

**Crawford County Road Commission
Grayling, Michigan
Financial Report
With Supplementary Information
Year Ended September 30, 2016**

Crawford County Road Commission

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INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Crawford County
Grayling, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Crawford County Road Commission, a component unit of the County of Crawford, as of and for the year ended September 30, 2016, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment including the assessment of 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 opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Crawford County Road Commission as of September 30, 2016, 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

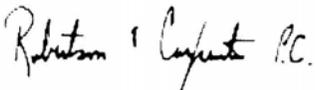
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and postemployment benefits schedules of funding progress and employer contributions on pages 3 through page 10 and pages 29 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The individual fund schedules are the responsibility of management and were derived from and relate 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, individual fund schedules are fairly stated in all material respects, in relation to the financial statements taken as a whole.



Robertson & Carpenter, CPAs, P.C.
Certified Public Accountants
February 13, 2017

CRAWFORD COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Crawford County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the year ended September 30, 2016. This annual report consists of a series of financial statements. The Statement of Net position and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and 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 they have changed. "Net position" is the difference between the assets and liabilities--this is one way to measure the Road Commission's financial health or position.
- 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 Commission as a Whole

Government-Wide Statements

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. The statement of net position includes all of the Road Commission's 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 current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net position and how they have changed. 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, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

CRAWFORD COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Reporting the Commission as a Whole (Continued)

Fund Financial Statements

The Road Commission currently has only one fund, the general operations fund. All of the Road Commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. Our analysis of the Road Commission's major fund begins on page 5. The fund financial statements begin on page 13 and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net position increased approximately 46.45 %, or \$3,681,949, from \$7,926,908 to \$11,608,757 for the year ended September 30, 2016. The net position and change in net position are summarized below.

Net position

Restricted net position is the net position that has constraints placed on it by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The restricted net position decreased by \$278,327 during the year ended September 30, 2016. The primary reason for the decrease was an increase in operating expenses.

The investment in capital assets, net of related debt increased by \$3,960,276. The increase in net position is primarily the result of an increase in the investment in capital assets for the year ending September 30, 2016. The depreciation for the current year's infrastructure additions are depreciated in the current year.

CRAWFORD COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Financial Analysis of the Road Commission as a Whole (Continued)

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

	Net Position			
	<u>2016</u>	<u>2015</u>	<u>Variance</u>	<u>%</u>
Current and Other Assets	\$ 2,908,858	\$ 5,351,358	\$ (2,442,500)	-46%
Capital Assets	<u>15,517,139</u>	<u>11,398,001</u>	<u>4,119,138</u>	36%
Total Assets	<u>18,425,997</u>	<u>16,749,359</u>	<u>1,676,638</u>	10%
Deferred Outflows of Resources	<u>1,007,855</u>	<u>382,694</u>	<u>625,161</u>	163%
Current and Other Liabilities	1,239,183	3,748,728	(2,509,545)	-67%
Long-Term Debt Outstanding	<u>6,585,912</u>	<u>5,456,517</u>	<u>1,129,395</u>	21%
Total Liabilities	<u>7,825,095</u>	<u>9,205,245</u>	<u>(1,380,150)</u>	-15%
Net Position				
Invested in Capital Assets				
Net of Debt	14,746,118	10,785,842	3,960,276	37%
Restricted	<u>(3,137,361)</u>	<u>(2,859,034)</u>	<u>(278,327)</u>	10%
Total Net Position	<u>\$ 11,608,757</u>	<u>\$ 7,926,808</u>	<u>\$ 3,681,949</u>	46%

**CRAWFORD COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

Financial Analysis of the Road Commission as a Whole (Continued)

Changes in Net Position

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

Governmental Activities

	2016	2015
Revenue		
Program Revenue		
Property Taxes	\$ 543,661	\$ 552,015
License and Permits	22,550	22,135
Federal Grants	216,719	562,173
State Grants	5,829,335	3,753,977
Contributions From Local Units	143,333	267,242
Charges for Services	1,306,264	1,081,743
Investment Earnings	4,218	7,221
Property Rentals	4,947	9,598
Other Contributions	84,225	20,776
General Revenue:		
Gain (Loss) on Equipment Disposal	(81,176)	(4,071)
Total Revenue	8,074,076	6,272,809
Expenses		
Public Works	4,371,142	3,859,023
Interest Expense	20,985	19,442
Total Expenses	4,392,127	3,878,465
Increase (Decrease) in Net Position	\$ 3,681,949	\$ 2,394,344

The Road Commission's Fund

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

For the year ended September 30, 2016, the fund balance of the general operations fund increased \$49,922 as compared to an increase of \$614,452 in the fund balance for the year ended September 30, 2015. Total operating revenues were \$8,074,076, an increase of \$1,801,267 as compared to last year in addition to Other Financing Sources-Lease Proceeds of \$499,860. This change in revenues resulted primarily from an increase in State Grants of \$2,075,358, and a decrease in Federal Grants of \$345,454. Total expenditures were \$8,524,014, an increase of \$2,865,657 as compared to last year. This change in expenditures is due primarily an increase in Primary Road Structure Preservation expenses.

**CRAWFORD COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

Financial Analysis of the Road Commission as a Whole (Continued)

A summary of changes in the Operating Fund for the years ended September 30, 2016 and 2015 follow:

	<u>2016</u> Operating Fund	<u>2015</u> Operating Fund	Favorable (Unfavorable) Variance	%
Revenues				
Property Taxes	\$ 543,661	\$ 552,015	\$ (8,354)	n/a
License and Permits	22,550	22,135	415	2%
Federal Grants	216,719	562,173	(345,454)	n/a
State Grants	5,829,335	3,753,977	2,075,358	55%
Contributions From Local Units	143,333	267,242	(123,909)	-46%
Charges for Services	1,306,264	1,081,743	224,521	21%
Interest and Rents	9,165	16,819	(7,654)	-46%
Other Revenue	3,049	16,705	(13,656)	-82%
Total Revenue	<u>8,074,076</u>	<u>6,272,809</u>	<u>1,809,621</u>	29%
Expenditures				
Public Works	7,937,516	5,720,919	2,216,597	39%
Net Capital Outlay	492,720	(147,882)	640,602	-433%
Debt Service	93,778	85,320	8,458	10%
Total Expenditures	<u>8,524,014</u>	<u>5,658,357</u>	<u>2,865,657</u>	51%
Excess of Expenditures Over (Under) Revenues	<u>(449,938)</u>	<u>614,452</u>	<u>(1,064,390)</u>	-173%
Other Financing Sources				
Proceeds From Lease	499,860	-	499,860	n/a
Total Other Financing Sources	<u>499,860</u>	<u>-</u>	<u>499,860</u>	n/a
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	49,922	614,452	(564,530)	-92%
Fund Balance - Beginning	<u>1,932,193</u>	<u>1,317,741</u>	<u>614,452</u>	47%
Fund Balance - Ending	<u>\$ 1,982,115</u>	<u>\$ 1,932,193</u>	<u>\$ 49,922</u>	3%

**CRAWFORD COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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 budget was amended for the year ended September 30, 2016. The actual revenue recognized during the year ended September 30, 2016 was more than the budget by \$45,596. The largest area of revenue over the budget was Lease Proceeds of \$499,860 while the largest area of revenue under budget was Federal Aid, there were also unfavorable variances in other revenue line-items. (See Page 32 for details)

The budget was \$1,666,821 more than the actual expenditures recognized during the year ended September 30, 2016. Equipment Maintenance was over budget \$3,801, as was Capital Outlay \$399,070. Primary and Local Road Maintenance Expense were under budget by \$1,293,705. There were a few other unfavorable and favorable variances in expenditure line-items. (See Page 33 for details)

Capital Asset and Debt Administration

Capital Assets

As of September 30, 2016, the Road Commission had invested \$15,517,139 in capital assets. This amount represents a net increase (including additions and deductions) of \$4,119,138 or 36.13% as follows:

	<u>2016</u>	<u>2015</u>	<u>Total Percentage Change 2014/2015</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 73,092	\$ 73,092	0%
Subtotal	<u>73,092</u>	<u>73,092</u>	0%
Capital Assets Being Depreciated			
Buildings	1,961,174	1,937,675	1%
Equipment	4,956,558	4,822,043	3%
Depletable	50,282	50,282	0%
Infrastructure	15,136,069	11,039,100	37%
	<u>22,104,083</u>	<u>17,849,100</u>	24%
Total Capital Assets	<u>22,177,175</u>	<u>17,922,192</u>	24%
Total Accumulated Depreciation	<u>(6,660,036)</u>	<u>(6,524,191)</u>	2%
Total Net Capital Assets	<u>\$ 15,517,139</u>	<u>\$ 11,398,001</u>	36%

**CRAWFORD COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

Capital Asset and Debt Administration (Continued)

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$15,136,069. The infrastructure recorded during the year ended September 30, 2016, was depreciated in the current year. The infrastructure is financed through federal, state and local contributions.

This year's capital asset additions and disposals included the following:

	<u>Additions</u>	<u>Disposals</u>
Buildings	\$ 23,499	\$ -
Equipment - Road	861,612	779,922
Equipment - Shop	52,814	-
Equipment - Office	-	-
Equipment - Engineer	-	-
Infrastructure	<u>4,096,969</u>	<u>-</u>
Total additions	\$ <u>5,034,894</u>	\$ <u>779,922</u>

During the year ended September 30, 2016, the Road Commission traded in and/or disposed of equipment with a purchase amount of \$779,922, related depreciation of \$689,598, and net book value of \$90,324.

Debt

At the year end, the Road Commission had \$771,021 capitalized leases versus \$612,159 last year, an increase of 26% as shown below:

	<u>2016</u>	<u>2015</u>	<u>Variance</u>	<u>% of Variance</u>
Capitalized Leases	\$ <u>771,021</u>	\$ <u>612,159</u>	\$ <u>158,862</u>	26%
Total	\$ <u>771,021</u>	\$ <u>612,159</u>	\$ <u>158,862</u>	26%

Other obligations include net OPEB obligation and accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note 9 to the financial statements.

CRAWFORD COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year ending September 30, 2017 budget. One of the factors is the new road funding package. We expect to see increased revenue beginning in the March MTF payment. The Road Commission received less than 2% of its revenues from township contributions during the year ended September 30, 2016, this amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. During the year ended September 30, 2017, we expect to receive only \$1,600 in Township contributions and \$2,728,000 in federal and state aid for road projects. The above items were considered when adopting the budget for the year ended September 30, 2017. Amounts available for appropriation in the budget are \$9,312,116.

Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Crawford County Road Commission's administrative offices at 500 Huron, Grayling Michigan, 49738.

Basic Financial Statements

Crawford County Road Commission
Statement of Net Position
September 30, 2016

Assets

Cash	\$ 1,814,316
Accounts Receivable:	
State Department of Transportation:	
Motor Vehicle Highway Funds	435,838
Trunkline Maintenance	129,932
Other	51,538
Sundry	56,334
Inventories:	
Road Materials	224,525
Equipment Material and Parts	109,050
Prepaid Insurance	69,965
Prepaid Expense	17,360
Capital Assets (Net of Accumulated Depreciation)	<u>15,517,139</u>
Total Assets	<u>18,425,997</u>

Deferred Outflows of Resources

Deferred amounts related to pensions	<u>1,007,855</u>
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Liabilities

Current Liabilities	
Accounts Payable	190,217
Accrued Liabilities	80,343
Advances	131,184
Unearned Revenue	524,999
Noncurrent Liabilities	
Capitalized Leases - Due Within One Year	312,440
Capitalized Leases - Due After One Year	458,581
Post Employment Benefit Liabilities	-
Compensated Absences - Due After One Year	166,594
Net Pension Liability	<u>5,960,737</u>
Total Liabilities	<u>7,825,095</u>

Net Position

Investment in Capital Fixed Assets	
Net of Related Debt	14,746,118
Restricted for County Road (deficit)	<u>(3,137,361)</u>
Total Net Position	<u>\$ 11,608,757</u>

See accompanying notes which are an integral part of the financial statements

Crawford County Road Commission
Statement of Activities
Year Ended September 30, 2016

Program Expenses

Primary Road Maintenance	\$	766,971
Local Road Maintenance		1,354,662
State Trunkline Maintenance and Non-Maintenance		1,180,493
Net Equipment Expense		215,960
Net Administrative Expense		315,308
Infrastructure Depreciation		467,045
Salt Storage Sheds Depreciation		515
Interest Expense		20,985
Post Employment Benefits		(30,481)
Compensated absences		8,318
Other		92,351

Total Program Expenses		<u>4,392,127</u>
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Program Revenues

Taxes		543,661
Licenses and Permits		22,550
Federal Aid		216,719
State Aid		5,829,335
Contributions from Local Units		143,333
Charges for Services		1,306,264
Investment Earnings		4,218
Property Rentals		4,947
Other Contributions		84,225

Total Program Revenues		<u>8,155,252</u>
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Net Program Revenues		3,763,125
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General Revenue

Gain (Loss) on Equipment Disposal		<u>(81,176)</u>
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Total General Revenue		<u>(81,176)</u>
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Change in Net Position		3,681,949
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Net Position ----- October 1, 2015		<u>7,926,808</u>
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Net Position ----- September 30, 2016	\$	<u><u>11,608,757</u></u>
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See accompanying notes which are an integral part of the financial statements

**Crawford County Road Commission
Balance Sheet
September 30, 2016**

			<u>Governmental Fund Type</u>
<u>ASSETS</u>			<u>General Operating Fund</u>
Cash	\$		1,814,316
Accounts Receivable:			
State Department of Transportation:			
Motor Vehicle Highway Funds			435,838
Trunkline Maintenance			129,932
Other			51,538
Sundry			56,334
Inventories:			
Road Materials			224,525
Equipment Material and Parts			109,050
Prepaid Insurance			69,965
Prepaid Expense			17,360
Total Assets	\$		<u>2,908,858</u>
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities			
Accounts Payable	\$		190,217
Accrued Liabilities			80,343
Advances			131,184
Unearned Revenue			524,999
Total Liabilities			<u>926,743</u>
Fund Equity			
Fund Balance:			
Nonspendable:			
Inventory			333,575
Prepaid Insurance			69,965
Prepaid Expense			17,360
Restricted for:			
County Roads			1,561,215
Total Fund Equity			<u>1,982,115</u>
Total Liabilities and Fund Equity	\$		<u>2,908,858</u>
Total Governmental Fund Balance	\$		1,982,115
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Cost of capital assets is	\$	22,177,175	
Accumulated depreciation is		<u>(6,660,036)</u>	15,517,139
Deferred outflows related to pensions			1,007,855
Long term liabilities are not due and payable in the current period and are not reported in the fund statements.			
Capitalized leases			(771,021)
Post employment benefit liabilities			-
Compensated absences			(166,594)
Net pension liability			<u>(5,960,737)</u>
Net Position of Governmental Activities	\$		<u>11,608,757</u>

See accompanying notes which are an integral part of the financial statements

Crawford County Road Commission
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended September 30, 2016

Revenues		
Taxes	\$	543,661
Licenses and Permits		22,550
Federal Aid		216,719
State Aid		5,829,335
Contributions from Local Units		143,333
Charges for Services		1,306,264
Interest and Rents		9,165
Other Revenue		<u>3,049</u>
Total Revenues		<u>8,074,076</u>
Expenditures		
Public Works		7,937,516
Net Capital Outlay		492,720
Debt Service		<u>93,778</u>
Total Expenditures		<u>8,524,014</u>
Excess of Revenues Over (Under) Expenditures		(449,938)
Other Financing Sources		
Lease Proceeds		<u>499,860</u>
Excess of Revenues and Other Financing Sources Over Expenditures		49,922
Fund Balance -----	October 1, 2015	<u>1,932,193</u>
Fund Balance -----	September 30, 2016	<u><u>\$ 1,982,115</u></u>

See accompanying notes which are an integral part of the financial statements

**Crawford County Road Commission
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
Year Ended September 30, 2016**

Net Change in Fund Balance - Total Governmental Funds	\$	49,922
Amounts reported for governmental activities are different because:		
Government funds report capital outlays as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation expense.		
Depreciation expense	\$ (825,443)	
Capital Outlay	5,034,894	
Net book value of asset disposals	<u>(90,324)</u>	4,119,127
Governmental funds report actual pension expenditures for fiscal year. However, in the statement of activities, the cost of pension benefits earned, net of employee contributions, is reported as pension expense. The following amounts represent the current year net changes:		
Current year pension expense	(411,269)	
Actual pension contributions from the beginning of the fiscal year through the measurement date	292,049	
Deferred outflows for pensions	<u>426,668</u>	307,448
Lease proceeds provide current financial resources to governmental, but entering into lease agreements increases long-term liabilities in the statement of net position		499,860
Repayment of capitalized lease principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		(340,998)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in the government funds:		
Net change in OPEB obligation		30,481
Net change in accrued compensated absences		(8,318)
Net change in net pension liability		<u>(975,573)</u>
Change in Net Position of Governmental Activities	\$	<u>3,681,949</u>

See accompanying notes which are an integral part of the financial statements

Crawford County Road Commission
Notes to Financial Statements
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Crawford County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member elected Board of County Road Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to the County Board of Commissioner's approval. The Crawford County Road Commission has levied 1.0000 mills county wide for road repair and maintenance.

The Road Commission's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. All activities over which the Road Commission exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency selection of governing authority, designations of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the Crawford County 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 as either invested in capital assets, net of related debt, or restricted for County Roads.

The Statement of Activities presents a comparison between the direct expenses and program revenues for each function or program of the Road Commission's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Road Commission, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Road Commission.

Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provision or enabling legislation. The net position restricted for other purposes result from special revenue funds and the restrictions on their net position use. Restricted net position is used first to fund appropriations before unrestricted net position is used.

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

Crawford County Road Commission
Notes to Financial Statements
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

The property tax is levied each year on December 1st on the taxable valuation of property located in the county as of the preceding December 31st. The taxable valuation of the property for the 2015 levy was approximately \$543,660,750. The 1.0000 mill levy for road maintenance and repair generated approximately \$543,661 of revenue recognized in the year ended September 30, 2016.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (receipts) until that time.

D. Assets, Liabilities, and Net Position or Equity

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 and 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 expense in both the government-wide and fund financial statements.

**Crawford County Road Commission
Notes to Financial Statements
September 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by the Crawford County Road Commission as assets with an initial individual cost of \$1,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

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

Building	33-50 years	Office Equipment	5-10 years
Road Equipment	5-8 years	Depletable Assets	5-10 years
Shop Equipment	10 years	Roads	8-30 years
Engineering Equipment	5-10 years	Bridges	12-50 years

Long-Term Obligations

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

Compensated Absences (Vacation and Sick Leave)

The Road Commission allows its employees to accumulate vacation pay to the maximum of 15 days and accumulate an unlimited number of sick pay hours. The sick pay vests when an employee attains the age of 55 and 5 years of seniority. The potential liability for these benefits at September 30, 2016 is approximately \$166,594 and has been recorded in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The Road Commission reports three categories of net position as follows:

Net investment in capital assets - consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Restricted net position - net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the Road Commission's bonds. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position - consists of all other net position that does not meet the definition of the above two components and is available for general use by the Road Commission.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies restricted net position first, unless a determination is made to use unrestricted net position. The Road Commission's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expenditure.

Fund Balance

Governmental funds report *nonspendable fund balances* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. As applicable, *committed fund balance* is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the Board of Road Commissioners. A formal resolution of the Board of Commissioners is required to establish, modify or rescind a fund balance commitment. The Road Commission reports *assigned fund balance* for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the General Operating Fund.

**Crawford County Road Commission
Notes to Financial Statements
September 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (continued)

When the Road Commission incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Road Commission's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

Use of Estimates

The presentation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affects the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pensions

For the purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, 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 to MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and adopts the budget following the public hearing. The budget was not amended during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

Budget Violations

Public Act 2 of 1968, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations are as follows:

	Final Budget	Actual	Variance
Equipment Expense - Net	\$ 212,159	\$ 215,960	\$ 3,801
Capital Outlay - Net	93,650	492,720	399,070
Debt Service - Principal	72,000	72,793	793
Debt Service - Interest	20,000	20,985	985

NOTE 3 - CASH DEPOSITS AND INVESTMENTS

The cash and investments are classified by in the following categories:

Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	\$ 1,814,216
Petty Cash and Cash on Hand	100
	\$ 1,814,316

Michigan Compiled Laws, Section 129.91, authorized the Road Commission to deposit and invest in the accounts of federally insured banks, credit union, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government for federal agency obligation repurchase agreements; banker's acceptance of United States Banks; commercial paper rated with the two highest classifications, which mature not more than 270 days after the purchase date; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 20 of 1943.

The deposits of the Road Commission were reflected in the accounts of three financial institutions at \$1,882,853 of which \$550,915 is covered by federal depository insurance (the book balance of these accounts is shown above)

The Road Commission did not have any investments at September 30, 2016 which are subject to risk categorization.

Crawford County Road Commission
Notes to Financial Statements
September 30, 2016

NOTE 4 - DEFERRED COMPENSATION PLAN

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

NOTE 5 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended September 30, 2016, the Federal aid received and expended by the Road Commission was \$124,813 for contracted projects and \$91,906 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (they are included in MDOT's single audit). Negotiated contracts are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects.

NOTE 6 - RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 1982, the Michigan County Road Commission Self-Insurance Pool (MCRCSIP) was established by the Road Commissions in the State of Michigan as a public entity risk pool to operate a common risk management and insurance program for Road Commissions. Crawford County Road Commission pays annual premiums to MCRCSIP for its general insurance coverage, including coverage and services for general liability, auto liability, property, stop loss protection, claims administration, and risk management and loss control. The agreement for formation of the MCRCSIP provides that MCRCSIP will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$100,000 for each insured event.

Also, the Crawford County Road Commission participates in the County Road Association Self-Insurance Fund (CRASIF), a public entity risk pool established for worker's compensation insurance to operate a common risk management and insurance program for Road Commissions. Crawford County Road Commission pays quarterly premiums to CRASIF for its workers' compensation insurance coverage. The agreement for formation of the CRASIF provides that CRASIF will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits.

The Crawford County Road Commission continues to carry commercial insurance for employees health and accident insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

**Crawford County Road Commission
Notes to Financial Statements
September 30, 2016**

NOTE 7 - CAPITAL ASSETS

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

	Beginning Balances <u>10/1/15</u>	<u>Additions</u>	<u>Deductions</u>	Ending Balances <u>9/30/16</u>
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 73,092	\$ -	\$ -	\$ 73,092
Capital Assets Being Depreciated				
Buildings	1,937,675	23,499	-	1,961,174
Equipment - Road	4,575,043	861,612	779,922	4,656,733
Equipment - Shop	73,859	52,814	-	126,673
Equipment - Office	159,691	-	-	159,691
Equipment - Engineer	13,461	-	-	13,461
Depletable Assets	50,282	-	-	50,282
Infrastructure - Roads	<u>11,039,100</u>	<u>4,096,969</u>	<u>-</u>	<u>15,136,069</u>
Subtotal	<u>17,849,111</u>	<u>5,034,894</u>	<u>779,922</u>	<u>22,104,083</u>
Less Accumulated Depreciation				
Buildings	891,237	31,384	-	922,621
Equipment - Road	3,984,993	322,017	689,598	3,617,412
Equipment - Shop	69,733	2,571	-	72,304
Equipment - Office	151,082	1,719	-	152,801
Equipment - Engineer	12,754	707	-	13,461
Depletable Assets	49,107	-	-	49,107
Infrastructure - Roads	<u>1,365,285</u>	<u>467,045</u>	<u>-</u>	<u>1,832,330</u>
Subtotal	<u>6,524,191</u>	<u>825,443</u>	<u>689,598</u>	<u>6,660,036</u>
Net Capital Assets				
Being Depreciated	<u>11,324,920</u>	<u>4,209,451</u>	<u>90,324</u>	<u>15,444,047</u>
Total Net Capital Assets	<u>\$ 11,398,012</u>	<u>\$ 4,209,451</u>	<u>\$ 90,324</u>	<u>\$ 15,517,139</u>

Depreciation expense was charged to the programs of the Crawford County Road Commission as follows:

Net Equipment Expense	\$ 349,141
Net Administrative Expense	8,742
Infrastructure	467,045
Salt Storage Sheds	<u>515</u>
Total Depreciation	<u>\$ 825,443</u>

**Crawford County Road Commission
Notes to Financial Statements
September 30, 2016**

NOTE 8 - DEFINED BENEFIT PENSION PLAN

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The Road Commission participated in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member retirement board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the MERS website at www.mersofmich.com.

Benefits Provided

01-General Teamster: Open Division

	<u>2015 Valuation</u>
Benefit Multiplier:	2.50 % Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 years
Early Retirement (Unreduced):	55/15
Early Retirement (Reduced):	50/25
Final Average Compensation:	5 years
Employee Contributions:	4.80%
Act 88:	Yes (Adopted 2/2/2006)

10 - Non Union: Open Division

	<u>2015 Valuation</u>
Benefit Multiplier:	2.50 % Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 years
Early Retirement (Unreduced):	55/20
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
Employee Contributions:	2.93%
Act 88:	Yes (Adopted 2/2/2006)

13 - Closed to new hires

	<u>2015 Valuation</u>
Benefit Multiplier:	2.00 % Multiplier (no max)
Normal Retirement Age:	60
Vesting:	8 years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
Employee Contributions:	1.60%
Act 88:	Yes (Adopted 2/2/2006)

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	30
Inactive employees entitled to but not yet receiving benefits	0
Active employees	27
	<u>57</u>

Crawford County Road Commission
Notes to Financial Statements
September 30, 2016

NOTE 8 - DEFINED BENEFIT PENSION PLAN - (Continued)

Contributions

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by 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.

Employer contribution range from \$78 to \$102 per month for the closed division and \$17,769 - \$49,164 per month for the open divisions.

Net Pension Liability

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

Actuarial Assumptions

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

Inflation: 2.5%

Salary increases: 3.75% in the long-term

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

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

Mortality rates used were based on the RP-2014 Group Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2009-2013.

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

**Crawford County Road Commission
Notes to Financial Statements
September 30, 2016**

NOTE 8 - DEFINED BENEFIT PENSION PLAN - (Continued)

Actuarial Assumptions (Continued)

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

Discount Rate

The discount rate used to measure the total pension liability is 8.25% for 2015. The projection of cash flows used to determine the discount rate assumes that the employer and employee will be made at the rates agreed upon for employees and the actuarially determined rates for the employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	<u>Calculating Net Pension Liability</u>		
	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a)-(b)</u>
Balances at 12/31/14	\$ 8,227,786	\$ 3,242,622	\$ 4,985,164
Changes of the year			
Service Cost	161,288	-	161,288
Interest on Total Pension Liability	685,376	-	685,376
Changes in benefits	(4,044)	-	(4,044)
Difference between expected and actual expenses	142,783	-	142,783
Changes in assumptions	428,423	-	428,423
Employer contributions	-	383,768	(383,768)
Employee contributions	-	51,442	(51,442)
Net investment income	-	(47,573)	47,573
Benefit payments, including employee refunds	(545,430)	(545,430)	-
Administrative expense	-	(7,002)	7,002
Other changes	(596,527)	-	(596,527)
Net Changes	<u>271,869</u>	<u>(164,795)</u>	<u>436,664</u>
Balances at 12/31/15	<u>\$ 8,499,655</u>	<u>\$ 3,077,827</u>	<u>\$ 5,421,828</u>

Sensitivity of the Net Pension Liability to changes in the discount rate

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

	<u>1% Decrease (7.25%)</u>	<u>Current Discount Rate (8.25%)</u>	<u>1% Increase (9.25%)</u>
Road Commission's Net Pension Liab.	\$ 6,394,892	\$ 5,421,828	\$ 4,591,996

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

**Crawford County Road Commission
Notes to Financial Statements
September 30, 2016**

NOTE 8 - DEFINED BENEFIT PENSION PLAN - (Continued)

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

The Road Commission's net pension liability as measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. For the year ended September 30, 2016, the Road Commission recognized pension expense of \$689,133 including contributions of \$411,269 in the General Fund financial statements. At September 30, 2016, there was \$-0- payable to the pension plan. The Road Commission reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Net Deferred Outflows of Resources</u>
Differences in Experience	\$ 96,784	\$ -	\$ 96,784
Differences in Assumptions	308,768	-	308,768
Deficit Investment Returns	310,254	-	310,254
Contributions Subsequent to the Measurement Date *	292,049	-	292,049
Total	<u>\$ #####</u>	<u>\$ -</u>	<u>\$ 1,007,855</u>

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending September 30, 2016.

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

<u>Year Ended</u>	<u>Pension Expense</u>
2017	\$ 180,782
2018	180,782
2019	180,782
2020	62,051

NOTE 9 - LONG-TERM DEBT

The Long-Term Debt of the Road Commission is composed of seven items; four capitalized leases, net OPEB obligations, net pension liability, and vested vacation and sick leave.

Terms of the vested vacation and sick pay are shown in Note 1 - Compensated Absences.

	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:				
Capitalized leases	\$ 612,159	\$ 499,860	\$ 771,021	\$ 312,440
		(340,998)		
Net OPEB obligation	30,481	(30,481)	-	-
Net pension liability	4,985,164	975,573	#####	-
Compensated absences	158,276	8,318	166,594	-
	<u>\$ 5,786,080</u>	<u>\$ 1,112,272</u>	<u>\$ #####</u>	<u>\$ 312,440</u>

Capitalized Leases

<u>Payable to:</u>	<u>Lease Date</u>	<u>Equipment</u>	<u>Principal Due</u>
John Deere Credit			
Monthly payments of \$2,082 with a final payment of \$169,440 due 6/27/2021 Interest rate 4.24%	6/27/16	Motor Grader	\$ 244,215
John Deere Credit			
Monthly payments of \$2,082 with a final payment of \$169,440 due 6/27/2021 Interest rate 4.24%	6/27/16	Motor Grader	244,215

**Crawford County Road Commission
Notes to Financial Statements
September 30, 2016**

NOTE 9 - LONG-TERM DEBT (Continued)

<u>Payable to:</u>	<u>Lease Date</u>	<u>Equipment</u>	<u>Principal Due</u>
Caterpillar Financial Monthly payments of \$1,212 with a final payment of \$110,000 due 9/26/17 Interest rate 1.48635%	9/26/12	938K Loader	\$ 121,745
Caterpillar Financial Monthly payments of \$1,586 with a final payment of \$145,000 due 9/26/17 Interest rate 1.13287%	9/26/12	950K Loader	160,846
Total Capitalized Leases			<u>\$ 771,021</u>

Total debt payments due in future years are shown below:

September 30,	<u>Capitalized Leases</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 312,440	\$ 23,316
2018	31,134	18,844
2019	32,480	17,498
2020	33,885	16,093
2021	<u>361,082</u>	<u>9,836</u>
	<u>\$ 771,021</u>	<u>\$ 85,587</u>

NOTE 10 - POST EMPLOYMENT HEALTH CARE BENEFITS - (OPEB)

In addition to the pension benefits described in Note 8, the Crawford County Road Commission provides post employment health care benefits as follows:

Plan Description: The Road Commission administers a single employer defined benefit healthcare plan. The Plan provides healthcare insurance for eligible employees and their spouses through the Road Commission's group insurance plan which covers both active and retired members. Benefit provisions are established and may be amended by the Board of County Road Commissioners.

Funding Policy: An employee hired after July 2, 2002 must be age 55 or older with 15 years of service at their retirement date to qualify for post retirement health care benefits. An employee hired prior to July 2, 2002 that retires at age 55 or older with less than 10 years of service does not qualify for postretirement healthcare benefits. The benefits are pro-rated for employees hired prior to July 2, 2002 retiring at 55 or older with at least 10 but less than 15 years of service. The pro-rated benefits at 10 years of service are 50% and increase 10% for each additional year of service until 100% is reached at 15 years of service.

The Road Commission pays the health insurance premium for the retiree and 50% of the premium expense for the spouse for retirees aged 55-64.

Beginning at age 65 the Road Commission pays the lesser of 50% or \$150 per month of the retiree's monthly premium for supplemental insurance. The same amount is paid for the retiree's spouse

**Crawford County Road Commission
Notes to Financial Statements
September 30, 2016**

NOTE 10 - POST EMPLOYMENT HEALTH CARE BENEFITS - (Continued)

when the spouse is age 65 or older. Spouses under the age of 65 are eligible for COBRA coverage for 36 months with the Road Commission paying 50% of the premium. Once the 36 months have expired and the spouse is under age 65, the Road Commission will pay 50% of the monthly insurance premium rate as determined under the union negotiated contract. These benefits are provided for the retiree until death or age 80, whichever event occurs first. If the retiree dies, the surviving spouse continues to receive the benefit until the deceased retiree would have reached the age of 80.

Annual OPEB Cost and Net OPEB Obligations. The Road Commission's annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize an unfunded actuarial liabilities (or funding excess) over a period not to exceed 15 years. The following table shows the components of the Road Commission's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Road Commission's net OPEB obligation to the plan for the plan year ended September 30, 2016.

Annual required contribution	\$	74,569
Interest on prior year's net OPEB obligation		914
Annual OPEB cost		75,483
Contributions made		(111,311)
Decrease in net OPEB obligation		(35,828)
Net OPEB obligation 10/1/15		30,481
Net OPEB obligation 9/30/16	\$	<u><u>-</u></u>

The Road Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ending September 30, 2016 is as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2014	\$ 117,825	101.44%	\$ 28,732
9/30/2015	121,272	98.56%	30,481
9/30/2016	75,483	147.46%	-

The funded status of the plan as of the most recent valuation date is as follows:

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/2010	\$ -	\$ 1,353,806	\$ 1,353,806	0.00%	N/A	N/A
9/30/2013	-	1,702,597	1,702,597	0.00%	N/A	N/A
9/30/2016	-	958,155	958,155	0.00%	N/A	N/A

Crawford County Road Commission
Notes to Financial Statements
September 30, 2016

NOTE 10 - POST EMPLOYMENT HEALTH CARE BENEFITS - (Continued)

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

The following actuarial assumptions were used in the development of the Crawford County Road Commission's retiree health cost projections:

1. Actuarial Cost Method: Alternate Method as provided under GASB 45 for plans with fewer than 100 employees.
2. Interest Discount Rate: 2.00% compounded annually
3. Mortality Prior to Retirement: None
4. Turnover Prior to Retirement: Based on GASB 45 - Table 1 in paragraph 45b
5. Payroll Growth Rate: 3%
6. Healthcare Cost Assumption: National Health Care Expenditures Projections
7. Post Retirement Mortality Rate: National Center for Health Statistics mortality tables

NOTE 11 - STATE REVENUE - ALLOCATION

The Road Commission transferred 15.0% of the primary allocation to the Local Road Fund. The transfer was an "optional" transfer in the amount of \$221,631.

NOTE 12 - STATE MAINTENANCE

The State of Michigan has not completed the audits of the State Trunkline Maintenance contract for the years ended September 30, 2015 and 2016. These audit results are unknown, therefore no provision for the adjustments has been reflected in the financial statements at September 30, 2016.

NOTE 13 - SUBSEQUENT EVENTS

The Road Commission entered into an installment purchase agreement for the acquisition of two new Western Star trucks on October 5, 2016. The amount financed is \$269,986 at 1.97% through Huntington Public Capital Corporation and requires 60 monthly payments of \$4,729 commencing November 13, 2016.

Required Supplementary Information

**Crawford County Road Commission
 Postemployment Benefits Schedules of Funding
 Progress and Employer Contributions
 Year Ended September 30, 2016**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
9/30/2010	\$ -	\$ 1,353,806	\$ 1,353,806	0.00%	N/A	N/A
9/30/2013	-	1,702,597	1,702,597	0.00%	N/A	N/A
9/30/2016	-	958,155	958,155	0.00%	N/A	N/A

Schedule of Employer Contributions

Year Ended September 30,	Annual Required Contributions	Percentage Contributed
2014	\$ 116,912	102.23%
2015	120,410	100.74%
2016	75,483	147.46%

Crawford County Road Commission
Schedule of Changes In Employer's Net Pension Liability and Related Ratios
Year Ended September 30, 2016

	Fiscal Year Ended September 30, 2016	Fiscal Year Ended September 30, 2015
Total Pension Liability		
Service cost	\$ 157,370	\$ 154,944
Interest	662,782	641,354
Changes of benefit terms	(4,682)	-
Difference between expected and actual experience	129,045	-
Changes of assumptions	411,691	-
Benefit payments, including employee refunds	(545,430)	(530,067)
Other	<u>2</u>	<u>1</u>
Net Change in Total Pension Liability	810,778	266,232
Total Pension Liability - Beginning	<u>8,227,786</u>	<u>7,961,554</u>
Total Pension Liability - Ending	<u>\$ 9,038,564</u>	<u>\$ 8,227,786</u>
Plan Fiduciary Net Position		
Employer contributions	383,768	381,846
Employee contributions	51,442	51,447
Net investment income	(47,573)	197,860
Benefit payments, including employee refunds	(545,430)	(530,067)
Administrative expense	(7,002)	(7,247)
Other	<u>-</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	(164,795)	93,839
Plan Fiduciary Net Position - Beginning	<u>3,242,622</u>	<u>3,148,783</u>
Plan Fiduciary Net Position - Ending	<u>\$ 3,077,827</u>	<u>\$ 3,242,622</u>
Employer Net Pension Liability	<u>\$ 5,960,737</u>	<u>\$ 4,985,164</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	34.05%	39.00%
Covered Employee Payroll	\$ 1,325,779	\$ 1,304,600
Employer's Net Pension Liability as a Percentage of of Covered Employee Payroll	449.60%	382.12%

This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**Crawford County Road Commission
Schedule of Employer's Contributions
Year Ended September 30, 2016**

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarilly determined contributions	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 486,300	\$ 381,846
Contributions in relation to the actuarilly determined contribution	<u>0</u>	<u>(486,300)</u>	<u>(381,846)</u>							
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ -</u>	<u>\$ 0</u>							
Covered employee payroll	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,325,779	\$ 1,304,600
Contributions as a percentage of covered employee payroll									36.68%	29.27%

Notes to Schedule

This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Actuarilly determined contribution rates are calculated as of December 31, each year, which is 9 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarilly cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	23 years
Asset valuation method	10 year smoothed
Inflation	2.50%
Salary increases	3.75%
Investment rate of return	7.75%
Retirement age	60; 55/20, 55/15 early retirement unreduced, 50//25, 55/15 early retirement with reduced benefits for open divisions 60; 50/25, 55/15 early retirement with reduced benefits for closed divisions
Mortality	50% Female/50% Male - RP-2014 Group Annuity Mortality Table

**Crawford County Road Commission
Required Supplementary Information
Statement of Revenues
Budgetary Comparison Schedule
Year Ended September 30, 2016**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes:				
County Wide Millage	\$ 537,770	\$ 543,661	\$ 543,661	\$ -
Licenses and Permits:				
Permits	20,000	22,400	22,550	150
Federal Aid:				
Surface Trans. Program	-	-	-	-
Federal D	438,131	438,131	216,719	(221,412)
Other	-	-	-	-
State Aid:				
Michigan Transportation Fund:				
Engineering	10,000	10,000	10,000	-
Primary Road	1,510,000	1,667,910	1,477,539	(190,371)
Local Road	1,100,000	1,200,000	1,050,917	(149,083)
Snow Removal	60,000	64,892	64,892	-
Other	4,140,000	2,911,838	3,136,930	225,092
Economic Development:				
Rural Primary	-	-	-	-
Forest Road	89,000	89,057	89,057	-
Contributions From Local Units:				
Townships	1,600	143,333	143,333	-
Charges For Services:				
Trunkline Maintenance	800,000	875,000	876,747	1,747
Trunkline Nonmaintenance	200,000	422,893	423,326	433
Salvage Sales	-	6,000	6,191	191
Interest and Rents:				
Interest Earned	500	4,225	4,218	(7)
Property Rentals	8,000	4,900	4,947	47
Other Revenues:				
Gain (Loss) on				
Equipment Disposals	-	-	(81,176)	(81,176)
Other Contributions	8,000	107,600	67,337	(40,263)
Other	4,000	16,500	16,888	388
Total Revenues	8,927,001	8,528,340	8,074,076	(454,264)
Other Financing Sources				
Lease Proceeds	-	-	499,860	499,860
Total Revenues and Other Financing Sources	8,927,001	8,528,340	\$ 8,573,936	\$ 45,596
Fund Balance - October 1, 2015	1,456,000	1,932,193		
Total Budget	\$ 10,383,001	\$ 10,460,533		

**Crawford County Road Commission
Required Supplementary Information
Statement of Expenditures
Budgetary Comparison Schedule
Year Ended September 30, 2016**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road:				
Construction	\$ -	\$ 136,883	\$ 116,675	\$ 20,208
Preservation	1,000,000	1,000,000	817,306	182,694
Maintenance	1,266,594	1,350,000	766,971	583,029
Local Road:				
Preservation	400,000	410,000	212,485	197,515
Maintenance	1,700,000	2,065,338	1,354,662	710,676
Primary Road Structure:				
Preservation	3,198,905	3,200,000	2,957,656	242,344
Maintenance	-	-	-	-
Local Road Structure:				
Preservation	-	-	-	-
Maintenance	-	-	-	-
State Trunkline:				
Maintenance Expense	700,000	760,000	757,167	2,833
Nonmaintenance	-	440,000	423,326	16,674
Equipment Expense - Net				
Direct			802,422	
Indirect			314,337	
Operating			219,090	
Less: Equipment Rentals			<u>(1,119,889)</u>	
	202,159	212,159	215,960	(3,801)
Administrative Expense - Net				
Administrative Expense			443,862	
Less: Overhead -State Trunkline			(95,391)	
Other Overhead			(33,163)	
Handling Charges			<u>-</u>	
	332,000	430,805	315,308	115,497
Capital Outlay - Net				
Capital Outlay			937,925	
Less: Depreciation Credits			(357,881)	
Equipment Retirements			<u>(87,324)</u>	
	(287,000)	93,650	492,720	(399,070)
Debt Service:				
Principal Payments	60,000	72,000	72,793	(793)
Interest Expense	<u>20,000</u>	<u>20,000</u>	<u>20,985</u>	<u>(985)</u>
Total Expenditures	8,592,658	10,190,835	<u>\$ 8,524,014</u>	<u>\$ 1,666,821</u>
Fund Balance - September 30, 2016	<u>1,790,343</u>	<u>269,698</u>		
Total Expenditures	<u>\$ 10,383,001</u>	<u>\$ 10,460,533</u>		

Supplementary Information

**Crawford County Road Commission
General Operating Fund
Analysis of Changes in Available Operating Balances
Year Ended September 30, 2016**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission Fund</u>	<u>TOTAL</u>
Total Revenues and Other Financing Sources	\$ 5,912,550	\$ 1,359,682	\$ 1,301,704	\$ 8,573,936
Total Expenditures	<u>5,546,543</u>	<u>1,738,526</u>	<u>1,238,945</u>	<u>8,524,014</u>
Excess of Revenues Over/(Under) Expenditures	<u>366,007</u>	<u>(378,844)</u>	<u>62,759</u>	<u>49,922</u>
Optional Transfers In (Out)	(221,631)	221,631	-	-
Interfund Transfers In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(221,631)</u>	<u>221,631</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over/(Under) Expenditures and Other (Uses)	144,376	(157,213)	62,759	49,922
Beginning Fund Balance - October 1, 2015	<u>635,051</u>	<u>310,536</u>	<u>986,605</u>	<u>1,932,192</u>
Ending Fund Balance - September 30, 2016	<u>\$ 779,427</u>	<u>\$ 153,323</u>	<u>\$ 1,049,364</u>	<u>\$ 1,982,114</u>

**Crawford County Road Commission
General Operating Fund
Analysis of Revenues and Other Financing Sources
Year Ended September 30, 2016**

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Taxes:				
County Wide Millage	\$ 532,047	\$ 11,614	\$ -	\$ 543,661
Licenses and Permits:				
Permits	22,550	-	-	22,550
Federal Aid:				
STP Funds	216,719	-	-	216,719
Other - U.S. Forest Service	-	-	-	-
State Aid:				
Michigan Transportation Fund:				
Engineering	5,844	4,156	-	10,000
Primary Road	1,477,539	-	-	1,477,539
Local Road	-	1,050,917	-	1,050,917
Snow Removal	-	64,892	-	64,892
Economic Development:				
Rural Primary	-	-	-	-
Forest Road	89,057	-	-	89,057
Other State	3,136,930	-	-	3,136,930
Contributions From Local Units:				
Townships	-	143,333	-	143,333
City	-	-	-	-
Charges For Services:				
Trunkline Maintenance	-	-	876,747	876,747
Trunkline Nonmaintenance	-	-	423,326	423,326
Salvage Sales	-	6,191	-	6,191
Interest and Rents:				
Interest Earned	1,659	405	2,154	4,218
Property Rentals	-	-	4,947	4,947
Other Revenues:				
Gain (Loss) on Equipment Disposals	(75,706)	-	(5,470)	(81,176)
Other Contributions	-	67,337	-	67,337
Other	6,051	10,837	-	16,888
Total Revenue	5,412,690	1,359,682	1,301,704	8,074,076
Other Financing Sources				
Lease Proceeds	499,860	-	-	499,860
Total Revenue and Other Financing Sources	\$ <u>5,912,550</u>	\$ <u>1,359,682</u>	\$ <u>1,301,704</u>	\$ <u>8,573,936</u>

**Crawford County Road Commission
General Operating Fund
Analysis of Expenditures
Year Ended September 30, 2016**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission Fund</u>	<u>Total</u>
Primary Road:				
Construction	\$ 116,675	\$ -	\$ -	\$ 116,675
Preservation	817,306	-	-	817,306
Maintenance	766,971	-	-	766,971
Local Road:				
Preservation	-	212,485	-	212,485
Maintenance	-	1,354,662	-	1,354,662
Primary Road Structure:				
Preservation	2,957,656	-	-	2,957,656
Maintenance	-	-	-	-
Local Road Structure:				
Preservation	-	-	-	-
Maintenance	-	-	-	-
State Trunkline:				
Maintenance Expense	-	-	757,167	757,167
Nonmaintenance	-	-	423,326	423,326
Equipment Expense (Net) (Per Page 33)	61,961	92,010	61,989	215,960
Administrative Expense (Net)(Per Page 33)	235,939	79,369	-	315,308
Capital Outlay (Net) (Per Page 33)	496,257	-	(3,537)	492,720
Debt Service:				
Principal Payments	72,793	-	-	72,793
Interest Expense	20,985	-	-	20,985
Total Expenditures	<u>\$ 5,546,543</u>	<u>\$ 1,738,526</u>	<u>\$ 1,238,945</u>	<u>\$ 8,524,014</u>



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Robert J. Carpenter, CPA
Rodney C. Robertson, CPA

February 13, 2017

Management and the Board of County Road Commissioners
Crawford County Road Commission
Grayling, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Crawford County Road Commission as of and for the year ended September 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered Crawford County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures 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 a governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control. We consider the following deficiency to be a significant deficiency in internal control.

Lack of adequate controls to produce full-disclosure GAAP basis financial statements.

Requirement: All Michigan governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Road Commission's management. The preparation of financial

statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: The Road Commission, as is common with smaller and medium-sized entities, has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Road Commission's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal controls.

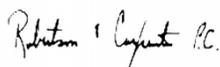
Cause: This condition was caused by the Road Commission's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Road Commission to perform this task internally.

Effect: The result of this condition is that the Road Commission lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of responsible officials: The Road Commission has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Road Commission to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

This is a repeat comment from our letter dated March 9, 2016.

This communication is intended solely for the information and use of management, the Road Commission Board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



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February 13, 2017

Management and the Board of Road Commissions
Crawford County Road Commission
500 Huron Street
Grayling, MI 49738

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Crawford County Road Commission for the year ended September 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 12, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Crawford County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2016. We noted no transactions entered into by Crawford County Road Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 Crawford County Road Commission's financial statements were:

Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

The assumptions used in the actuarial valuations of the pension and OPEB plans are based on historical trends and industry standards.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant 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 clearly 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 each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 13, 2017.

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 Crawford 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 Crawford 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.

Other Matters

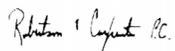
We applied certain limited procedures to the Management Discussion and Analysis, Budgetary Comparison Schedule for both the General and Road Funds, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining statements and individual fund statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method 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 to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the Crawford County Road Commission Board and management of Crawford County Road Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Robertson & Carpenter CPAs, P.C.