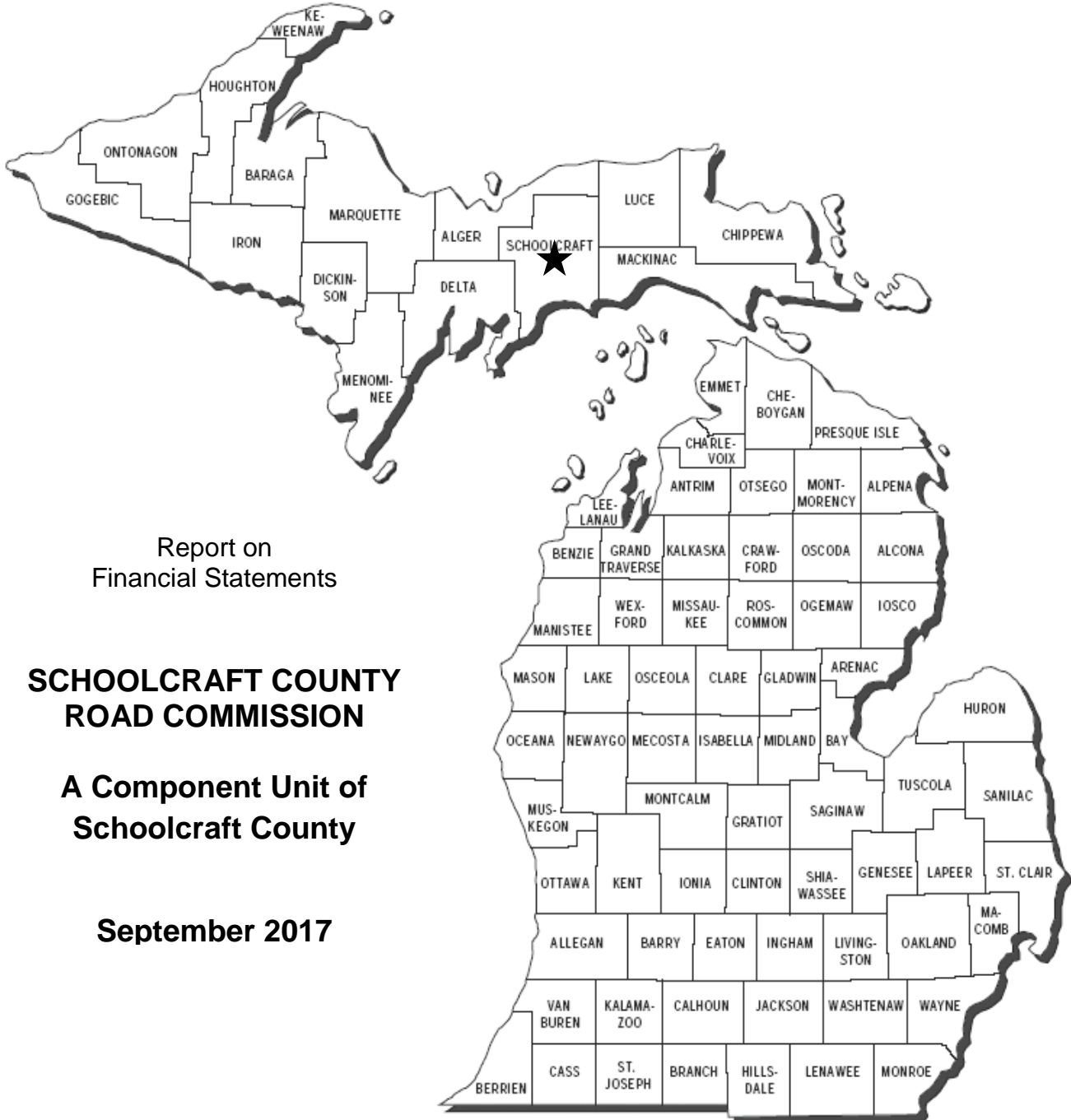


STATE OF MICHIGAN

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 2017

SCHOOLCRAFT COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

(March 22, 2018)

Bernard J. Lund
Chairperson

Thomas J. Klarich
Vice Chairperson

Dale DuFour
Member

Randy Lund
Member

Keith Rochefort
Member

Jean Frankovich
Manager

Tanya Hoar
Finance Director

COUNTY POPULATION--2010
8,485

STATE EQUALIZED VALUATION--2017
\$446,440,656



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

March 22, 2018

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, 2017, 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 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.

Basis for Qualified Opinion on the Governmental Activities

An actuarial valuation report for other postemployment benefits was not prepared in accordance with governmental accounting standards. Accounting principles generally accepted in the United States of America require the completion of an actuarial report of other postemployment benefits at least triennially. Management has not provided a valuation within this time parameter. The amount by which this departure would affect the net other postemployment obligation and notes to the financial statements has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on the Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government wide statements for the Schoolcraft County Road Commission, as of September 30, 2017 and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the major fund and aggregate remaining fund information of the Schoolcraft County Road Commission, as of September 30, 2017, 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.

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 10, the budgetary comparison information in Exhibits I and J, schedule of changes in the net pension liability and the schedule of pension contributions 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.

Management has omitted the most recent actuarial valuation in the schedule of funding progress for other postemployment benefits that accounting principles generally accepted in the United States of America require to be present to supplement the basic financial statements. Such missing information, although not a part of the basic financial statement, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial report for placing the financial statements in an appropriate operational, economic, or historical context. Our Opinion on the basic financial statements is not affected by this missing information.

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 presented 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 were 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 March 22, 2018, 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 the Schoolcraft County Road Commission's internal control over financial reporting and compliance.

Sincerely,

A handwritten signature in black ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Community Engagement and Finance 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, 2017

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, 2017

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 decreased approximately 5.99% or \$507,366 from \$8,475,165 to \$7,967,799 for the fiscal year ending September 30, 2017. The net position and change in net position are summarized below.

Unrestricted net position, those restricted mainly for Act 51 purposes, decreased \$42,104 or approximately .96%. The net investment in capital assets decreased approximately 3.62% or \$465,262 from the prior fiscal year. This was primarily due to the capital asset additions of \$964,637 being less than the depreciation of \$1,588,706 during fiscal year 2017.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2017

Net position as of the fiscal year ended September 30, 2017, compared to the prior fiscal year end are as follows:

| | Governmental Activities 9/30/16 | Governmental Activities 9/30/17 | Variance Increase (Decrease) | Percentage |
|---------------------------------------|---------------------------------------|---------------------------------------|------------------------------------|---------------|
| Assets | | | | |
| Current and Other Assets | \$ 3,424,230 | \$ 4,109,772 | \$ 685,542 | 20.02% |
| Net Capital Assets | 14,718,625 | 14,093,177 | (625,448) | -4.25% |
| Total Assets | 18,142,855 | 18,202,949 | 60,094 | 0.33% |
| Deferred Outflows of Resources | | | | |
| Deferred Outflows--Pension | 1,899,827 | 1,110,602 | (789,225) | -41.54% |
| Liabilities | | | | |
| Current Liabilities | 877,633 | 230,525 | (647,108) | -73.73% |
| Long-Term Liabilities | 10,386,138 | 10,634,185 | 248,047 | 2.39% |
| Total Liabilities | 11,263,771 | 10,864,710 | (399,061) | -3.54% |
| Deferred Inflows of Resources | | | | |
| Unavailable Revenue | 303,746 | 481,042 | 177,296 | 58.37% |
| Net Position | | | | |
| Net Investment in Capital Assets | 12,851,526 | 12,386,264 | (465,262) | -3.62% |
| Unrestricted | (4,376,361) | (4,418,465) | (42,104) | -0.96% |
| Total Net Position | \$ 8,475,165 | \$ 7,967,799 | \$ (507,366) | -5.99% |

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2017

Changes in Net Position

A summary of changes in net position for the fiscal year ended September 30, 2017, compared to the prior year follows:

| | Governmental Activities 2016 | Governmental Activities 2017 | Increase (Decrease) | Percentage |
|--------------------------------|------------------------------------|------------------------------------|------------------------|---------------|
| Program Revenue | | | | |
| Licenses and Permits | \$ 2,745 | \$ 3,280 | \$ 535 | 19.49% |
| Federal Grants | 245,432 | 273,809 | 28,377 | 11.56% |
| State Grants | 2,826,608 | 2,592,327 | (234,281) | -8.29% |
| Charges for Services | 1,983,992 | 1,913,951 | (70,041) | -3.53% |
| Contributions | 60,529 | 166,366 | 105,837 | 174.85% |
| Interest & Royalties Earnings | 17,520 | 129,587 | 112,067 | 639.65% |
| General Revenue | | | | |
| Gain on Equipment Disposal | 1,700 | 33,771 | 32,071 | 1886.53% |
| Total Revenue | 5,138,526 | 5,113,091 | (25,435) | -0.49% |
| Expenses | | | | |
| Primary Road Maintenance | 1,016,717 | 1,090,260 | 73,543 | 7.23% |
| Local Road Maintenance | 581,657 | 635,973 | 54,316 | 9.34% |
| State Trunkline Maintenance | 1,840,986 | 1,719,823 | (121,163) | -6.58% |
| Private Driveway Snow Plowing | - | 576 | 576 | 100.00% |
| Net Equipment Expense | 157,088 | 29,303 | (127,785) | -81.35% |
| Net Administrative Expense | 489,210 | 347,374 | (141,836) | -28.99% |
| Non-Road Project | - | 423 | 423 | 100.00% |
| Infrastructure Depreciation | 1,168,636 | 1,178,341 | 9,705 | 0.83% |
| Compensated Absences | 47,562 | (44,465) | (92,027) | -193.49% |
| Other Post-Employment Benefits | 21,673 | 123,506 | 101,833 | 469.86% |
| Pension Expense | 207,597 | 484,497 | 276,900 | 133.38% |
| Interest Expense | 59,387 | 54,846 | (4,541) | -7.65% |
| Total Expenses | 5,590,513 | 5,620,457 | 29,944 | 0.54% |
| Change in Net Position | (451,987) | (507,366) | (55,379) | 12.25% |
| Ending Net Position | \$ 8,475,165 | \$ 7,967,799 | \$ (507,366) | -5.99% |

The total revenue decreased by \$25,435 or .49% from \$5,138,526 in fiscal year 2016 to \$5,113,091 in fiscal year 2017. The most significant variances were decreases in State grants in 2017, offset by an increase in contributions and royalties.

The total expenditures increased by \$29,944 or .54% from \$5,590,513 in fiscal year 2016 to

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2017

\$5,620,457 in fiscal year 2017. The most significant increases in expenses during fiscal year 2017 were related to pensions and other post-employment benefits, which were offset by a decrease in state trunkline maintenance, net equipment expense, net administrative expenses and compensated absences.

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, 2017, the fund balance of the General Operations Fund increased by \$521,434 as compared to an increase of \$133,141 in the fund balance for the year ending September 30, 2016. Total revenues and other financing sources were \$5,204,229, an increase of \$48,580 compared with the prior fiscal year which amounted to \$5,155,649 at the end of September 30, 2016. The decrease is primarily from a decrease in state grants, offset by an increase in contributions, royalties and proceeds from installment purchases.

Total expenditures amounted to \$4,682,795, a decrease of \$399,713 compared to the prior fiscal year which amounted to \$5,022,508 as of September 30, 2016. This change in expenditures was primarily due to a decrease in Primary Road Preservation / Structural Improvements and Maintenance, a decrease in state trunkline non-maintenance, a decrease administrative expenses and a decrease net equipment expenses, offset by an increase in Primary and Local Road Preservation / Structural Improvements and maintenance, an increase in state trunkline maintenance and an increase in capital outlay due to depreciation expense being more than purchases.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2017

| | 2016 | 2017 | Variance | Percent |
|---|---------------------|---------------------|-------------------|----------------|
| Revenues | | | | |
| Licenses and Permits | \$ 2,745 | \$ 3,280 | \$ 535 | 19.49% |
| Federal Grants | 245,432 | 273,809 | 28,377 | 11.56% |
| State Grants | 2,826,608 | 2,592,327 | (234,281) | -8.29% |
| Contributions | 60,529 | 166,142 | 105,613 | 174.48% |
| Charges for Services | 1,951,782 | 1,913,951 | (37,831) | -1.94% |
| Interest and Royalties | 17,520 | 129,587 | 112,067 | 639.65% |
| Other Revenue | 51,033 | 33,995 | (17,038) | -33.39% |
| Total Revenues | <u>5,155,649</u> | <u>5,113,091</u> | <u>(42,558)</u> | <u>-0.83%</u> |
| Expenditures | | | | |
| Public Works | 5,160,898 | 4,533,297 | (627,601) | -12.16% |
| Capital Outlay | (459,076) | (156,672) | 302,404 | -65.87% |
| Debt Service | 320,686 | 306,170 | (14,516) | -4.53% |
| Total Expenditures | <u>5,022,508</u> | <u>4,682,795</u> | <u>(339,713)</u> | <u>-6.76%</u> |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | 133,141 | 430,296 | 297,155 | 223.19% |
| Other Financing Sources (Uses) | | | | |
| Proceeds From Installment Purchase | - | 91,138 | 91,138 | 100.00% |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>91,138</u> | <u>91,138</u> | <u>100.00%</u> |
| Net Change in Fund Balance | 133,141 | 521,434 | 388,293 | 291.64% |
| Fund Balance--Beginning | <u>2,378,259</u> | <u>2,511,400</u> | <u>133,141</u> | <u>5.60%</u> |
| Fund Balance--Ending | <u>\$ 2,511,400</u> | <u>\$ 3,032,834</u> | <u>\$ 521,434</u> | <u>20.76%</u> |

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2017

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, 2017, was higher than the original budget by \$136,160. This was due, in part, to more State and Federal aid than originally anticipated, more township contributions, and more state Maintenance funding, offset by less proceeds from installment agreements.

The actual revenue recognized during the current fiscal year was more than the final amended budget by \$2,091.

The final amended expenditure budget for the current fiscal year was \$295,952 less than the original budget, primarily due less capital outlay. The actual expenditures recognized during the current fiscal year were \$19,205 lower than the final amended budget. This was primarily due to less net equipment expense than anticipated.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2017

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2017, the Road Commission had \$14,093,177 invested in capital assets as follows:

| | <u>9/30/16</u> | <u>9/30/17</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>1,333,253</u> | <u>4.79%</u> |
| Subtotal | <u>1,629,677</u> | <u>1,690,660</u> | <u>3.74%</u> |
| Capital Assets Being Depreciated | | | |
| Land Improvements | 50,519 | 50,519 | 0.00% |
| Buildings | 3,577,261 | 3,577,261 | 0.00% |
| Road Equipment | 5,623,106 | 5,705,387 | 1.46% |
| Shop Equipment | 182,086 | 209,437 | 15.02% |
| Office Equipment | 59,803 | 70,343 | 17.62% |
| Engineer's Equipment | 29,713 | 29,713 | 0.00% |
| Depletable Assets | 69,508 | 69,508 | 0.00% |
| Infrastructure--Bridges | 4,102,030 | 4,102,030 | 0.00% |
| Infrastructure--Roads | <u>14,182,831</u> | <u>14,831,413</u> | <u>4.57%</u> |
| Subtotal | <u>27,876,857</u> | <u>28,645,611</u> | <u>2.76%</u> |
| Total Capital Assets | <u>29,506,534</u> | <u>30,336,271</u> | <u>2.81%</u> |
| Total Accumulated Depreciation | <u>(14,787,909)</u> | <u>(16,243,094)</u> | <u>9.84%</u> |
| Total Net Capital Assets | <u>\$ 14,718,625</u> | <u>\$ 14,093,177</u> | <u>-4.25%</u> |

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2017

The Road Commission reported infrastructure current year asset additions in the amount of \$964,637. Infrastructure assets are financed through Federal, State, and local contributions.

Current year's major additions included the following:

| | |
|---------------------|------------------------------|
| Infrastructure | \$ 709,565 |
| Equipment | <u>255,072</u> |
| Total Additions | <u><u>\$ 964,637</u></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 \$1,797,928 for the fiscal year ending September 30, 2017. Bonds on the building amount to \$1,340,000, which will be paid off over a remaining period of ten (10) years. The Road Commission also owes on two installment purchase contracts for equipment totaling \$361,913 that will be paid off over a remaining period of two (2) years. The Road Commission owes \$5,000 for land in which the final payment is due in 2018. Vested employee benefits long-term debt amounts to \$91,015. 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, 2017 was as follows:

| | Balances 09/30/16 | Balances 09/30/17 |
|---------------------------------------|--------------------------------|--------------------------------|
| 2012 MTF Refunding Bonds | \$ 1,445,000 | \$ 1,340,000 |
| 2008 Land Installment Purchase | 5,000 | 5,000 |
| 2014 Installment Purchase - Equipment | 412,981 | 293,134 |
| 2014 Installment Purchase - Equipment | 4,118 | - |
| 2016 Installment Purchase - Equipment | <u>-</u> | <u>68,779</u> |
| Total | <u><u>\$ 1,867,099</u></u> | <u><u>\$ 1,706,913</u></u> |

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2017

Next Year's Budget

The Board considered many factors when setting the fiscal year 2018 budget. The most significant change from the previous year budget was the award of two safety grants for 2018 in the amount of \$848,750 that will improve safety on several of our County roads. Amounts available for appropriation in the 2018 budget for projected revenues are \$5,658,554 and projected expenditures are \$5,638,000.

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, 2017

EXHIBIT A

ASSETS

| | |
|---------------------------------|-------------------|
| Cash | \$ 2,885,070 |
| Accounts Receivable | |
| State Trunkline Maintenance | 76,737 |
| Michigan Transportation Fund | 220,787 |
| Due from State--Other | 142,847 |
| Due on County Road Agreements | 48,463 |
| Sundry Accounts | 33,553 |
| Inventories | |
| Road Materials | 419,436 |
| Equipment Parts and Materials | 189,412 |
| Prepaid Expenses | 93,467 |
| Capital Assets--Depreciating | 12,402,517 |
| Capital Assets--Nondepreciating | 1,690,660 |
| Total Assets | <u>18,202,949</u> |

DEFERRED OUTFLOWS OF RESOURCES

| | |
|---|------------------|
| Deferred Outflows--Pension Investments | 257,074 |
| Deferred Outflows--Pension Assumptions | 270,114 |
| Deferred Outflows--Pension Experience | 10,243 |
| Deferred Outflows--Employer Pension Contributions | 573,171 |
| Total Deferred Outflows of Resources | <u>1,110,602</u> |

LIABILITIES

| | |
|--|-------------------|
| Current Liabilities | |
| Accounts Payable | 150,127 |
| Due to State of Michigan | 16,406 |
| Accrued Liabilities | 48,201 |
| Driveway Plowing Deposits | 15,791 |
| Noncurrent Liabilities | |
| Advance from State | 365,371 |
| Bonds Payable--Due Within One Year | 110,000 |
| Bonds Payable--Due in More than One Year | 1,230,000 |
| Installment Purchase Agreements Payable--Due Within One Year | 158,549 |
| Installment Purchase Agreements--Due in More than One Year | 208,364 |
| Vested Employee Benefits Payable Due Within One Year | 57,200 |
| Vested Employee Benefits Payable--Due in More than One Year | 33,815 |
| Net Other Post Employment Benefits Obligation | 275,133 |
| Net Pension Liability | 8,195,753 |
| Total Liabilities | <u>10,864,710</u> |

DEFERRED INFLOWS OF RESOURCES

| | |
|---|----------------|
| Unavailable Revenues--Forest Road Funds | <u>481,042</u> |
|---|----------------|

NET POSITION

| | |
|----------------------------------|---------------------|
| Net Investment in Capital Assets | 12,386,264 |
| Unrestricted | (4,418,465) |
| Total Net Position | <u>\$ 7,967,799</u> |

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

SCHOOLCRAFT COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2017

EXHIBIT B

| | |
|---|--------------|
| Program Expenses | |
| Primary Road Routine and Preventive Maintenance | \$ 1,090,260 |
| Local Road Routine and Preventive Maintenance | 635,973 |
| State Trunkline Maintenance | 1,719,823 |
| Net Equipment Expense | 29,303 |
| Net Administrative Expense | 347,374 |
| Infrastructure Depreciation | 1,178,341 |
| Private Driveway Plowing | 576 |
| Other Non-Road Maintenance | 423 |
| Compensated Absences | (44,465) |
| Pension Expense | 484,497 |
| Other Post Employment Benefits | 123,506 |
| Interest Expense | 54,846 |
| | <hr/> |
| Total Program Expenses | 5,620,457 |
| | <hr/> |
| Program Revenue | |
| Charges for Services | |
| License and Permits | 3,280 |
| Charges for Services | 1,913,951 |
| Operating Grants and Contributions | |
| Michigan Transportation Funds | 2,472,018 |
| Investment Earnings & Royalties | 129,587 |
| Capital Grants and Contributions | |
| Federal Grants | 273,809 |
| State Grants | 120,309 |
| Contributions | 166,366 |
| | <hr/> |
| Total Program Revenue | 5,079,320 |
| | <hr/> |
| Net Program Revenue | (541,137) |
| | <hr/> |
| General Revenue | |
| Gain on Equipment Disposal | 33,771 |
| | <hr/> |
| Total General Revenue | 33,771 |
| | <hr/> |
| Change in Net Position | (507,366) |
| | <hr/> |
| Net Position | |
| Beginning of Year | 8,475,165 |
| | <hr/> |
| End of Year | \$ 7,967,799 |
| | <hr/> <hr/> |

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

SCHOOLCRAFT COUNTY ROAD COMMISSION
 BALANCE SHEET--GOVERNMENTAL FUND
 September 30, 2017

EXHIBIT C

| <u>ASSETS</u> | <u>General Operating Fund</u> |
|--|---------------------------------------|
| Cash | \$ 2,885,070 |
| Accounts Receivable | |
| State Trunkline Maintenance | 76,737 |
| Michigan Transportation Fund | 220,787 |
| Due from State--Other | 142,847 |
| Due on County Road Agreements | 48,463 |
| Sundry Accounts | 33,553 |
| Inventories | |
| Road Materials | 419,436 |
| Equipment Parts and Materials | 189,412 |
| Prepaid Expenses | 93,467 |
| Total Assets | <u>\$ 4,109,772</u> |
| <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</u> | |
| Liabilities | |
| Accounts Payable | \$ 150,127 |
| Due to State of Michigan | 16,406 |
| Accrued Interest Payable | 7,167 |
| Other Accrued Liabilities | 41,034 |
| Advances | |
| Driveway Plowing | 365,371 |
| State of Michigan | 15,791 |
| Total Liabilities | <u>595,896</u> |
| Deferred Inflows of Resources | |
| Unavailable Revenues--Forest Road Funds | 481,042 |
| Total Deferred Inflows of Resources | <u>481,042</u> |
| Fund Balance | |
| Fund Balance | |
| Nonspendable: | |
| Inventory | 608,848 |
| Prepaid Expenses | 93,467 |
| Restricted for Road Operations | 2,330,519 |
| Total Fund Balance | <u>3,032,834</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balance | <u>\$ 4,109,772</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, 2017

EXHIBIT D

| | |
|---|----------------------------|
| Total Governmental Fund Balance | \$ 3,032,834 |
| 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 fund. | 14,093,177 |
| Long-term liabilities are not due and payable in the current period and are not reported in the fund. | (1,797,928) |
| Net pension liability is not due and payable in the current period and is not reported in the funds. | (8,195,753) |
| Certain pension contributions and changes in pension plan net position are reported as deferred outflows of resources in the statement of net position, but are reported as expenses in the governmental funds. | 1,110,602 |
| The liability for other post employment benefits is not due and payable in the current period and is not reported in the funds. | <u>(275,133)</u> |
| Net Position of Governmental Activities | <u><u>\$ 7,967,799</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, 2017

EXHIBIT E

| | General Operating Fund |
|--|------------------------------|
| Revenues | |
| Licenses and Permits | \$ 3,280 |
| Federal Grants | 273,809 |
| State Grants | 2,592,327 |
| Contributions from Local Units | 166,142 |
| Charges for Services | 1,913,951 |
| Interest and Royalties | 129,587 |
| Other Revenue | <u>33,995</u> |
| Total Revenues | <u>5,113,091</u> |
| Expenditures | |
| Public Works | 4,533,297 |
| Capital Outlay | (156,672) |
| Debt Service | <u>306,170</u> |
| Total Expenditures | <u>4,682,795</u> |
| Excess of Revenues Over (Under) Expenditures | <u>430,296</u> |
| Other Financing Sources (Uses) | |
| Installment Loan Proceeds | <u>91,138</u> |
| Total Other Financing Sources (Uses) | <u>91,138</u> |
| Net Change in Fund Balance | 521,434 |
| Fund Balance--October 1, 2016 | <u>2,511,400</u> |
| Fund Balance--September 30, 2017 | <u><u>\$ 3,032,834</u></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, 2017

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ 521,434

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. (625,448)
 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 160,186
 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.

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, OPEB). (79,041)

Increase in pension liability reported in the statement of activities does not require the
 use of resources, and therefore, is not reported in the fund statements until it comes
 due for payment. (484,497)

Change in Net Position of Governmental Activities \$ (507,366)

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

SCHOOLCRAFT COUNTY ROAD COMMISSION
STATEMENT OF NET POSITION--
FIDUCIARY FUND
September 30, 2017

EXHIBIT G

| | <u>OPEB Trust Fund</u> |
|---|----------------------------|
| <u>ASSETS</u> | |
| Investments at Fair Market Value | \$ 429,122 |
| Total Assets | <u>429,122</u> |
| <u>LIABILITIES</u> | |
| Total Liabilities | <u>-</u> |
| <u>NET POSITION</u> | |
| Restricted for Other Post Employment Benefits | <u>\$ 429,122</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, 2017

EXHIBIT H

| | <u>OPEB Trust Fund</u> |
|--|----------------------------|
| <u>ADDITIONS</u> | |
| Contributions | |
| Employer Contributions | \$ 50,000 |
| Total Contributions | <u>50,000</u> |
| Investment Earnings | |
| Interest and Dividends | |
| Net Increase (Decrease) in Fair Value of Investments | <u>48,133</u> |
| Total Investment Earnings | <u>48,133</u> |
| Net Investment Earnings | <u>48,133</u> |
| Total Additions | <u>98,133</u> |
| <u>DEDUCTIONS</u> | |
| Administrative Fees | <u>1,804</u> |
| Total Deductions | <u>1,804</u> |
| Changes in Net Position | 96,329 |
| Net Position Restricted for Pension Benefits | |
| Beginning of Year | <u>332,793</u> |
| End of Year | <u>\$ 429,122</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, 2017

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 5-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, 2017

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, 2017

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.

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 \$3,000 and an estimated useful life in excess of two 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, 2017

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 four transactions: contributions to the defined pension plan subsequent to the plan's year end through the Road Commission fiscal year end, the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings, the difference in pension assumptions and the differences in pension experience.

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.

Pensions

For the purpose of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to / deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this 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.

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

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2017

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

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.

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 \$608,848, and prepaid expenses in the amount of \$93,467.
- 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, 2017

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 2017 expenditures were within the final amended budget by a total of \$19,205, 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> |
|-------------------|---------------|---------------|-----------------|
| Interest Payments | \$ 17,676 | \$ 54,846 | \$ (37,170) |

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, 2017

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 | OPEB Trust Fund | Total |
|-------------|------------------------------|--------------------|------------------|
| Cash | \$ 2,885,070 | \$ - | \$ 2,885,070 |
| Investments | - | 429,122 | 429,122 |
| Total | \$ 2,885,070 | \$ 429,122 | \$ 3,314,192 |

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

The breakdown between deposits and investments is as follows:

| | |
|--|---------------------|
| Bank Deposits (Checking and Savings Accounts, Certificates of Deposits) | \$ 2,883,070 |
| Investments at Fair Market Value | |
| Within Pension Trust | 429,122 |
| Imprest Cash | <u>2,000</u> |
| Total | <u>\$ 3,314,192</u> |

The bank balance of the Road Commission's deposits is \$2,953,295, 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, 2017.

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, 2017, 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, 2017

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.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs.

There are three (3) levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period).

Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy.

The Road Commission had the following fair value measurements for investments in the OPEB Trust as of September 30, 2017:

| Investment | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|----------------------------------|--|---|--|------------|
| Constellation Trust Mutual Funds | \$ 429,122 | \$ - | \$ - | \$ 429,122 |
| Total Investments at Fair Value | \$ 429,122 | \$ - | \$ - | \$ 429,122 |

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE D--CAPITAL ASSETS

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

| | Balances 10/01/16 | Additions | Deductions | Balances 09/30/17 |
|---|----------------------|---------------------|-----------------|----------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 357,407 | \$ - | \$ - | \$ 357,407 |
| Infrastructure--Land Improvements | 1,272,270 | 60,983 | - | 1,333,253 |
| Subtotal | 1,629,677 | 60,983 | - | 1,690,660 |
| Capital Assets Being Depreciated | | | | |
| Land Improvements | 50,519 | - | - | 50,519 |
| Buildings | 3,577,261 | - | - | 3,577,261 |
| Road Equipment | 5,623,106 | 217,181 | 134,900 | 5,705,387 |
| Shop Equipment | 182,086 | 27,351 | - | 209,437 |
| Office Equipment | 59,803 | 10,540 | - | 70,343 |
| Engineer's Equipment | 29,713 | - | - | 29,713 |
| Depletable Assets | 69,508 | - | - | 69,508 |
| Infrastructure--Bridges | 4,102,030 | - | - | 4,102,030 |
| Infrastructure--Roads | 14,182,831 | 648,582 | - | 14,831,413 |
| Total | 27,876,857 | 903,654 | 134,900 | 28,645,611 |
| Less Accumulated Depreciation | | | | |
| Land Improvements | 43,782 | 3,368 | - | 47,150 |
| Building | 1,832,944 | 97,174 | - | 1,930,118 |
| Road Equipment | 5,023,490 | 302,329 | 133,521 | 5,192,298 |
| Shop Equipment | 171,378 | 5,547 | - | 176,925 |
| Office Equipment | 52,677 | 4,883 | - | 57,560 |
| Engineer's Equipment | 28,347 | 432 | - | 28,779 |
| Depletable Assets | 22,403 | - | - | 22,403 |
| Infrastructure--Bridges | 320,129 | 109,446 | - | 429,575 |
| Infrastructure--Roads | 7,292,759 | 1,065,527 | - | 8,358,286 |
| Total | 14,787,909 | 1,588,706 | 133,521 | 16,243,094 |
| Net Capital Assets Being Depreciated | 13,088,948 | (685,052) | 1,379 | 12,402,517 |
| Total Net Capital Assets | \$ 14,718,625 | \$ (624,069) | \$ 1,379 | \$ 14,093,177 |

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE D--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

| | |
|-------------------------------------|---------------------|
| Net Equipment Expense | |
| Direct Equipment | \$ 302,329 |
| Indirect Equipment | |
| Shop Building | 97,174 |
| Shop Equipment | 5,547 |
| Net Administrative Expenses | |
| Office Equipment and Furniture | 4,883 |
| Engineer Equipment | 432 |
| Land Improvements | 3,368 |
| Infrastructure Depreciation Expense | <u>1,174,973</u> |
| Total Depreciation Expense | <u>\$ 1,588,706</u> |

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE E--LONG-TERM DEBT

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

| | Balance 10/01/16 | Additions | (Reductions) | Balance 09/30/17 | Due in One Year |
|---|---------------------|------------------|---------------------|---------------------|--------------------|
| Bonds Payable | | | | | |
| Michigan Transportation Fund Bonds Series 2012 | \$ 1,445,000 | \$ - | \$ (105,000) | \$ 1,340,000 | \$ 110,000 |
| Installment Purchase Contract | | | | | |
| Land--Graves Pit | 5,000 | - | - | 5,000 | 5,000 |
| Installment Purchase Contract | | | | | |
| The State Savings Bank--2014 Equipment | 412,981 | - | (119,847) | 293,134 | 123,283 |
| Installment Purchase Contract | | | | | |
| The State Savings Bank--2014 Equipment | 4,118 | - | (4,118) | - | - |
| Installment Purchase Contract | | | | | |
| The State Savings Bank--2016 Equipment | - | 91,138 | (22,359) | 68,779 | 30,266 |
| Vested Employee Benefits | | | | | |
| Vacation and Sick Leave | 135,480 | - | (44,465) | 91,015 | 57,200 |
| Totals | <u>\$ 2,002,579</u> | <u>\$ 91,138</u> | <u>\$ (295,789)</u> | <u>\$ 1,797,928</u> | <u>\$ 325,749</u> |

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

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> |
|-------------|---------------------|-------------------|-------------------------|
| 2018 | \$ 268,549 | \$ 49,721 | \$ 318,270 |
| 2019 | 272,557 | 43,513 | 316,070 |
| 2020 | 170,807 | 37,824 | 208,631 |
| 2021 | 125,000 | 34,784 | 159,784 |
| 2022 | 130,000 | 31,348 | 161,348 |
| 2023-2027 | <u>740,000</u> | <u>86,362</u> | <u>826,362</u> |
| Total | <u>\$ 1,706,913</u> | <u>\$ 283,552</u> | <u>\$ 1,990,465</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, 2017

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> |
| 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 | 125,000 | 17,392 | 17,392 | 159,784 |
| 2022 | 130,000 | 15,674 | 15,674 | 161,348 |
| 2023-2027 | <u>740,000</u> | <u>43,181</u> | <u>43,181</u> | <u>826,362</u> |
| Total | <u>\$ 1,340,000</u> | <u>\$ 136,080</u> | <u>\$ 136,080</u> | <u>\$ 1,612,160</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> |

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:

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE E--LONG-TERM DEBT (Continued)

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> |
|-------------|-------------------|------------------|-------------------|
| 2018 | \$ 123,283 | \$ 6,754 | \$ 130,037 |
| 2019 | 126,843 | 3,194 | 130,037 |
| 2020 | 43,008 | 259 | 43,267 |
| Total | <u>\$ 293,134</u> | <u>\$ 10,207</u> | <u>\$ 303,341</u> |

Loans Payable--Equipment Purchases

The Road Commission financed the purchase of a loader with the State Savings Bank of Manistique on December 16, 2016. The terms and annual principal and interest requirements are as follows:

Terms: Purchase price of \$91,138 at 1.47% interest from January 2017 to December 2019, requiring monthly payments of \$2,589.38 beginning January 16, 2017.

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|------------------|-----------------|------------------|
| 2018 | \$ 30,266 | \$ 807 | \$ 31,073 |
| 2019 | 30,714 | 359 | 31,073 |
| 2020 | 7,799 | 19 | 7,818 |
| Total | <u>\$ 68,779</u> | <u>\$ 1,185</u> | <u>\$ 69,964</u> |

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2017

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, 2017, totaled \$43,249.

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 \$47,766 recorded in the long-term debt consists of 100% of the maximum accumulated sick leave as of September 30, 2017.

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.

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

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

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: Closed to new hires, linked to Division 10

| | <u>2016 Valuation</u> |
|------------------------------|----------------------------|
| 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) |

01 - General after 3/21/13: Open Division, linked to Division 01

| | <u>2016 Valuation</u> |
|------------------------------|---------------------------|
| Benefit Multiplier | 2.00% Multiplier (No Max) |
| Normal Retirement Age | 60 |
| Vesting | 10 years |
| Early Retirement (Unreduced) | n/a |
| Early Retirement (Reduced) | 50/25 55/15 |
| Final Average Compensation | 5 years |
| Employee Contributions | 0% |
| Act 88 | Yes (Adopted 7/11/2007) |

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Employees covered by benefit terms: At the December 31, 2016, measurement date, the following employees were covered by the benefit terms:

| | |
|--|--------|
| Inactive employees or beneficiaries currently receiving benefits | 41 |
| Inactive employees entitled to but not yet receiving benefits | 4 |
| Active employees | 18 |
| Total employees covered by MERS Plan | 63 |

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, 2017, the Road Commission’s contribution rate was 52.28% based on annual payroll for all employees.

Net Pension Liability

The employer’s net pension liability reported as of September 30, 2017, was determined using a measure of the total pension liability and the pension net position as of December 31, 2016. The December 31, 2016, 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, 2016, 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, 2016, valuation were based on the results of the most recent actuarial experience study in 2008.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

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, 2016, the measurement date, for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-------------------------|------------------------------|---|
| Global Equity | 57.50% | 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% for 2016. 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.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

| <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, 2015 | \$ 14,787,777 | \$ 6,287,296 | \$ 8,500,481 |
| Changes for the Year: | | | |
| Service Cost | 107,736 | | 107,736 |
| Interest | 1,144,774 | | 1,144,774 |
| Difference between expected and actual experience | (58,265) | | (58,265) |
| Contributions--Employer | | 807,649 | (807,649) |
| Net investment income | | 705,262 | (705,262) |
| Benefit payments, including refunds | (1,063,947) | (1,063,947) | - |
| Administrative expense | | (13,938) | 13,938 |
| Net changes | <u>130,298</u> | <u>435,026</u> | <u>(304,728)</u> |
| Balances as of December 31, 2016 | <u>\$ 14,918,075</u> | <u>\$ 6,722,322</u> | <u>\$ 8,195,753</u> |

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

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 8.00%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.00%) or 1% higher (9.00%) than the current rate.

| | <u>1% Decrease</u> | <u>Current</u> <u>Discount Rate</u> | <u>1% Increase</u> |
|---|--------------------|--|--------------------|
| | (7.00%) | (8.00%) | (9.00%) |
| Net Pension Liability as of December 31, 2016 | | \$ 8,195,753 | |
| Change in Net Pension Liability (NPL) | \$ 1,515,220 | | \$(1,294,283) |

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

For the year ending September 30, 2017, the Road Commission recognized pension expense of \$484,497. As of September 30, 2017, the Road Commission reported deferred outflows of resources related to pensions from the following sources:

| <u>Source</u> | <u>Deferred</u> <u>Outflows of</u> <u>Resources</u> |
|--|---|
| Employer contributions to the plan subsequent to the measurement date* | \$ 573,171 |
| Net difference between projected and actual earnings on pension plan investments** | 257,074 |
| Net difference in pension assumptions | 270,114 |
| Net difference in pension experience | <u>10,243</u> |
| Total | <u>\$ 1,110,602</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, 2018.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

**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.

| <u>Years Ending</u> <u>September 30</u> | <u>Amount</u> |
|--|---------------|
| 2018 | \$ 388,063 |
| 2019 | 107,706 |
| 2020 | 84,278 |
| 2021 | (42,616) |

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, 2017, 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, 2017

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 6 employees that qualified during the fiscal year ending September 30, 2017. The total cost was \$137,846 and the amount reimbursed by retirees was \$65,309 with a net cost to the Road Commission of \$72,537. The expenditures are recognized as the insurance premiums become due.

Funding Status and Funding Progress

For the year ending September 30, 2017, 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:

| | 2015 | 2016 | 2017 |
|--|------------|------------|------------|
| Annual Required Contribution | \$ 220,557 | \$ 220,557 | \$ 220,557 |
| Amount Contributed | | | |
| Payments of Current Premiums | (164,264) | (207,981) | (72,537) |
| Advance Funding | (60,000) | - | (35,128) |
| Increase in Net OPEB Obligation | (3,707) | 12,576 | 112,892 |
| Adjustment for Interest and Amortization | 9901 | 9,097 | 10,614 |
| OPEB Obligation--Beginning of Year | 123,760 | 129,954 | 151,627 |
| OPEB Obligation--End of Year | \$ 129,954 | \$ 151,627 | \$ 275,133 |

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE I--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:

| | 2015 | 2016 | 2017 |
|------------------------|------------|------------|------------|
| Annual OPEB Costs | \$ 220,557 | \$ 229,654 | \$ 220,557 |
| Percentage Contributed | 101.68% | 91.00% | 48.82% |
| Net OPEB Obligation | \$ 129,954 | \$ 151,627 | \$ 275,133 |

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, 2017, the Road Commission received \$136,715 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, 2017, the Road Commission received and expended \$137,094 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 \$750,000 or more. A single audit was not required during the fiscal year ending September 30, 2017.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE K--STATE TRUNKLINE MAINTENANCE REVENUE

The \$191,989 difference between the State trunkline maintenance revenues of \$1,858,330 and expenditures of \$1,666,341 is primarily due to the following audit results:

| Description of Audit | Refunded to Road Commission |
|--|--------------------------------|
| State Trunkline Audit Results | |
| October 1, 2014 through September 30, 2015 | \$ 171,770 |
| MCRCSIP Refund | 20,219 |
| Total Net Amount Paid to Road Commission | \$ 191,989 |

NOTE N--UPCOMING REPORTING CHANGE

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.

In January 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Road Commission’s financial statements for the 2020 fiscal year.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE N--UPCOMING REPORTING CHANGE (Continued)

on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Road Commission's financial statements for the 2021 fiscal year.

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, 2017

SCHEDULE 1

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|----------------------|
| Total Pension Liability | | | |
| Service Cost | \$ 107,736 | \$ 111,605 | \$ 142,426 |
| Interest | 1,144,774 | 1,090,093 | 1,071,981 |
| Difference between expected and actual experience | (58,265) | 118,125 | - |
| Changes in assumptions | - | 810,342 | - |
| Other | - | (763) | - |
| Benefit payments including employee refunds | <u>(1,063,947)</u> | <u>(998,146)</u> | <u>(960,761)</u> |
| Net Change in Total Pension Liability | 130,298 | 1,131,256 | 253,646 |
| Total Pension Liability--Beginning | <u>14,787,777</u> | <u>13,656,521</u> | <u>13,402,875</u> |
| Total Pension Liability--Ending | <u>\$ 14,918,075</u> | <u>\$ 14,787,777</u> | <u>\$ 13,656,521</u> |
| Plan Fiduciary Net Position | | | |
| Contributions--employer | \$ 807,649 | \$ 822,340 | \$ 688,346 |
| Net Investment Income | 705,262 | (99,707) | 403,998 |
| Benefit payments including employee refunds | (1,063,947) | (998,146) | (960,761) |
| Administrative expense | <u>(13,938)</u> | <u>(14,393)</u> | <u>(14,781)</u> |
| Net Change in Plan Fiduciary Net Position | 435,026 | (289,906) | 116,802 |
| Plan Fiduciary Net Position--Beginning | <u>6,287,296</u> | <u>6,577,202</u> | <u>6,460,400</u> |
| Plan Fiduciary Net Position--Ending | <u>\$ 6,722,322</u> | <u>\$ 6,287,296</u> | <u>\$ 6,577,202</u> |
| Employer Net Pension Liability | <u>\$ 8,195,753</u> | <u>\$ 8,500,481</u> | <u>\$ 7,079,319</u> |
| Plan Fiduciary Net Position as a percentage of the Total Pension Liability | 45% | 43% | 48% |
| Covered Employee Payroll | \$ 957,342 | \$ 1,071,002 | \$ 1,074,102 |
| Employer's Net Pension Liability as a percentage of covered employee payroll | 856% | 794% | 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, 2017

SCHEDULE 2

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|--------------------|--------------|--------------|--------------|--------------|
| Actuarial Determined Contributions | \$ 408,642 | \$ 477,811 | \$ 522,776 | \$ 492,176 | \$ 431,111 | \$ 423,182 | \$ 414,827 | \$ 394,541 | \$ 372,983 | \$ 328,590 |
| Contributions in Relation to the actuarially determined contribution | 807,649 | 822,340 | 688,347 | 663,210 | 564,606 | 496,688 | 414,827 | 394,541 | 372,983 | 328,590 |
| Contribution deficiency (excess) | <u>\$ (399,007)</u> | <u>\$ (344,529)</u> | <u>\$ (165,571)</u> | <u>\$ (171,034)</u> | <u>\$ (133,495)</u> | <u>\$ (73,506)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered Employee Payroll | \$ 957,342 | \$ 909,717 | \$ 1,074,102 | \$ 1,050,832 | \$ 1,031,916 | \$ 1,111,005 | \$ 1,145,011 | \$ 1,258,977 | \$ 1,268,695 | \$ 1,219,310 |
| Contributions as a percentage of covered employee payroll | 84% | 90% | 64% | 63% | 55% | 45% | 36% | 31% | 29% | 27% |

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, 2017

SCHEDULE 3

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

| 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 |
|--------------------------------|---------------------------------|--|--|-----------------|--------------------|---|
| 9/30/2011 | \$ - | \$ 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
 REQUIRED SUPPLEMENTARY INFORMATION
 GENERAL OPERATING FUND--SCHEDULE OF
 REVENUES AND OTHER FINANCING SOURCES
 BUDGETARY COMPARISON SCHEDULE
 For the Fiscal Year Ended September 30, 2017

EXHIBIT I

| | Original Adopted Budget | Final Amended Budget | Actual | Variance Favorable (Unfavorable) |
|--|-------------------------------|----------------------------|--------------|--|
| Licenses and Permits | | | | |
| Permits | \$ 3,000 | \$ 3,500 | \$ 3,280 | \$ (220) |
| Federal Grants (Negotiated Projects) | | | | |
| Surface Transportation Program | 149,259 | 137,094 | 137,094 | - |
| Federal Grants (Contracted Projects) | | | | |
| Surface Transportation Program | 150,000 | 137,906 | 136,715 | (1,191) |
| State Grants | | | | |
| Michigan Transportation Fund | | | | |
| Engineering | 10,000 | 10,000 | 10,000 | - |
| Primary Road | 1,778,840 | 1,787,748 | 1,787,748 | - |
| Local Road | 500,000 | 543,302 | 543,302 | - |
| Snow Removal | 130,000 | 133,950 | 130,968 | (2,982) |
| Economic Development Fund | | | | |
| Rural Primary "D" funds | 38,454 | 120,000 | 120,309 | 309 |
| Forest Road Funds | 37,533 | - | - | - |
| Contributions from Local Units | | | | |
| Townships | 108,392 | 165,000 | 166,142 | 1,142 |
| Charges for Services | | | | |
| State Trunkline Maintenance | 1,605,000 | 1,850,000 | 1,858,330 | 8,330 |
| State Trunkline Non-Maintenance | 44,500 | 55,000 | 53,482 | (1,518) |
| Private Driveway Fees | - | 400 | 424 | 24 |
| Other Non-Road Services | - | 400 | 448 | 48 |
| Salvage Sales | 2,000 | 1,500 | 1,267 | (233) |
| Interest and Rents | | | | |
| Interest Earned | 14,000 | 20,000 | 19,433 | (567) |
| Rents and Royalties | 100,000 | 110,000 | 110,154 | 154 |
| Other Revenue | | | | |
| Proceeds from Sale of Capital Assets | - | 35,000 | 33,771 | (1,229) |
| Private Contributions | - | 200 | 224 | 24 |
| Total Revenues | 4,670,978 | 5,111,000 | 5,113,091 | 2,091 |
| Other Financing Sources | | | | |
| Installment Loan Proceeds | 395,000 | 91,138 | 91,138 | - |
| Total Other Financing Sources | 395,000 | 91,138 | 91,138 | - |
| Total Revenues and Other Financing Sources | 5,065,978 | 5,202,138 | \$ 5,204,229 | \$ 2,091 |
| Fund Balance--October 1, 2016 | 2,511,400 | 2,511,400 | | |
| Total Budget | \$ 7,577,378 | \$ 7,713,538 | | |

SCHOOLCRAFT COUNTY ROAD COMMISSION
 REQUIRED SUPPLEMENTARY INFORMATION
 GENERAL OPERATING FUND--SCHEDULE OF
 EXPENDITURES--BUDGETARY COMPARISON SCHEDULE
 For the Fiscal Year Ended September 30, 2017

EXHIBIT J

| | Original Adopted Budget | Final Amended Budget | Actual | Variance Favorable (Unfavorable) |
|--------------------------------------|-------------------------------|----------------------------|--------------|--|
| Primary Road | | | | |
| Construction / Capacity Improvement | \$ 408,383 | \$ - | \$ - | \$ - |
| Preservation/Structural Improvements | - | 545,000 | 540,767 | 4,233 |
| Routine and Preventive Maintenance | 1,078,786 | 1,091,000 | 1,090,260 | 740 |
| Local Road | | | | |
| Construction / Capacity Improvement | 117,664 | - | - | - |
| Preservation/Structural Improvements | - | 170,000 | 168,798 | 1,202 |
| Routine and Preventive Maintenance | 634,652 | 636,000 | 635,973 | 27 |
| State Trunkline | | | | |
| Maintenance | 1,605,000 | 1,670,000 | 1,666,341 | 3,659 |
| Non-Maintenance | 44,500 | 55,000 | 53,482 | 1,518 |
| Private Driveway Plowing | - | 576 | 576 | - |
| Other Non-Road Maintenance | - | 424 | 423 | 1 |
| Equipment Expense--Net | 54,227 | 68,000 | | |
| Direct | | | \$ 976,115 | |
| Indirect | | | 441,643 | |
| Operating | | | 206,889 | |
| Less Equipment Rentals | | | (1,595,344) | 38,697 |
| Administrative Expense--Net | 384,725 | 351,000 | | |
| Administrative Expense | | | 534,000 | |
| Handling Charge | | | (169,014) | |
| Purchase Discounts | | | (17,612) | 3,626 |
| Capital Outlay--Net | 166,204 | (154,000) | | |
| Capital Outlay | | | 255,072 | |
| Less Depreciation Credits | | | (410,365) | |
| Equipment Retirements | | | (1,379) | 2,672 |
| Debt Service | | | | |
| Principal Payments | 400,000 | 251,324 | 251,324 | - |
| Interest Payments | 103,811 | 17,676 | 54,846 | (37,170) |
| Total Expenditures | 4,997,952 | 4,702,000 | \$ 4,682,795 | \$ 19,205 |
| Fund Balance--September 30, 2017 | 2,579,426 | 3,011,538 | | |
| Total Budget | \$ 7,577,378 | \$ 7,713,538 | | |

SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF CHANGES IN FUND BALANCES
For the Fiscal Year Ended September 30, 2017

EXHIBIT K

| | Primary Road Fund | Local Road Fund | County Road Commission | Total |
|---|----------------------|--------------------|------------------------------|---------------------|
| Total Revenues | \$ 2,289,975 | \$ 742,303 | \$ 2,080,813 | \$ 5,113,091 |
| Total Expenditures | <u>2,022,157</u> | <u>925,763</u> | <u>1,734,875</u> | <u>4,682,795</u> |
| Excess of Revenues Over (Under) Expenditures | 267,818 | (183,460) | 345,938 | 430,296 |
| Other Financing Sources (Uses) | | | | |
| Optional Transfers | (83,460) | 83,460 | - | - |
| Interfund Adjustment | - | 200,000 | (200,000) | - |
| Installment Loan Proceeds | <u>-</u> | <u>-</u> | <u>91,138</u> | <u>91,138</u> |
| Total Other Financing Sources (Uses) | <u>(83,460)</u> | <u>283,460</u> | <u>(108,862)</u> | <u>91,138</u> |
| Net Change in Fund Balance | 184,358 | 100,000 | 237,076 | 521,434 |
| Fund Balance--October 1, 2016 | <u>-</u> | <u>-</u> | <u>2,511,400</u> | <u>2,511,400</u> |
| Fund Balance--September 30, 2017 | <u>\$ 184,358</u> | <u>\$ 100,000</u> | <u>\$ 2,748,476</u> | <u>\$ 3,032,834</u> |

SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND--ANALYSIS OF REVENUES
AND OTHER FINANCING SOURCES
For the Fiscal Year Ended September 30, 2017

EXHIBIT L

| | Primary Road Fund | Local Road Fund | County Road Commission | Total |
|---|----------------------|--------------------|------------------------------|---------------------|
| Licenses and Permits | | | | |
| Permits | \$ - | \$ - | \$ 3,280 | \$ 3,280 |
| Federal Grants (Negotiated Projects) | | | | |
| Surface Transportation Funds | 137,094 | - | - | 137,094 |
| Federal Grants (Contracted Projects) | | | | |
| Surface Transportation Funds | 136,715 | - | - | 136,715 |
| State Grants | | | | |
| Michigan Transportation Fund | | | | |
| Engineering | 7,669 | 2,331 | - | 10,000 |
| Allocation | 1,787,748 | 543,302 | - | 2,331,050 |
| Snow Removal | 100,440 | 30,528 | - | 130,968 |
| Economic Development Funds | | | | |
| Rural Primary (D) | 120,309 | - | - | 120,309 |
| Contributions from Local Units | | | | |
| Townships | - | 166,142 | - | 166,142 |
| Charges for Services | | | | |
| State Trunkline Maintenance | - | - | 1,858,330 | 1,858,330 |
| State Trunkline Non-Maintenance | - | - | 53,482 | 53,482 |
| Private Driveway Fees | - | - | 424 | 424 |
| Other Non-Road Services | - | - | 448 | 448 |
| Salvage Sales | - | - | 1,267 | 1,267 |
| Interest and Rents | | | | |
| Interest Earned | - | - | 19,433 | 19,433 |
| Rents and Royalties | - | - | 110,154 | 110,154 |
| Other Revenue | | | | |
| Proceeds from Sale of Capital Assets | - | - | 33,771 | 33,771 |
| Reimbursements | - | - | 224 | 224 |
| Total Revenue | 2,289,975 | 742,303 | 2,080,813 | 5,113,091 |
| Other Financing Sources | | | | |
| Installment Loan Proceeds | - | - | 91,138 | 91,138 |
| Total Other Financing Sources | - | - | 91,138 | 91,138 |
| Total Revenues and Other Financing Sources | \$ 2,289,975 | \$ 742,303 | \$ 2,171,951 | \$ 5,204,229 |

SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF EXPENDITURES
For the Fiscal Year Ended September 30, 2017

EXHIBIT M

| | Primary Road Fund | Local Road Fund | County Road Commission | Total |
|--|----------------------|--------------------|------------------------------|---------------------|
| Primary Road | | | | |
| Preservation/Structural Improvements | \$ 540,767 | \$ - | \$ - | \$ 540,767 |
| Routine and Preventive Maintenance | 1,090,260 | - | - | 1,090,260 |
| Local Road | | | | |
| Preservation/Structural Improvements | - | 168,798 | - | 168,798 |
| Routine and Preventive Maintenance | - | 635,973 | - | 635,973 |
| State Trunkline | | | | |
| Maintenance | - | - | 1,666,341 | 1,666,341 |
| Non-Maintenance | - | - | 53,482 | 53,482 |
| Private Driveway Plowing | - | - | 576 | 576 |
| Other Non-Road Maintenance | - | - | 423 | 423 |
| Equipment Expense--Net (Per Exhibit J) | 9,826 | 6,222 | 13,255 | 29,303 |
| Administrative Expense--Net (Per Exhibit J) | 232,604 | 114,770 | - | 347,374 |
| Capital Outlay--Net (Per Exhibit J) | - | - | (156,672) | (156,672) |
| Debt Service | | | | |
| Principal Payments | 105,000 | - | 146,324 | 251,324 |
| Interest Payments | 43,700 | - | 11,146 | 54,846 |
| Total Expenditures | <u>\$ 2,022,157</u> | <u>\$ 925,763</u> | <u>\$ 1,734,875</u> | <u>\$ 4,682,795</u> |



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

March 22, 2018

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 year ended September 30, 2017, 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 March 22, 2018.

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. However, material weaknesses may exist that have not been identified. We consider the deficiency described in the accompanying Schedule of Findings and Responses listed as Finding 2017-001 to be a material weakness.

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 instances of statutory non-compliance that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Responses as Findings 2017-002 and 2017-003.

Schoolcraft County Road Commission's Responses to Findings

The Schoolcraft County Road Commission's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Schoolcraft County Road Commission's response and, accordingly, we express no opinion on it.

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the 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.

Sincerely,



Cary Jay Vaughn, CPA, CGFM
Audit Manager

Community Engagement and Finance Division



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

March 22, 2018

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, 2017, and have issued our report thereon dated March 22, 2018. 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 January 8, 2018, 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 its 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 meeting about planning matters on January 8, 2018, with management.

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. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended September 30, 2017. 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 health care, 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 March 13, 2018.

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 Ontonagon 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 Ontonagon 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.

Schoolcraft County Road Commission

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March 22, 2018

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,

A handwritten signature in black ink, appearing to read 'Cary Jay Vaughn', is written over a light gray rectangular background.

Cary Jay Vaughn, CPA, CGFM

Audit Manager

Community Engagement and Finance Division

SCHOOLCRAFT COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended September 30, 2017

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.

MATERIAL WEAKNESS

OPEB Valuation

Finding 2017-001

Condition: The Road Commission did not have an OPEB Valuation performed for fiscal year 2017. The Valuation they are currently using was prepared for fiscal year 2014.

Criteria: GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires an actuarial valuation be prepared at least triennially for plans with a total membership of fewer than 200.

Effect: An employer's net OPEB obligation is defined as the cumulative difference between annual OPEB cost and the employer's contributions to a plan. The results of using an outdated OPEB valuation may cause the net OPEB obligation to be over or under stated in the financial statements.

Recommendation: We recommend that the Road Commission have a new OPEB Valuation prepared.

Management Response: The Road Commission will have a new OPEB Valuation prepared for fiscal year 2018.

SCHOOLCRAFT COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended September 30, 2017

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 2017-002

Condition: During the fiscal year ending September 30, 2017, expenditures were incurred in excess of amounts appropriated in the amended budgets as follows:

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-------------------|---------------|---------------|-----------------|
| Interest Payments | \$ 17,676 | \$ 54,846 | \$ (37,170) |

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.

Budget Amendments

Finding 2017-003

Condition: The Road Commission did not adopt their final budget for fiscal year ending September 30, 2017 until February 28, 2018.

Criteria: Public Act 2 of 1968 requires that "the general appropriations act must be amended as soon as it becomes apparent that a significant change in revenues or expenditures is known". It also requires that final budget amendments be made prior to the end of the fiscal year.

Cause: The Chief Financial officer did not prepare budget amendments when it became evident that there were significant change in revenues or expenditures.

Effect: The Road Commission is in violation of the provisions of Public Act 2 of 1968.

Directive: We direct the Road Commission develop budgetary control procedures which will ensure that budget amendments are adopted as necessary prior to the fiscal year end.

SCHOOLCRAFT COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended September 30, 2017

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 prior to the end of our fiscal year.