions:	
Michigan Transportation Funds	2,029,446
Interest Earnings and Rent	17,520
Contributions from Local Units	60,529
Capital Grants and Contributions:	
Federal Grants	245,432
State Grants	797,162
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Total Program Revenues	5,136,826
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Net Program Revenues (Expenses)	(453,687)
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General Revenues:	
Gain (Loss) on Disposal	1,700
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Change in Net Position	(451,987)
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Net Position - Beginning Balance	8,927,152
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Net Position - Ending Balance	\$ 8,475,165
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# Schoolcraft County Road Commission

**Balance Sheet**  
**September 30, 2016**

	Governmental Fund Type
	<u>General</u>
	<u>Operating Fund</u>
<b>ASSETS</b>	
Cash and Equivalents	\$ 1,867,696
Accounts Receivable:	
Michigan Transportation Fund	482,824
Due on County Road Agreements	60,529
Due from State	286,497
Sundry Accounts	7,573
Inventories:	
Road Materials	464,470
Equipment, Parts and Materials	190,700
Prepaid Items	<u>63,941</u>
Total Assets	<u><u>\$ 3,424,230</u></u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 57,266
Accrued Liabilities	34,748
Advances	497,430
Other	<u>19,640</u>
Total Liabilities	<u>609,084</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
State Grants	<u>303,746</u>
<b>FUND BALANCE</b>	
Nonspendable	719,111
Unassigned	<u>1,792,289</u>
Total Fund Balance	<u><u>\$ 2,511,400</u></u>

## Schoolcraft County Road Commission

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### Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Position For the Year Ended September 30, 2016

<b>Total Governmental Fund Balance</b>	\$ 2,511,400
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.	14,718,625
Deferred outflows resulting from changes in pension items and pension contributions.	1,899,827
Other long-term liabilities are not available to pay in the current period and therefore are not reported in the funds.	<u>(10,654,687)</u>
<b>Net Position of Governmental Activities</b>	<u><u>\$ 8,475,165</u></u>

# Schoolcraft County Road Commission

## Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended September 30, 2016

	Governmental Fund Type
	General Operating Fund
Revenues	
License and Permits	\$ 2,745
Federal Sources	245,432
State Sources	2,826,608
Contributions form Local Units	60,529
Charges for Services	1,951,782
Interest Earnings and Rent	17,520
Other Revenue	51,033
Total Revenues	<u>5,155,649</u>
Expenditures	
Public Works	5,160,898
Capital Outlay	(459,076)
Debt Service	320,686
Total Expenditures	<u>5,022,508</u>
Excess of Revenues Over (Under) Expenditures	133,141
Fund Balance - Beginning of Year	<u>2,378,259</u>
<b>Fund Balance - End of Year</b>	<u><u>\$ 2,511,400</u></u>

## Schoolcraft County Road Commission

### Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities For the Year Ended September 30, 2016

<b>Net Change in Fund Balance - Governmental Fund</b>	\$ 133,141
Amounts reported for governmental activities in the statements are different because:	
Governmental funds report capital outlays and infrastructure costs 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 outlay exceeded depreciation in the current period.	(585,120)
Excess proceeds recognized as revenue in the current year in the governmental funds, but not in the Statement of Activities.	(17,123)
Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net position. Note proceeds provide current financial resources to governmental funds, but entering into loan agreements increases long-term liabilities in the statement of net position.	261,299
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 the governmental funds.	<u>(244,184)</u>
<b>Net Change in Net Position of Governmental Activities</b>	<u><u>\$ (451,987)</u></u>

**Statement of Net Position  
Fiduciary Fund  
September 30, 2016**

	<u>OPEB Trust Fund</u>
<b>ASSETS</b>	
Investments at Fair Market Value	\$ 332,793
<b>NET POSITION</b>	
Restricted for Other Post Employment Benefits	\$ 332,793

# Schoolcraft County Road Commission

## Statement of Changes in Fiduciary Net Position Fiduciary Fund For the Year Ended September 30, 2016

	<u>OPEB Trust Fund</u>
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 60,000
Investment Earnings:	
Interest and Dividends	
Net Increase (Decrease) in Fair Value of Investments	<u>29,453</u>
Total Additions	<u>89,453</u>
<b>DEDUCTIONS:</b>	
Administrative Fees	<u>1,330</u>
Change in Net Position	88,123
Net Position Restricted for Other Post Employment Benefits	
Beginning of Year	<u>244,670</u>
End of Year	<u><u>\$ 332,793</u></u>

## **Notes to Financial Statements**

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## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Schoolcraft County 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 Schoolcraft County Road Commission.

### **A. Reporting Entity**

The Schoolcraft County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 5 member Board of County Road Commissioners which is elected biennially for a full term of six years. The Road Commission may not issue bonded debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statement No. 61, "The Financial Reporting Entity," 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 Schoolcraft County Road Commission, a discretely presented component unit of Schoolcraft County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund 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 Operating Fund.

### **B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Schoolcraft County Road Commission. There is only one major fund reported in the government-wide financial statements.

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

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.

Separate financial statements are provided for the operating fund (governmental fund). The 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. Major individual governmental funds are reported as separate columns in the fund financial statements. The general operating fund is the only major fund of the Commission. When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted as needed.



**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, 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.

Under the terms of grant agreements, the Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program.

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance****Cash, Equivalents and Investments**

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

**Inventories**

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

**Prepaid Items**

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

**Capital Assets**

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Schoolcraft County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Depreciation

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

Land Improvements	10 to 20 years
Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Office Equipment	4 to 10 years
Engineers' Equipment	4 to 10 years
Yard and Storage	4 to 10 years
Infrastructure – Bridges	12 to 50 years
Infrastructure – Roads	8 to 30 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net position.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Road Commission has pension items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Road Commission has state grants that qualify for reporting in this category.

Pensions

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Commission is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Commission has classified Inventories and Prepaid Items as being Nonspendable as these items are not expected to be converted to cash within the next year.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the Board's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Board would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, and deferred inflows and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Procedures

Budgetary procedures are established pursuant to PA 2 of 1968, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission’s Chief Administrative Officer (manager) and Financial Director prepare and submit a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The Board has authorized the Chief Administrative Officer to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 25 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements. All budgeted appropriations lapse at year end. Expenditures exceeded appropriations as indicated on page 38.

**NOTE 3 - CASH AND INVESTMENTS**

The cash and investments are classified into the following categories:

	<u>General Fund</u>	<u>OPEB Trust Fund</u>	<u>Fair Value</u>
Imprest Cash	\$ 2,000	\$ -	\$ -
Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	1,865,696	-	-
Investments held by Pension Trustee Equity Mutual Funds	-	<u>332,793</u>	332,793
Total Cash and Investments	<u>\$ 1,867,696</u>	<u>\$ 332,793</u>	

*Interest rate risk.* The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Commission has no investment policy that would further limit its investment choices.

*Custodial investment credit risk.* Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Commission invests with Constellation Trust, which are in the name of the custodian. Investment holdings were unrated at year end.

*Custodial deposit credit risk.* Custodial deposit credit risk is the risk that in the event of a bank failure, the Commission’s deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end, \$1,366,654 of the Commission’s bank balance of \$1,867,696 was exposed to credit risk because it was uninsured and uncollateralized. Other cash balances are pooled with the County of Schoolcraft funds and may only receive a proportional share of insurance.

**NOTE 3 - CASH AND EQUIVALENTS (Continued)**

*Fair value measurement.* The Commission categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Commission’s assessment of the significance of particular inputs to these fair value measurements required judgment and considers factors specific to each asset or liability.

The Commission has the following fair value measurements as of September 30, 2016:

<u>Investment</u>	<u>Balances at 09/30/2016</u>	<u>Quoted Prices (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Equity Securities:				
Mutual Funds	\$ 332,793	\$ 332,793	\$ -	\$ -
Total Investments	<u>\$ 332,793</u>	<u>\$ 332,793</u>	<u>\$ -</u>	<u>\$ -</u>

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

**Statutory Authority:**

An act (PA 152) to amend 1943 PA 20, entitled “An act relative to the investment of funds of public corporations of the state; and to validate certain investments,” by amending section 1 (MCL 129.91), as amended by 2009 PA 21.

Except as provided in section 5, the governing body by resolution may authorize its investment officer to invest the funds of that public corporation in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers’ acceptances of United States banks.

**NOTE 3 - CASH AND EQUIVALENTS (Continued)**

- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
  - (i) The purchase of securities on a when-issued or delayed delivery basis.
  - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
  - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Road Commission's investment policy is in accordance with the provisions of Public Act 196 of 1997.

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity of the Schoolcraft County Road Commission for the current year was as follows:

	Beginning Balances <u>10/01/15</u>	Additions	Adjustments/ Deductions	Ending Balances <u>09/30/16</u>
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 357,407	\$ -	\$ -	\$ 357,407
Land Improvement – Infrastructure	<u>1,272,270</u>	-	-	<u>1,272,270</u>
Subtotal	<u>1,629,677</u>	-	-	<u>1,629,677</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	50,519	-	-	50,519
Buildings	3,577,261	-	-	3,577,261
Road Equipment	5,616,911	83,565	77,370	5,623,106
Shop Equipment	181,490	596	-	182,086
Office Equipment	59,803	-	-	59,803
Engineers' Equipment	29,713	-	-	29,713
Depletable Assets	69,508	-	-	69,508
Infrastructure – Bridges	3,543,186	558,844	-	4,102,030
Infrastructure – Roads	<u>13,699,080</u>	<u>483,751</u>	-	<u>14,182,831</u>
Subtotal	<u>26,827,471</u>	<u>1,126,756</u>	<u>77,370</u>	<u>27,876,857</u>

**NOTE 4 - CAPITAL ASSETS (Continued)**

	Beginning Balances <u>10/01/15</u>	Additions	Adjustments/ Deductions	Ending Balances <u>09/30/16</u>
<i>Less Accumulated Depreciation</i>				
Land Improvements	40,414	3,368	-	43,782
Buildings	1,658,177	174,767	-	1,832,944
Road Equipment	4,742,020	358,840	77,370	5,023,490
Shop Equipment	166,315	5,063	-	171,378
Office Equipment	48,542	4,135	-	52,677
Engineers' Equipment	27,915	432	-	28,347
Depletable Assets	22,403	-	-	22,403
Infrastructure – Bridges	222,388	97,741	-	320,129
Infrastructure – Roads	<u>6,225,229</u>	<u>1,067,530</u>	<u>-</u>	<u>7,292,759</u>
Subtotal	<u>13,153,403</u>	<u>1,711,876</u>	<u>77,370</u>	<u>14,787,909</u>
Net Capital Assets Being Depreciated	<u>13,674,068</u>	<u>(585,120)</u>	<u>-</u>	<u>13,088,948</u>
Total Net Capital Assets	<u>\$ 15,303,745</u>	<u>\$ (585,120)</u>	<u>\$ -</u>	<u>\$ 14,718,625</u>

Depreciation expense was charged to operations of the Schoolcraft County Road Commission as follows:

Primary Road Maintenance and Preventive Maintenance	\$ 939,558
Local Road Maintenance and Preventive Maintenance	225,712
Equipment	358,840
Administrative	4,567
Other	<u>183,199</u>
Total Depreciation Expense	<u>\$ 1,711,876</u>

**NOTE 5 - DEFERRED COMPENSATION PLAN**

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

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS**

Description of Plan and Plan Assets

The Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.50% or 2.00% times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2015.

General Information about the Pension Plan

*Plan Description.* The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer 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 Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

<b>General: Closed Division</b>	
	<b>2015 Valuation</b>
<b>Benefit Multiplier:</b>	2.50% Multiplier (80% max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	6 Years
<b>Early Retirement (Unreduced):</b>	55/30
<b>Early Retirement (Reduced):</b>	50/25 55/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions:</b>	None
<b>Act 88:</b>	Yes (Adopted 7/11/2007)
<b>COLA for Future Retirees:</b>	2.50% (non-compound)
<b>Full time: Open Division (After 3/21/13)</b>	
	<b>2015 Valuation</b>
<b>Benefit Multiplier:</b>	2.00% Multiplier (no max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	None
<b>Early Retirement (Reduced):</b>	50/25 50/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions</b>	None
<b>Act 88:</b>	No



**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)**

Employees Covered by Benefit Terms

At September 30, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	42
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>18</u>
	64

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission’s competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The Road Commission is required to contribute at an actuarially determined rate.

The contribution rate as a percentage of payroll at September 30, 2016 is as follows:

General	52.96%
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Net Pension Liability

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

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

Inflation	2.50%
Salary increases	3.75%
Investment rate of return	7.75% net of investment and administrative expense including inflation

Mortality rates used were based on the RP-2014 Mortality Tables of a 50% Male and 50% Female blend. For disabled retirees, the RP-2014 Disabled Retiree Mortality Table to reflect the higher expected mortality rates of disabled members.

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

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

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

*Discount Rate.* The discount rate used to measure the total pension liability is 8.00% for 2015. 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.

**Changes in the Net Pension Liability:**

	<b>Increases (Decreases)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
<b>Balances at December 31, 2014</b>	\$ 13,656,521	\$ 6,577,202	\$ 7,079,319
Service cost	111,605	-	111,605
Interest on total pension liability	1,090,093	-	1,090,093
Changes in benefits	-	-	-
Difference between expected and actual experience	118,125	-	118,125
Changes in assumptions	810,342	-	810,342
Employer contributions	-	822,340	(822,340)
Employee contributions	-	-	-
Net investment income	-	(99,707)	99,707
Benefit payments, including employee refunds	(998,146)	(998,146)	-
Administrative expense	-	(14,393)	14,393
Other	(763)	-	(763)
<b>Net changes</b>	<b>1,131,256</b>	<b>(289,906)</b>	<b>1,421,162</b>
<b>Balances as of December 31, 2015</b>	<b>\$ 14,787,777</b>	<b>\$ 6,287,296</b>	<b>\$ 8,500,481</b>

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)**

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the Road Commission, calculated using the discount rate of 8.00% , as well as what the Road Commission’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	<b>1% Decrease (7.00%)</b>	<b>Current Discount Rate (8.00%)</b>	<b>1% Increase (9.00%)</b>
Road Commission’s net pension liability	\$10,027,775	\$8,500,481	\$7,197,770

*Pension plan fiduciary net position.* Detailed information about the pension plan’s fiduciary net position is available in the separately issued MERS financial report.

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

For the year ended September 30, 2016, the Road Commission recognized pension expense of \$1,140,368. At September 30, 2016, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 78,750	\$ -
Changes in assumptions	540,228	-
Net difference between projected and actual earnings on pension plan investments	577,868	-
Contributions subsequent to the measurement date	702,981	-
<b>Total</b>	<b>\$ 1,899,827</b>	<b>\$ -</b>

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

Year Ended September 30:

2017	\$	459,813
2018		459,813
2019		150,324
2020		126,896

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)**

**Annual Pension Costs** – For fiscal year ended 2016, the Schoolcraft County Road Commission’s annual pension cost of \$556,524 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2015, using the entry age normal cost method. Significant actuarial assumptions used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 24 years.

**NOTE 7 - FEDERAL GRANTS**

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2016, the federal aid received and expended by the Road Commission was \$245,432 for local force account projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT’s single audit). Local force account projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended \$750,000 or more.

**NOTE 8 - LONG-TERM DEBT**

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

	<u>10/01/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>09/30/16</u>	<u>Due Within One Year</u>
<b><u>BONDS PAYABLE:</u></b>					
Michigan Transportation Fund Refunding Bond Series 2012, variable interest rate 1.1% to 4.0%, matures in August 2027.	\$ 1,545,000	\$ -	\$ 100,000	\$ 1,445,000	\$ 105,000
<b><u>NOTES PAYABLE:</u></b>					
Note payable to individual, annual installments of \$5,000, 0% interest, secured by real estate, due 2018.	5,000	-	-	5,000	-
Note payable to bank, monthly installments of \$10,836, 2.85% interest, secured by vehicles.	529,441	-	116,460	412,981	119,823
Note payable to bank, monthly installments of \$3,804, 2.85% interest, secured by vehicles.	48,957	-	44,839	4,118	4,118
Vested Employee Benefits(1)	<u>183,042</u>	<u>-</u>	<u>47,562</u>	<u>135,480</u>	<u>39,608</u>
Total Long-Term Debt	<u>\$ 2,311,440</u>	<u>\$ -</u>	<u>\$ 308,861</u>	<u>\$ 2,002,579</u>	<u>\$ 268,549</u>

(1) The change in vested employee benefits is shown as a net decrease.

**NOTE 8 - LONG-TERM DEBT (Continued)**

Annual debt service requirements:

<u>Year End September 30</u>	<u>Bonds Payable</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 105,000	\$ 43,840	\$ 123,941	\$ 10,225
2018	110,000	42,160	128,283	6,754
2019	115,000	39,960	126,843	3,194
2020	120,000	37,545	43,032	259
2021	125,000	34,785	-	-
2022 – 2026	710,000	111,310	-	-
2027	<u>160,000</u>	<u>6,400</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,445,000</u>	<u>\$ 316,000</u>	<u>\$ 422,099</u>	<u>\$ 20,432</u>

**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, 2016, totaled \$57,297.

**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 \$78,183 recorded in the long-term debt consists of 100% of the maximum accumulated sick leave as of September 30, 2016.

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 9 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

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

Upon retirement or disability retirement, from age 55 to 65 each employee will receive a fixed amount based on the union contract for health insurance benefits paid by the Road Commission. The retiree is 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 7 employees that qualified during the fiscal year ending September 30, 2016.

**NOTE 9 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

In addition to the pension benefits, the County Road Commission provides post-employment health care insurance benefits to all retired employees by a group insurance plan. The benefits are provided in accordance with articles of the union agreement, which includes the provision that upon retirement, the commission contributes \$311 per week for health coverage per retiree for employees hired before March 22, 2013. The Commission’s obligation ceases upon the employee attaining the minimum age for Medicare.

*Plan Description.* The Commission administers a single-employer healthcare plan (“the Retiree Health Plan”). The plan provides healthcare insurance for eligible retirees through the Commission’s group health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiations between the Commission and employees. The Retiree Health Plan does not issue a publicly available financial report.

*Funding Policy.* Contribution requirements also are negotiated between the Commission and employees. The Commission contributes 100% of the cost of current-year premiums for eligible retired plan members. For fiscal year 2016, the Commission contributed \$207,981 to the plan including member contributions of \$36,970.

*Annual OPEB Cost and Net OPEB Obligation.* The Commission’s annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The Commission has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Commission’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Commission’s net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 220,557
Interest on OPEB obligation	<u>9,097</u>
Annual OPEB cost (expense)	229,654
Contributions made	<u>(207,981)</u>
Increase in net OPEB obligation	21,673
Net OPEB obligation – beginning of year	<u>129,954</u>
Net OPEB obligation – end of year	<u>\$ 151,627</u>

The Commission’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2014, 2015, and 2016 are as follows:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 220,557	97%	\$ 123,760
2015	\$ 220,557	102%	\$ 129,954
2016	\$ 229,654	91%	\$ 151,627

**NOTE 9 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

*Funded Status and Funding Progress:* As of September 30, 2014, the actuarial accrued liability for benefits was \$2,190,027, a portion of which is funded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,361,594, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 146.48%. The actuarial value of plan assets and funded ratio was 8.93%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following this note, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions:* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following simplifying assumptions were made:

*Assumptions About Employees and Members:* Based on the historical average retirement age of the covered group, active plan members were assumed to retire at age 45 to 75 or the first year thereafter in which the member would qualify for benefits. Marital status as of the calculation date was assumed to continue throughout retirement. Life expectancy was based on mortality tables published by the National Center for Health Statistics. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using non-group-specific age-based turnover data from GASB Statement No. 45.

*Assumptions About Healthcare Costs:* The 2015 health insurance premiums for retirees were used to calculate the present value of total benefits to be paid. The expected rate of increase in health insurance premiums – Health Care Cost Trend Rate – was one percent.

*Other Assumptions and Methods:* The inflation rate was assumed to be 2.5 percent. Based on expected returns of the investments, the investment rate of return was assumed to be 7.0 percent. The value of the Plan assets was set at market value. A simplified version of the entry age actuarial cost method was used in the actuarial valuation. The UAAL is amortized over a thirty-year period as a level percent of projected payroll on an open basis. Payroll was assumed to grow over the long-term at the same rate as inflation.

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

Grants - The Road Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Road Commission. In the opinion of management, any such disallowed claims would not have a material effect on any of the financial statements included herein or on the overall financial position of the Road Commission at September 30, 2016.

Risk Management - The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

The Road Commission from time to time is named as a defendant in accident claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. Insurance coverage related to these claims and lawsuits, if any, is categorized under the general liability insurance program. It is the opinion of management and legal counsel that reasonable estimates of the Road Commission's current liability for these matters, if any, have been recorded.

**NOTE 11 - SUBSEQUENT EVENTS**

After fiscal year end, the Road Commission executed and authorized purchase orders for equipment for approximately \$91,000 and which is expected to be financed.



## **Required Supplementary Information**

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# Schoolcraft County Road Commission

## Required Supplementary Information Employee Retirement and Health Benefits Schedule of Funding Progress September 30, 2016

### Health Benefits:

<u>Actuarial Valuation Date</u>	<u>Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percent of Covered Payroll ((b - a) / c)</u>
2011	\$ -	\$ 1,982,238	\$ 1,982,238	-0%	\$ 1,355,656	146.22%
2014	\$ 195,598	\$ 2,190,027	\$ 1,994,429	8.93%	\$ 1,361,594	146.48%

# Schoolcraft County Road Commission

## Employee Retirement and Benefit Systems Schedule of Funding Progress For the Year Ended September 30, 2016

	2015	2016
<b>Total pension liability</b>		
Service cost	\$ 142,426	\$ 111,605
Interest	1,071,981	1,090,093
Difference between expected and actual experience	-	118,125
Changes in assumptions	-	810,342
Other	-	(763)
Benefit payments, including refund of member contributions	(960,761)	(998,146)
<b>Net change in total pension liability</b>	253,646	1,131,256
<b>Total pension liability - beginning</b>	13,402,875	13,656,521
<b>Total pension liability - ending</b>	<u>\$ 13,656,521</u>	<u>\$ 14,787,777</u>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 688,346	\$ 822,340
Contributions - employee	-	-
Net investment income	403,998	(99,707)
Benefit payments, including refunds of member contributions	(960,761)	(998,146)
Administrative expense	(14,781)	(14,393)
<b>Net change in plan fiduciary net position</b>	116,802	(289,906)
<b>Plan fiduciary net position - beginning</b>	6,460,400	6,577,202
<b>Plan fiduciary net position - ending</b>	<u>\$ 6,577,202</u>	<u>\$ 6,287,296</u>
<b>Net pension liability - ending</b>	<u>\$ 7,079,319</u>	<u>\$ 8,500,481</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	48%	43%
<b>Covered - employee payroll</b>	\$ 1,074,102	\$ 1,071,002
<b>Net pension liability as a percentage of covered-employee payroll</b>	659%	794%
<b>Annual money-weighted rate of return, net of investment expense</b>	6%	6%

# Schoolcraft County Road Commission

## Employee Retirement and Benefit Systems Schedule of Funding Progress For the Year Ended September 30, 2016

	<u>2015</u>	<u>2016</u>
Actuarially determined contribution	\$ 522,776	\$ 556,524
Contributions in relation to the actuarially determined contribution	<u>(688,347)</u>	<u>(870,293)</u>
Contribution deficiency (excess)	<u>\$ (165,571)</u>	<u>\$ (313,769)</u>
Covered - employee payroll	\$ 1,074,102	\$ 1,071,002
Contributions as a percentage of covered-employee payroll	64%	81%

### Notes to Schedule:

Actuarially determined contribution rates are calculated as of December 31st, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	23 years
Asset valuation method	5-years smoothed market
Inflation	2.50%
Salary increases	3.75%, average, including inflation
Investment rate of return	7.75%
Retirement age	In the 2015 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience
Mortality	Assumptions were based on the RP-2014 Table - Blended 50% Male / 50% Female

**Schoolcraft County Road Commission****Required Supplementary Information  
Budgetary Comparison Schedule  
Statement of Revenues - Budget and Actual  
For the Year Ended September 30, 2016**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Licenses and Permits	\$ 4,000	\$ 2,745	\$ 2,745	\$ -
Federal Sources				
Surface Transportation Program	300,800	243,261	245,432	2,171
State Sources				
Michigan Transportation Fund	1,905,551	1,985,840	1,988,295	2,455
Local Bridge	-	485,000	484,882	(118)
Other	307,899	288,950	288,949	(1)
Rural Primary	56,400	33,530	32,346	(1,184)
Forest Road	177,000	63,164	32,136	(31,028)
Contributions from Local Units				
Townships	86,131	41,341	60,529	19,188
Charges for Services				
Trunkline Maintenance	1,535,000	1,535,608	1,509,704	(25,904)
Trunkline Nonmaintenance	105,000	280,000	281,123	1,123
Salvage Sales	2,000	1,500	1,534	34
Other	175,000	135,000	159,421	24,421
Interest Earnings and Rent	14,000	15,000	17,520	2,520
Other Revenue				
Gain (Loss) on Disposal	-	-	1,700	1,700
Private Contributions and Other	34,000	50,473	49,333	(1,140)
Total Revenues	<u>\$ 4,702,781</u>	<u>\$ 5,161,412</u>	<u>\$ 5,155,649</u>	<u>\$ (5,763)</u>

# Schoolcraft County Road Commission

**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Statement of Expenditures - Budget and Actual**  
**For the Year Ended September 30, 2016**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation	\$ 471,204	\$ 962,860	\$ 946,659	\$ 16,201
Maintenance	1,186,914	1,030,673	1,016,717	13,956
Local Road				
Preservation	89,609	102,525	95,937	6,588
Maintenance	677,108	613,367	581,653	31,714
Trunkline Maintenance	1,535,000	1,577,767	1,559,863	17,904
Trunkline Nonmaintenance	105,000	280,000	281,123	(1,123)
Administrative Expense - Net	357,197	512,849	489,210	23,639
Equipment Expense - Net	-	88,057	157,088	(69,031)
Capital Outlay - Net	(74,171)	(318,797)	(459,076)	140,279
Debt Service	320,920	320,920	320,686	234
Other	34,000	33,350	32,648	702
Total Expenditures	4,702,781	5,203,571	<u>5,022,508</u>	<u>181,063</u>
Fund Balance - October 1, 2015	<u>2,378,259</u>	<u>2,378,259</u>		
Total Budget	<u>\$ 7,081,040</u>	<u>\$ 7,581,830</u>		

## **Other Information**

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# Schoolcraft County Road Commission

## Analysis of Changes in Fund Balance For the Year Ended September 30, 2016

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 2,560,574	\$ 589,118	\$ 2,005,957	\$ 5,155,649
Total Expenditures	<u>2,524,870</u>	<u>831,798</u>	<u>1,665,840</u>	<u>5,022,508</u>
Excess of Revenues Over (Under) Expenditures	35,704	(242,680)	340,117	133,141
Optional Transfers	(35,704)	242,680	(206,976)	-
Fund Balance - October 1, 2015	<u>-</u>	<u>-</u>	<u>2,378,259</u>	<u>2,378,259</u>
Fund Balance - September 30, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,511,400</u>	<u>\$ 2,511,400</u>



# Schoolcraft County Road Commission

## Analysis of Revenues For the Year Ended September 30, 2016

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ -	\$ -	\$ 2,745	\$ 2,745
Federal Sources				
Surface Transportation Program	245,432	-	-	245,432
State Sources				
Michigan Transportation Fund				
Engineering	7,674	2,326	-	10,000
Allocation	1,421,593	430,862	-	1,852,455
Snow Removal	96,897	28,943	-	125,840
Local Bridge	484,882	-	-	484,882
Other	222,491	66,458	-	288,949
Rural Primary	32,346	-	-	32,346
Forest Road	32,136	-	-	32,136
Contributions from Local Units				
Townships	-	60,529	-	60,529
Charges for Services				
Trunkline Maintenance	-	-	1,509,704	1,509,704
Trunkline Nonmaintenance	-	-	281,123	281,123
Salvage Sales	-	-	1,534	1,534
Other	-	-	159,421	159,421
Interest and Rents				
Interest Earnings	-	-	17,520	17,520
Other Revenue				
Gain on Equipment Disposals	-	-	1,700	1,700
Other	17,123	-	32,210	49,333
Total Revenues	<u>\$ 2,560,574</u>	<u>\$ 589,118</u>	<u>\$ 2,005,957</u>	<u>\$ 5,155,649</u>

# Schoolcraft County Road Commission

## Analysis of Expenditures For the Year Ended September 30, 2016

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation	\$ 946,659	\$ -	\$ -	\$ 946,659
Maintenance	1,016,717	-	-	1,016,717
Local Road				
Preservation	-	95,937	-	95,937
Maintenance	-	581,653	-	581,653
Trunkline Maintenance	-	-	1,559,863	1,559,863
Trunkline Nonmaintenance	-	-	281,123	281,123
Administrative Expense - Net	363,694	125,516	-	489,210
Equipment Expense - Net	52,794	28,692	75,602	157,088
Capital Outlay - Net	-	-	(459,076)	(459,076)
Debt Service				
Debt Principal Payments	100,000	-	161,299	261,299
Interest Expense	45,006	-	14,381	59,387
Other	-	-	32,648	32,648
Total Expenditures	<u>\$ 2,524,870</u>	<u>\$ 831,798</u>	<u>\$ 1,665,840</u>	<u>\$ 5,022,508</u>

## **Reports on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

**KINROSS OFFICE**

SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  
AMBER N. MACK, CPA, PRINCIPAL

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JON D. SWANSON, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

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

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, major fund and the aggregate remaining fund information of the Schoolcraft County Road Commission as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Schoolcraft County Road Commission's, (a component unit of Schoolcraft County, Michigan), basic financial statements and have issued our report thereon dated November 22, 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies listed as 2016-001 and 2016-002.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Schoolcraft County Road Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and responses as item 2016-002.

### **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. The Schoolcraft County Road Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**  
**Kincheloe, Michigan**

November 22, 2016



**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

**KINROSS OFFICE**

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DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN  
MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
MICHIGAN PUBLIC ACT 51 OF 1951, AS AMENDED**

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

**Report on Compliance**

We have audited the Schoolcraft County Road Commission's compliance with the types of compliance requirements describe in Michigan Public Act 51 of 1951, as amended, for the period ended September 30, 2016.

**Management's Responsibility**

Management is responsible for compliance with provisions of Michigan Public Act 51 of 1951, as amended.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the compliance with provisions of Michigan Public Act 51 of 1951, as amended, based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements indicated above. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Schoolcraft County Road Commission's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance. However, our audit does not provide a legal determination of the Schoolcraft County Road Commission's compliance.

**Opinion**

In our opinion, Schoolcraft County Road Commission complied, in all material respects, with the types of compliance requirements referred to above for the year ended September 30, 2016.

Board of County Road Commissioners  
Schoolcraft County Road Commission

**Purpose of this Report**

The purpose of this report over compliance is solely to describe the scope of our testing I over compliance and the results of that testing based on the requirements stated above. Accordingly, this report is not suitable for any other purpose.



**Anderson, Tackman and Company, PLC**  
**Certified Public Accountants**  
**Kincheloe, Michigan**

November 22, 2016

### *Significant Deficiency - Internal Control*

#### Segregation of Duties

*Finding 2016-001*

*Condition/Criteria:* The Road Commission Finance Director performs several functions of receipting, disbursing, and posting to the general ledger as well as the only signature on the checks. To provide a system of checks and balances, these functions are generally assigned to separate positions to minimize the potential for unauthorized transactions.

*Effect:* Lack of segregation of duties provides opportunities for inaccurate or unauthorized disbursements or transfers from road funds and increases the potential for inaccurate reporting of account activity.

*Cause:* Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the added personnel.

*Recommendation:* The Board should be aware of the potential weakness in the system and provide appropriate oversight or assistance to personnel when cost beneficial.

*Planned Corrective Action:* The Board has implemented compensating controls to reduce the risks discussed above. Additionally, new accounts payable vendors must be approved prior to data entry and bank reconciliations are reconciled with the County Treasurer.

- *Contact Person(s) Responsible for Correction:*  
Bradley Stauffer, Manager



### *Significant Deficiencies – Noncompliance with State Statutes*

#### *Expenditures in Excess of Appropriations—Budgetary Funds*

*Finding 2016-002*

*Criteria:* The expenditures of funds in excess of appropriations are contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

*Condition:* Our examination of procedures used by the Road Commission to adopt and maintain operating budgets for the Road Commission’s budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The Road Commission’s 2016 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2016 expenditures exceeded the board’s approved budget allocations for some general fund activities.

During the fiscal year ended September 30, 2016 expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 39 of the financial statements.

*Effect:* Condition’s may violate State Law.

*Cause:* Unknown.

*Recommendation:* We recommend that the Road Commission’s chief administrative officer and personnel responsible for administering the activities of the various funds of the Road Commission, develop budgetary control procedures for the General Fund which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

*Planned Corrective Action:* Amounts will be maintained in the future.

- *Contact Person(s) Responsible for Correction:*  
Bradley Stauffer, Manager