

CRAWFORD COUNTY ROAD COMMISSION

(A Component Unit of Crawford County, Michigan)

Financial Statements

For the Year Ended September 30, 2017



SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

Crawford County Road Commission

(A Component Unit of Crawford County)

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SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

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A VETERAN OWNED BUSINESS

Independent Auditor's Report

To the Board of County Road Commissioners
County of Crawford, Michigan
Grayling, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the *Crawford County Road Commission*, a component unit of Crawford County, Michigan, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the *Crawford County Road Commission*, as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-7), budgetary comparison information (pages 31-32), schedule of funding progress (page 33), schedule of changes in net pension liability and related ratios (page 34) and the schedule of employer contributions (page 35) 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 other supplementary information schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2018, on our consideration of the **Crawford 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 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 **Crawford County Road Commission's** internal control over financial reporting and compliance.

Smith + Klayhewicz PC

Saginaw, Michigan

January 25, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Crawford County Road Commission

Management's Discussion and Analysis

As management of the Crawford County Road Commission, we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended September 30, 2017. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Crawford County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Crawford County Road Commission's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the Crawford County Road Commission's assets, deferred outflows, liabilities and deferred inflows, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., vested sick and vacation).

Governmental Fund Financial Statements

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Road Commission's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds financial statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Crawford County Road Commission

Management's Discussion and Analysis

The Crawford County Road Commission adopts an annual appropriated budget for the General Operating / Road Fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and governmental fund financial statements. The notes to financial statements can be found on pages 12-30 of this report.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Analysis

As noted above net position may serve over time as a useful indicator of the Road Commission's financial position. As shown on the table below, the Road Commission's assets and deferred outflows exceeded liabilities and deferred inflows by \$12,824,394 at the end of the year.

Net position is separated into two major components, net investment in capital assets of \$15,661,951 and unrestricted net position / (deficit) of \$(2,837,557). The investment in capital assets reflects the Road Commission's investment in capital assets (i.e., land, infrastructure, buildings, vehicles and equipment), less any related debt issued to acquire those assets that are still outstanding. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Road Commission's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net position / (deficit) represents the remaining amount may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the year, the Road Commission reported a positive balance in net position invested in capital assets and a negative balance in unrestricted net position. The deficit situation mainly results from implementing GASB statement number 68 in a prior year, which required the recording of a net pension liability in excess of \$5.9 million on the Statement of Net Position in the current year.

The following compares the net position at September 30, 2017 and 2016 in a condensed format:

	<u>2017</u>	<u>2016</u>
Assets –		
Current and other unrestricted assets	\$ 3,523,063	\$ 2,947,904
Capital and other long-term assets	<u>16,707,720</u>	<u>15,539,113</u>
Total assets	<u>20,230,783</u>	<u>18,487,017</u>
Deferred outflows of resources	<u>855,366</u>	<u>1,007,855</u>
Liabilities –		
Current liabilities	1,043,805	822,710
Long-term liabilities	<u>7,174,276</u>	<u>6,953,945</u>
Total liabilities	<u>8,218,081</u>	<u>7,776,655</u>

Crawford County Road Commission

Management's Discussion and Analysis

	<u>2017</u>	<u>2016</u>
Deferred inflows of resources	\$ 43,674	\$ -
Net position –		
Net investment in capital assets	15,661,951	14,768,092
Unrestricted (deficit)	<u>(2,837,557)</u>	<u>(3,049,875)</u>
Total net position	<u>\$ 12,824,394</u>	<u>\$ 11,718,217</u>

The following presents a comparison of revenues, expenses and changes in net position for the year ended September 30, 2017 and 2016 in a condensed format:

	<u>2017</u>	<u>2016</u>
Revenues –		
Charges for services	\$ 1,873,142	\$ 1,472,147
Operating grants and contributions	3,368,672	2,678,566
Capital grants and contributions	530,295	3,353,649
General revenue	<u>659,730</u>	<u>569,714</u>
Total	<u>6,431,839</u>	<u>8,074,076</u>
Expenses –		
Public works	5,294,697	4,371,142
Debt service	<u>30,965</u>	<u>20,985</u>
Total	<u>5,325,662</u>	<u>4,392,127</u>
Change in net position	<u>\$ 1,106,177</u>	<u>\$ 3,681,949</u>

Financial Analysis of Governmental Fund Financial Statements

As noted earlier, the focus of the governmental fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information can be useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of government's net resources available to finance routine and emergency spending in succeeding years.

For the year ended September 30, 2017, the fund balance of the Road Commission increased by \$354,064 to \$2,749,258. Of this amount, \$599,990 is not spendable (prepaid items and inventory), \$1,879,268 is restricted because it may only be used to finance future maintenance projects on the road and bridge system.

Total revenues were \$6,431,839, a decrease of \$1,642,237 as compared to the prior year. This was primarily the result of decreases in spending of proceeds received from the State for priority road improvement projects. Total expenditures of \$6,540,879 decreased \$1,983,135 over the prior year, again mainly as a result of decreased activity for priority road improvement projects.

Crawford County Road Commission

Management's Discussion and Analysis

BUDGETARY HIGHLIGHTS

The Road Commission amended its annual budget several times to reflect status changes in preservation-structural improvements, State trunkline maintenance projects and capital outlay. The final revenue budget was \$1,068,701 less than the original budget due to changes in projections of several sources, including federal pass-through, contributions from local units and State trunkline maintenance. The final expenditure budget was \$291,271 more than the original budget due mainly to changes in projections for capital outlay expenditures. The actual revenues were \$170,539 more than the amended budget. The actual expenditures were \$1,108,228 less than the amended budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The Road Commission had \$16,681,113 in net capital assets at the end of the year, a net increase of \$1,142,000. The reason for the increase from the previous year is the result of capital outlay and the capitalization of road and bridge projects funded by Federal, State and local sources. A summary of capital assets net of accumulated depreciation at year-end in comparison to the previous year is as follows:

	<u>2017</u>	<u>2016</u>
Nondepreciable capital assets	\$ 221,499	\$ 129,322
Buildings and improvements, net	1,002,431	1,017,341
Equipment, net	1,438,048	1,088,578
Infrastructure, net	<u>14,019,135</u>	<u>13,303,872</u>
Total	<u>\$ 16,681,113</u>	<u>\$ 15,539,113</u>

Additional information about the Road Commission's capital assets activity may be found in Note C on page 21 of the financial statements.

Long-term Liabilities – At the beginning of the year the Road Commission had three installment purchase agreements outstanding that amounted to \$771,020. The Road Commission paid the scheduled principal and interest payments on that installment debt during the year and entered into two more installment purchase agreements for the purchase of equipment in the amount of \$463,104. This activity, along with changes in accrued compensated absences resulted in an overall increase in the outstanding balance in long-term liabilities of \$244,979.

Additional information on the Road Commission's long-term liabilities may be found in Note C on page 19 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board of County Road Commissioners considered many factors when setting the fiscal year 2017/18 budget. A key factor that was used in the development of the budget was the number of projects to be completed and Township contributions to be received toward the projects under the cost-share program with Townships and others. Another key factor is the economy. During 2016/17, the Road Commission derived approximately 50% of its revenue from gas and fuel

Crawford County Road Commission

Management's Discussion and Analysis

taxes collected. Michigan Transportation Funds are expected to increase significantly over the five (5) years due to State legislation that increased the gas and fuel tax in 2016. The Road Commission adopted a balanced budget for 2017/18 that reflected this new legislation. The Board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road and bridge in Crawford County's transportation system. Therefore, the Board attempts to spend the public's money wisely and equitably, and in the best interest of the motoring public and the citizens of Crawford County.

CONTACTING THE ROAD COMMISSION'S 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 Road Commission for Crawford County administrative office at 500 Huron, Grayling, MI 49738.



BASIC FINANCIAL STATEMENTS

Crawford County Road Commission

General Operating / Road Fund Balance Sheet and Statement of Net Position

September 30, 2017

	General Operating / Road Fund	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 2,300,283	\$ -	\$ 2,300,283
Receivables			
Due from other governmental units	621,233	-	621,233
Due from private sources	1,557	-	1,557
Inventories			
Equipment material and parts	111,354	-	111,354
Road materials	361,841	-	361,841
Prepaid items	126,795	-	126,795
Net OPEB asset (obligation)	-	26,607	26,607
Capital assets, net			
Assets not being depreciated	-	221,499	221,499
Assets being depreciated	-	16,459,614	16,459,614
Total assets	3,523,063	16,707,720	20,230,783
Deferred outflows of resources	-	855,366	855,366
Total assets and deferred inflows	\$ 3,523,063	17,563,086	21,086,149
Liabilities			
Accounts payable	\$ 762,733	-	762,733
Due to State of Michigan	14,563	-	14,563
Accrued liabilities	66,679	-	66,679
Advances			
State trunkline equipment	131,184	-	131,184
Deferred / unearned revenue	68,646	-	68,646
Long-term liabilities			
Net pension liability	-	5,936,090	5,936,090
Installment purchase agreements	-	1,019,162	1,019,162
Accrued compensated absences	-	219,024	219,024
Total liabilities	1,043,805	7,174,276	8,218,081
Deferred inflows of resources	-	43,674	43,674
Fund Balance / Net Position			
Fund balance			
Nonspendable			
Inventory	473,195	(473,195)	-
Prepaid items	126,795	(126,795)	-
Restricted for road system	1,879,268	(1,879,268)	-
Total fund balance	2,479,258	(2,479,258)	-
Total liabilities, deferred inflows and fund balance	\$ 3,523,063		
Net Position:			
Net investment in capital assets		15,661,951	15,661,951
Unrestricted (deficit)		(2,837,557)	(2,837,557)
Total net position		\$ 12,824,394	\$ 12,824,394

The accompanying notes are an integral part of these financial statements.

Crawford County Road Commission

Reconciliation of Fund Balances of the General Operating / Road Fund to Net Position of Governmental Activities

September 30, 2017

Fund balances - General Operating / Road Fund	\$	2,479,258
Amounts reported for <i>governmental activities</i> 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 General Operating / Road Fund.		
Add - land and improvements		73,092
Add - construction in progress		148,407
Add - property and equipment		7,412,857
Add - infrastructure		16,441,937
Deduct - accumulated depreciation		(7,395,180)
Certain pension-related amounts such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the fund financial statements		
Deferred outflows related to the net pension liability		855,366
Deferred inflows related to the net pension liability		(43,674)
Net pension liability		(5,936,090)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the General Operating / Road Fund.		
Deduct - installment purchase agreements		(1,019,162)
Deduct / add - net OPEB (obligation) / asset		26,607
Deduct - accrued compensated absences		(219,024)
Net position of governmental activities	\$	<u>12,824,394</u>

The accompanying notes are an integral part of these financial statements.

Crawford County Road Commission

General Operating / Road Fund Statement of Revenues, Expenditures and Changes in Fund Balance and Statement of Activities

For the Year Ended September 30, 2017

	General Operating / Road Fund	Adjustments	Statement of Activities
Expenditures/expenses			
Public works	\$ 3,975,313	\$ 1,319,384	\$ 5,294,697
Capital outlay	2,319,638	(2,319,638)	-
Debt service	245,928	(214,963)	30,965
Total expenditures/expenses	6,540,879	(1,215,217)	5,325,662
Program revenue			
Charges for services	1,873,142	-	1,873,142
Operating grants and contributions			
State transportation and other funds	3,368,672	-	3,368,672
Capital grants and contributions			
Federal sources	144,108	-	144,108
State sources	386,187	-	386,187
Total program revenue	5,772,109	-	5,772,109
Net program revenue			446,447
General revenue			
Sales of capital assets and yard materials	78,269	-	78,269
Property taxes	574,404	-	574,404
Interest and rents	7,057	-	7,057
Total general revenue	659,730	-	659,730
Total revenue	6,431,839		
Revenue over (under) expenditures	(109,040)	109,040	-
Other financing sources			
Proceeds from installment purchases	463,104	(463,104)	-
Changes in net position	354,064	752,113	1,106,177
Fund balance / net position:			
Beginning of the year, as restated	2,125,194	9,593,023	11,718,217
End of the year	\$ 2,479,258	\$ 10,345,136	\$ 12,824,394

The accompanying notes are an integral part of these financial statements.

Crawford County Road Commission

Reconciliation of Net Change in Fund Balance of the General Operating / Road Fund to Change in Net Position of Governmental Activities

For the Year Ended September 30, 2017

Change in fund balance - General Operating / Road Fund \$ 354,064

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 and reported as depreciation expense.

Add - capital outlay	1,013,903
Add - infrastructure purchases	1,305,735
Deduct - depreciation expense	(1,131,184)
Deduct - loss on disposal of capital assets	(46,454)

Proceeds from installment purchase agreements and payment of the principal on long-term debt provides and consumes current financial resources. These transactions however, do not affect net position. The following activity related to long-term debt are reconciling items between the government-wide and the fund financial statements.

Proceeds from issuance of long-term debt	(463,104)
Principal paid on long term debt	214,963

The difference between the actuarially determined Annual Required Contribution to fund other postemployment benefits and actual contributions made during the year is reported as an expense in the government-wide Statement of Activities, but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Operating / Road Fund.

26,607

The change in the net pension liability and related deferred inflows / outflows of resources does not impact current financial resources and therefore is not reported in the fund financial statements

Deferred outflows related to the net pension liability	(152,489)
Deferred inflows related to the net pension liability	(43,674)
Net pension liability	24,647

The change in the accrued compensated absences is reported as an expense in the Statement of Activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Operating / Road Fund.

3,163

Change in net position of governmental activities \$ 1,106,177

The accompanying notes are an integral part of these financial statements.

Crawford County Road Commission

Notes to Financial Statements

NOTE 1 – Summary of Significant Accounting Policies

The accounting policies adopted by the *Crawford County Road Commission* (the “Road Commission”) conform to accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental entities. The following is a summary of the significant policies.

Reporting Entity

The *Crawford County Road Commission* is a discrete component unit of the County of Crawford, Michigan. The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable. The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Michigan Department of Transportation for work done by the County on State trunklines, Federal Transportation funds and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is established pursuant to the County Road Law (MCL224.1) and operates under a 3-member elected Board of County Road Commissioners. The Board of County Road Commissioners establishes policies and reviews operations of the Road Commission. 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 Road Commission has levied 1.0000 mills county-wide for road repair and maintenance. The Road Commission provides services to 6 Townships in Crawford County and maintains approximately 959 miles of State, primary and local roads.

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 Road Commission, excluding fiduciary activity (Employee Healthcare Benefit Trust Fund). *Governmental activities* are supported by charges for services and intergovernmental grants and contributions.

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. Interest and other items not properly included among program revenues are reported as general revenues.

A combined financial statement is provided for the General Operating / Road Fund Balance Sheet, Statement of Net Position, Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities. The General Operating / Road Fund is considered to be a major fund for financial reporting purposes.

Crawford County Road Commission

Notes to Financial Statements

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund (General Operating / Road Fund) financial statements (Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments are recorded only when payment is due.

State and Federal revenue, licenses and interest associated with the current fiscal period are all considered susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Road Commission. 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 1.0000 mill levy for road maintenance and repair generated as of the taxable valuation of the preceding December 31st is recognized as revenue in these financial statements.

The Road Commission reports the following major *governmental* fund:

The *General Operating / Road Fund* is the Road Commission's primary operating fund. It accounts for all financial resources of the Road Commission, except those required to be accounted for in another fund.

Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position or Equity

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and deposits in demand and time deposit accounts.

Receivables and Payables

All receivables and payables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid Items

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

Inventory

Inventory consists of various operating parts, supplies and road material and is stated at cost, using the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as they are used.

Crawford County Road Commission

Notes to Financial Statements

Capital Assets

Land, buildings, equipment and infrastructure assets (roads, bridges and other similar items) are reported as capital assets in the government-wide financial statements (Statement of Net Position). Capital assets are defined by the Road Commission as land, buildings, improvements and equipment (except road equipment), with an initial individual cost of \$1,000 or more and an estimated useful life in excess of two (2) years. No minimum cost is used to record road equipment capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital outlay expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (General Operating / Road Fund) column. Infrastructure is reported prospectively from 1980.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating / Road Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating / Road Fund.

Depreciation is recorded over the following estimated useful lives using the sum-of-years digits method for road equipment and the straight-line method for all other capital assets and infrastructure:

Buildings and improvements	8 to 50 years
Road equipment	5 to 8 years
Shop equipment	5 to 10 years
Office equipment	5 to 10 years
Engineering equipment	5 to 10 years
Infrastructure – bridges	12 to 50 years
Infrastructure – roads	5 to 30 years

Deferred Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element 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. The Road Commission has one item that qualifies for reporting in this category, which is the deferred outflow of resources related to the defined benefit pension plan. The deferred outflows of resources related to the defined benefit pension plan are reported in the government-wide financial statements. The deferred outflows of resources result from the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings, changes in assumptions, differences between expected and actual experience and contributions to the defined benefit pension plan subsequent to the measurement date.

Advances from the State of Michigan

The State of Michigan advances funds on a State maintenance agreement that it has with the Road Commission for specific maintenance performed by the Road Commission during the year. The advance is considered a current liability because it is subject to repayment annually, based upon results of audit procedures performed by the State of Michigan.

Crawford County Road Commission

Notes to Financial Statements

State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. The amount of the adjustments, if any, as a result of current year operations cannot be reasonably determined.

Compensated Absences

In accordance with the union contract and policies adopted by the Board of County Road Commissioners, employees have a vested right upon termination of employment to receive compensation for accumulated unused sick leave and vacation time under formulas and conditions specified in the contract / policies.

Vacation and sick leave payable is reported in the General Operating / Road Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

Long-term Obligations

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

Fund Equity

In the financial statements, the General Operating / Road Fund reports the following components of fund balance:

Nonspendable

Amounts that are not in spendable form or are legally or contractually required to be maintained intact are reported as nonspendable fund balance.

Restricted

Amounts that are legally restricted by externally imposed constraints that are placed on the use of resources by grantors, contributors, or laws or regulations of other governments are reported as restricted fund balance.

Committed

Amounts that have been formally set aside by the Board of County Road Commissioners for use for specific purposes are reported as committed fund balance. Commitments are made, and can only be rescinded by resolution of the Board of County Road Commissioners.

Assigned

Amounts that are constrained by the Road Commission's *intent* to be used for specific purposes, but are neither restricted nor committed are reported as assigned fund balance. The Board of County Road Commissioners has authorized the Managing Director or her designee the authority to assign fund balance on behalf of the Road Commission.

Unassigned

Amounts that have not been restricted, committed or assigned to specific purposes are reported as unassigned fund balance.

Crawford County Road Commission

Notes to Financial Statements

When the Road Commission incurs expenditures 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.

Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position will sometimes report deferred inflows of resources in a separate section. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until that time. At year-end, the Road Commission had one type of item that qualified for reporting in this category; differences between expected and actual experience related to its defined benefit pension plan. Additional information regarding the differences between expected and actual experience related to its defined benefit pension plan can be found in note D of these financial statements.

Equipment Rental

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated (charged) to the various activities. The effect of this allocation is offset to equipment expenditures / expenses.

Estimates

In preparing financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE B - Stewardship, Compliance and Accountability

Auditing and Reporting

The audit was performed 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 as described in the Independent Auditors' Report and with the types of compliance requirements described in Public Act 51 of 1951, as amended. The financial statements were prepared in accordance with U.S. GAAP, as described in the Independent Auditor's Report and also with applicable rules of the Michigan State Department of Transportation.

NOTE C - Detailed Notes on Select Financial Statement Captions / Transaction Classes

Deposits and Investments

At year-end, the carrying amounts of the Road Commission's deposits and investments were as follows:

	<u>General Operating / Road Fund</u>
Cash on hand	\$ 100
Deposits with financial institutions - time	259,327
Deposits with financial institutions - demand	<u>2,040,856</u>
Total	<u>\$ 2,300,283</u>

Crawford County Road Commission

Notes to Financial Statements

Deposit and Investment Risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Interest Rate Risk

The Road Commission's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Road Commission's investment policy does not have specific limits in excess of State law on investment credit risk.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require, and the Road Commission does not have a policy for deposit custodial credit risk. At year-end, bank balance deposits in the amount of \$2,302,814 were held by Crawford County and may have been partially covered by the FDIC. The amount of federal depository insurance is determined for the County as a whole and cannot be separately identified for the Road Commission.

The Road Commission has determined that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk associated with each financial institution. The County's policy is to conduct business only with financial institutions that have an acceptable estimated level of risk as a depository.

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require a policy for investment custodial credit risk. The Road Commission's investment policy does not address custodial credit risk for investments.

Crawford County Road Commission

Notes to Financial Statements

At year-end, the Road Commission had no investments and therefore, did not have any custodial credit risk.

Concentration of Credit Risk

State law limits allowable investments but does not limit concentration of credit risk. The Road Commission's investment policy does not have specific limits in excess of State law on concentration of credit risk. At year-end, the Road Commission had no investments and therefore, did not have any concentrations of credit risk.

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Receivables

The balance in receivables was comprised of the following:

Michigan Transportation Fund	\$	302,763
State trunkline maintenance		69,284
State trunkline non-maintenance		138,098
Due on road agreements – Townships		111,088
Sundry accounts receivable		<u>1,557</u>
Total	\$	<u><u>622,790</u></u>

Long-term Debt

Long-term debt activity for the year was as follows:#

	Beginning Balance <u>(restated)</u>	<u>Increases</u>	<u>(Decreases)</u>	Ending Balance	Due Within One Year
Installment purchase agreement: Motor graders maturing June 2021 bearing interest of 4.24%.	\$ 488,430	\$ -	\$ (29,844)	\$ 458,586	\$ 31,134
Installment purchase agreement: Loader maturing October 2017 bearing interest of 1.13287%.	160,846	-	(15,846)	145,000	145,000
Installment purchase agreement: Loader maturing September 2017 bearing interest of 1.13287%.	121,744	-	(121,744)	-	-
Installment purchase agreement: Loader maturing January 2023 bearing interest of 2.52637%.	-	193,118	-	193,118	9,678
Installment purchase agreement: Vehicles maturing October 2021 bearing interest of 1.97%.	-	269,986	(47,528)	222,458	52,837
Compensated Absences	<u>222,187</u>	<u>-</u>	<u>(3,163)</u>	<u>219,024</u>	<u>9,975</u>
Total	<u>\$ 993,207</u>	<u>\$ 463,104</u>	<u>\$ (218,125)</u>	<u>\$ 1,238,186</u>	<u>\$ 248,624</u>

Crawford County Road Commission

Notes to Financial Statements

The Road Commission's annual debt service requirements to maturity for installment purchase agreements are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 238,649	\$ 26,330
2019	99,560	24,838
2020	102,373	22,025
2021	431,015	15,605
2022	18,951	3,452
2023	<u>128,614</u>	<u>805</u>
Total	<u>\$ 1,019,162</u>	<u>\$ 93,055</u>

Accrued Compensated Absences

In accordance with Board policy and labor agreements, employees have a vested right upon termination of employment to receive compensation for accumulated sick leave and vacation under formulas and conditions specified in the policy and agreements. The estimated dollar amounts of these vested rights, which have been accrued on the government-wide financial statements, amounted to approximately \$157,722 for sick leave and \$61,302 for vacation at year-end.

Crawford County Road Commission

Notes to Financial Statements

Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance (restated)	Additions	Disposals	Ending Balance
Capital assets not being depreciated				
Land and improvements	\$ 73,092	\$ -	\$ -	\$ 73,092
Construction in progress	56,230	148,407	(56,230)	148,407
Total capital assets not being depreciated	129,322	148,407	(56,230)	221,499
Capital assets being depreciated				
Buildings and improvements	1,864,576	35,416	-	1,899,992
Road equipment	4,658,069	870,996	(258,650)	5,270,415
Shop equipment	127,672	15,314	(2,042)	140,944
Office equipment	159,691	-	(71,647)	88,044
Engineer equipment	13,462	-	-	13,462
Infrastructure - roads	12,525,943	1,301,376	-	13,827,319
Infrastructure – bridges	2,610,259	4,359	-	2,614,618
Total capital assets being depreciated	21,959,672	2,227,461	(332,339)	23,854,794
Less accumulated depreciation				
Buildings and improvements	(847,235)	(50,326)	-	(897,561)
Road equipment	(3,633,096)	(474,977)	213,284	(3,894,789)
Shop equipment	(71,326)	(13,753)	2,042	(83,037)
Office equipment	(152,432)	(1,656)	70,559	(83,529)
Engineer equipment	(13,462)	-	-	(13,462)
Infrastructure – roads	(1,826,892)	(525,172)	-	(2,352,064)
Infrastructure – bridges	(5,438)	(65,300)	-	(70,738)
Total accumulated depreciation	(6,549,881)	(1,131,184)	285,885	(7,395,180)
Net capital assets being depreciated	15,409,791	1,096,277	(46,454)	16,459,614
Total net capital assets	\$ 15,539,113	\$ 1,244,684	\$ (102,684)	\$ 16,681,113

NOTE D – Defined Benefit Pension Plan (MERS)

Plan Description

The Road Commission participates in an agent multiple-employer defined benefit pension plan administered by the Municipal Employees' Retirement System of Michigan (MERS) that covers all full-time employees of the Road Commission. MERS was established as a State-wide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member retirement Board. MERS issues a publicly available financial report which includes the financial statements and required supplemental information of this defined benefit plan. This report may be obtained accessing the MERS website at www.mersofmich.com.

Crawford County Road Commission

Notes to Financial Statements

Benefits Provided

The Plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS. Closed divisions are comprised of employee groups that were hired prior to December 1, 2014; the open division is comprised of employee groups that were hired on or after December 1, 2014.

General Teamster Division (closed)

Retirement benefits are calculated as 2.50% of the employee's final 5-year average salary times the employee's years of service (80% maximum). Normal retirement age is 60 years, with early retirement at age 50 with 25 years of service (reduced) or age 55 with 15 years of service (unreduced). The vesting period is 10 years.

Non-union Division (open)

Retirement benefits are calculated as 2.50% of the employee's final 5-year average salary times the employee's years of service (80% maximum). Normal retirement age is 60 years, with early retirement at age 50 with 25 years of service (reduced), age 55 with 15 years of service (reduced) or age 55 with 20 years of service (unreduced). The vesting period is 10 years.

General Division (closed)

Retirement benefits are calculated as 2.00% of the employee's final 5-year average salary times the employee's years of service (no maximum). Normal retirement age is 60 years, with early retirement at age 50 with 25 years of service (reduced) or age 55 with 15 years of service (reduced). The vesting period is 8 years.

Employees are eligible for non-duty disability benefits once vested and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. An employee who leaves service may withdraw his or her contributions, plus any accumulated interest.

Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the Board of County Road Commissioners, generally after negotiations of these terms with the labor union.

Employees Covered by the Benefit Terms

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

Inactive plan members or beneficiaries currently receiving benefits	31
Inactive plan members entitled to but not yet receiving benefits	-
Active employees	<u>28</u>
Total participants	<u><u>59</u></u>

Contribution Requirements

Article 9, Section 24 of the State of Michigan constitution 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 costs of benefits earned by plan members 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.

Crawford County Road Commission

Notes to Financial Statements

During the year, the Road Commission's actuarially determined contribution rate was 29.99% of covered payroll for the General Teamsters open division, 40.10% of covered payroll for the Non-union open division; no contributions were required for the closed General division. Employees in all divisions were required to contribute to the plan at the following rates: General Teamsters open, 5.30% of their annual covered payroll; Non-union open, 3.43 % of their annual covered payroll; General closed; 1.60% of their annual covered payroll.

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.75% (plus 0.00% to 11.00% for merit and longevity)
Investment rate of return	7.75%, net of investment expense and including inflation

Mortality rates were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend for non-disabled plan members and 50% Male and 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables for disabled plan members. The actuarial assumptions used in the December 31, 2016 valuation were based on the results of the most recent actuarial experience study dated in 2015 that covers the period from January 1, 2009 through December 31, 2013.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	57.50%	5.02%	2.87%
Global fixed income	20.00	2.18	0.44
Real assets	12.50	4.23	0.53
Diversifying strategies	10.00	6.56	0.66
	100.00%		
Inflation			2.50
Administrative expenses netted above			0.75
Investment rate of return			7.75%

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

Projected Cash Flows - Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make 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.

Crawford County Road Commission

Notes to Financial Statements

Net Pension Liability

The net pension liability reported at year-end 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 actuarial valuation performed as of that date.

Changes in the net pension liability during the year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at October 1, 2016	\$ 9,038,564	\$ 3,077,827	\$ 5,960,737
Service cost	171,605	-	171,605
Interest	707,800	-	707,800
Changes in benefits	(5,560)	-	(5,560)
Expected and actual experience	(58,232)	-	(58,232)
Changes in assumptions	-	-	-
Employer contributions	-	438,313	(438,313)
Employee contributions	-	62,614	(62,614)
Net investment income	-	346,163	(346,163)
Benefit payments	(553,731)	(553,731)	-
Administrative expenses	-	(6,832)	6,832
Other changes	(2)	-	(2)
Net changes	261,880	286,527	(24,647)
Balance at September 30, 2017	\$ 9,300,444	\$ 3,364,354	\$ 5,936,090

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the Road Commission's net pension liability, calculated using the discount rate of 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate:

	1% Decrease in Rate to 7.00%	Assumed Discount Rate 8.00%	1% Increase in Rate to 9.00%
Net Pension Liability	\$ 6,931,077	\$ 5,936,090	\$ 5,087,203

Pension Plan Fiduciary Net Position - Detailed information about the Plan's fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows or resources related to pension and pension expense, information about the Plan's fiduciary net position and addition to / deduction from fiduciary net position have been determined on the same basis as they are reported by the Plan. The Plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Crawford County Road Commission

Notes to Financial Statements

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

During the year the Road Commission recognized pension expense of \$53,902. At year-end, the Road Commission reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions to the plan subsequent to the measurement date	\$ 434,166	\$ -
Net difference between projected and actual earnings on pension plan investments	150,832	-
Changes in assumptions	64,523	-
Differences between expected and actual experience	205,845	43,674
Total	\$ 855,366	\$ 43,674

The amount reported as deferred outflows and deferred inflows of resources related to the net difference between projected and actual earnings on pension plan investments, changes in assumptions and differences between expected and actual experience will be recognized as pension expense as follows:

Year Ending September 30,	Net Amount
2018	\$ 177,726
2019	177,726
2020	42,540
2021	(20,466)
Total	\$ 377,526

The amount reported as deferred outflows of resources related to employer contributions to the plan made subsequent to the measurement date of \$434,166 will impact the net pension liability in 2017/18, as opposed to being amortized to pension expense over a period of years.

NOTE E – Postemployment Benefits Other than Pensions (OPEB)

Plan Description

The Road Commission administers a single-employer defined benefit healthcare plan. The plan provides healthcare benefits for eligible employees and their spouses upon retirement, in accordance with labor contracts. The benefits are provided under the collective bargaining agreement for union employees and by resolution of the Board of County Road Commissioners for nonunion employees. At year-end there were 23 retirees eligible for benefits under the plan. The Road Commission has no obligation to make contributions in advance of when the insurance premiums or claims are due for payment (in other words, this may be financed on a “pay-as-you-go” basis).

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 postemployment 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

Crawford County Road Commission

Notes to Financial Statements

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 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.

Funding Policy

The contribution requirements of plan members and the Road Commission are established by labor contracts and may be amended by the Board of County Road Commissioners through labor negotiations. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined by the Board of County Road Commissioners.

Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due. During the year, the Road Commission paid current retiree premiums of \$111,407. The premiums for postemployment healthcare benefits were paid and recorded as expenditures in the General Operating / Road Fund.

Annual OPEB Cost and Net OPEB Obligation

The Road Commission's annual other postemployment benefit (OPEB) cost (expense) is calculated based the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 (thirty) years. The Road Commission has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than 100 (one hundred) total plan members.

The Road Commission estimated the cost of providing retiree healthcare benefits using the alternative measurement method valuation as of September 30, 2016. 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 OPEB obligation to the Retiree Health Plan:

Annual required contribution (recommended)	\$	84,800
Interest on the prior year's net OPEB obligation		-
Less adjustment to the annual required contributions		-
Annual OPEB cost		<u>84,800</u>
Amounts contributed:		
Payments of current premiums		(111,407)
Advance funding		<u>-</u>
Increase (decrease) in net OPEB obligation		(26,607)
OPEB obligation – beginning of year		<u>-</u>
OPEB obligation (asset) – end of year	\$	<u>(26,607)</u>

Crawford County Road Commission

Notes to Financial Statements

Fiscal Year Ended	<u>Three-Year Trend Information</u>		
	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
	\$	%	\$
9/30/2015	121,272	99%	28,732
9/30/2016	75,483	147%	-
9/30/2017	84,800	131%	(26,607)

The funded status of the plan as of September 30, 2016 (the most recent valuation date) was as follows:

Actuarial value of assets	\$	-
Actuarial accrued liability (AAL)		956,909
Unfunded actuarial accrued liability (UAAL)		959,909
Funded ratio		0%
Annual covered payroll	\$	1,325,779
Ratio of UAAL to covered payroll		72%

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

Actuarial Methods and Assumptions

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

Retirement age for active employees

Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 65, or at the first subsequent year in which the member would qualify for benefits.

Marital status

Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality

Life expectancies were based on mortality tables from the United States Social Security Administration. The 2011 Period Life Table for males and females was used.

Crawford County Road Commission

Notes to Financial Statements

Turnover

Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate

The expected rate of increase in healthcare insurance premiums was 0% due to the nature of the Road Commission's plan provisions, which cap the annual benefit payments and is not subject to increase based upon the existing provisions.

Healthcare premiums

Health insurance benefits paid for retirees during the fiscal year ended September 30, 2016 were used as the basis for calculation of the present value of total benefits to be paid.

Payroll growth rate

The expected long-term payroll growth rate was assumed to be 0.10% based on historical information related to compensation paid to Road Commission employees.

Net Equipment Expenditures Balance

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure in the various maintenance activities. An expenditure credit is reported as an offset against the equipment expenditure activities. Accordingly, the equipment rental does not affect total expenditures or the available operating equity of the Road Commission's General Operating Fund. The net balance in equipment expenditures for the year is comprised of the following:

Equipment –	
Direct	\$ 991,660
Indirect	355,763
Operating	241,497
Less equipment rental credits	<u>(1,181,010)</u>
Total	<u>\$ 407,910</u>

Capital Outlay Expenditure Balance

On the governmental financial statements, the Road Commission reports a depreciation credit to offset capital outlay as a result of charging depreciation to various expenditure accounts. The net book value of capital asset retirements are also reported as a credit against capital outlay. The balance in capital outlay expenditures for the year is comprised of the following:

Capital outlay	\$ 906,289
Less equipment retirements	(45,366)
Less depreciation / depletion	<u>(558,065)</u>
Total	<u>\$ 302,858</u>

Crawford County Road Commission

Notes to Financial Statements

Risk Management

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for healthcare claims. The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The Michigan County Road Commission Self-insurance Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase excess commercial insurance coverage and to pay member claims in excess of deductible amounts. The pool provides loss coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, trunkline liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. The Road Commission's exposure is limited to \$1,000 per claim; all other risk is transferred to the Pool. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three (3) fiscal years.

The Road Commission is a member of the County Road Association Self-Insurance Fund for workers' compensation claims. As a member of the fund, the Road Commission is fully insured for workers' compensation claims incurred.

Contingencies

At times, the Road Commission is named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit. Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

Under the terms of various Federal and State grants periodic audits are required, and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

Federal Award Expenditures / Single Audit

The Michigan Department of Transportation (MDOT) requires that Road Commissions report all Federal and State grants pertaining to their County. During the year, the Federal aid received and expended by the Road Commission was \$144,108 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the Road Commission administers the grant and either performs the work or contracts it out. Because the Road Commission expended less than \$750,000 in negotiated projects, no single audit was required.

Crawford County Road Commission

Notes to Financial Statements

Restatements / Prior Period Adjustments

During the year, restatements were necessary to properly account for beginning fund balance and net position. The adjustments were due to prepaid items, unearned revenue, net capital assets and accrued compensated absences. The errors have been corrected and had the following effects on beginning fund balance and net position:

	<u>Fund Balance</u>	<u>Net Position</u>
Beginning balances	\$ 1,982,115	\$ 11,608,757
Adjustment for prepaid items	39,046	39,046
Adjustment for unearned revenue	104,033	104,033
Adjustment for capital assets	-	21,974
Adjustment for accrued compensated absences	-	(55,593)
Beginning balances, as restated	<u>\$ 2,125,194</u>	<u>\$ 11,718,217</u>

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REQUIRED SUPPLEMENTARY INFORMATION

Crawford County Road Commission

General Operating / Road Fund

Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual

For the Year Ended September 30, 2017

	Original Budget	Final Budget	Actual	Over (Under) Budget
Property taxes	\$ 537,770	\$ 574,470	\$ 574,404	\$ (66)
Licenses and permits	20,000	28,500	28,658	158
Federal sources				
Other	2,290,000	490,187	-	(490,187)
Other	-	-	144,108	144,108
State sources				
Michigan transportation funds				
Engineering	10,000	10,000	10,000	-
Snow removal	-	-	67,536	67,536
Allocation	2,923,000	3,331,422	3,202,080	(129,342)
Economic development funds	-			
Forest road (E)	89,000	89,056	89,056	-
Other	438,131	-	352,320	352,320
Other				
Other	-	-	33,867	33,867
Contributions from local units				
City and Village	1,600	230,840	-	(230,840)
Townships	-	-	220,862	220,862
Charges for services				
State trunkline maintenance	1,000,000	1,480,000	1,023,233	(456,767)
State trunkline non-maintenance	-	-	594,940	594,940
Salvage sales	-	-	5,449	5,449
Other	20,000	25,025	-	(25,025)
Interest and rentals	500	1,800	7,057	5,257
Other				
Proceeds from sale of capital assets	-	-	64,984	64,984
Proceeds from sale of yard materials	-	-	13,285	13,285
Total revenue	7,330,001	6,261,300	6,431,839	170,539
Other financing sources				
Proceeds from installment purchases	-	-	\$ 463,104	463,104
Total revenue and other financing sources	\$ 7,330,001	\$ 6,261,300	\$ 6,894,943	\$ 633,643

Crawford County Road Commission

General Operating / Road Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (continued)

For the Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Primary Road				
Construction / capacity improvements	\$ -	\$ -	\$ 7,174	\$ 7,174
Preservation / structural improvements	2,815,000	1,059,100	1,157,222	98,122
Maintenance	740,000	892,849	942,181	49,332
Local Road				
Construction	-	213	-	(213)
Preservation / structural improvements	-	163,904	248,953	85,049
Maintenance	902,836	1,359,950	1,428,842	68,892
Total preservation and maintenance	4,457,836	3,476,016	3,784,372	308,356
State trunkline maintenance	800,000	1,409,276	941,062	(468,214)
State trunkline non-maintenance	-	-	595,017	595,017
Administrative (net)	360,000	375,766	263,732	(112,034)
Equipment (net)	310,000	284,755	407,910	123,155
Capital outlay (net)	(170,000)	211,152	302,858	91,706
Debt service				
Principal	120,000	140,100	214,963	74,863
Interest	-	-	30,965	30,965
Distributive - other	180,000	162,042	-	(162,042)
Distributive fringe benefits	1,300,000	1,590,000	-	(1,590,000)
Total expenditures	<u>7,357,836</u>	<u>7,649,107</u>	<u>6,540,879</u>	<u>(1,108,228)</u>
Net change in fund balance	<u>(27,835)</u>	<u>(1,387,807)</u>	<u>(109,040)</u>	<u>1,278,767</u>
Fund balance, beginning of year	1,982,114	1,982,114	1,982,114	-
Prior period adjustments	-	-	143,080	143,080
Fund balance, beginning of year, restated	<u>1,982,114</u>	<u>1,982,114</u>	<u>2,125,194</u>	<u>143,080</u>
Fund balance, end of year	<u>\$ 1,954,279</u>	<u>\$ 594,307</u>	<u>\$ 2,016,154</u>	<u>\$ 1,421,847</u>

Crawford County Road Commission

**Required Supplementary Information
Schedule of Funding Progress**

Postemployment Healthcare (OPEB)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Simplified Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
9/30/2010	\$ -	\$ 1,353,806	\$ 1,353,806	0%	\$ 1,183,283	114%
9/30/2013	-	1,702,597	1,702,597	0%	1,383,890	123%
9/30/2016	-	956,909	956,909	0%	1,325,779	72%

Crawford County Road Commission
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Last 10 Fiscal Years Ended September 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>	2008* to 2014*
Total pension liability				
Service cost	\$ 171,605	\$ 157,370	\$ 154,944	---
Interest	707,800	662,782	641,354	---
Changes of benefit terms	(5,560)	(4,682)	-	---
Differences between expected and actual experience	(58,232)	129,045	-	---
Changes in assumptions	-	411,691	-	---
Benefit payments	(553,731)	(545,430)	(530,067)	---
Other changes	(2)	2	1	---
Net change in total pension liability	<u>261,880</u>	<u>810,778</u>	<u>266,232</u>	---
Total pension liability - beginning	9,038,564	8,227,786	7,961,554	---
Total pension liability - ending	<u><u>\$ 9,300,444</u></u>	<u><u>\$ 9,038,564</u></u>	<u><u>\$ 8,227,786</u></u>	---
Plan fiduciary net position				
Contributions - employer	\$ 438,313	\$ 383,768	\$ 381,846	---
Contributions - member	62,614	51,442	51,447	---
Net investment income (loss), net	346,163	(47,573)	197,860	---
Benefit payments, including refunds of member contributions	(553,731)	(545,430)	(530,067)	---
Administrative expenses	(6,832)	(7,002)	(7,247)	---
Other	-	-	-	---
Net change in fiduciary net position	<u>286,527</u>	<u>(164,795)</u>	<u>93,839</u>	---
Fiduciary net position - beginning	3,077,827	3,242,622	3,148,783	---
Fiduciary net position - ending	<u><u>\$ 3,364,354</u></u>	<u><u>\$ 3,077,827</u></u>	<u><u>\$ 3,242,622</u></u>	---
Net pension liability - ending	<u><u>\$ 5,936,090</u></u>	<u><u>\$ 5,960,737</u></u>	<u><u>\$ 4,985,164</u></u>	---
Fiduciary net position as a percentage of the total pension liability	36.17%	34.05%	39.41%	---
Covered-employee payroll	\$ 1,411,941	\$ 1,325,779	\$ 1,304,600	---
Net pension liability as percentage of covered-employee payroll	420.42%	449.60%	382.12%	---

* GASB Statement No. 68 was implemented as of September 30, 2015. Information from 2008 through 2014 is not available. Additional years will be presented on this schedule on a prospective basis.

See Notes to Required Supplementary Information

Crawford County Road Commission
Notes to Required Supplementary Information

Budgetary Data

The Road Commission’s procedures for establishing budgetary data are as follows:

- * The Road Commission Clerk prepares a proposed operating budget for the fiscal year commencing October 1st. The proposed operating budget includes identification of expenditures and resources to finance them.
- * Prior to September 30th, the proposed budget is presented to the Board of County Road Commissioners. The budget is reviewed and may be amended by the Board and a public hearing is held regarding the proposed
- * The Road Commission’s approved budget was adopted at the activity level. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act, since the Board of County Road Commissioners must approve amendments to the budget at the activity level.
- * The budget for the General Operating / Road Fund is adopted on a basis consistent with U.S. GAAP. Budget amounts reported in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.
- * The Road Commission adopts a budget for the General Operating / Road Fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the State-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.
- * Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. Variances at the legal level of control are as disclosed on the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

Defined Benefit Pension Plan

Valuation date	December 31, 2016
Notes	Actuarially determined contribution rates are calculated as of the December 31 that is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	22 years
Asset valuation method	Open; 10-year smoothed market
Inflation	2.50%
Salary increases	3.75% (plus 0.00% to 11.00% for merit and longevity)
Investment rate of return	7.75% (net of administrative and investment expenses)
Retirement age	Age-based table of rates that are specific to the type of eligibility condition.
Mortality	RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend for non-disabled plan members and 50% Male and 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables for disabled plan members.

OTHER SUPPLEMENTARY INFORMATION

Crawford County Road Commission

General Operating / Road Fund

Schedule of Revenues by Component

For the Year Ended September 30, 2017

	<u>Primary Road Funds</u>	<u>Local Road Funds</u>	<u>County Road Commission Funds</u>	<u>Total</u>
Revenues				
Property taxes	\$ 574,404	\$ -	\$ -	\$ 574,404
Licenses and permits	-	-	28,658	28,658
Federal sources				
Other	144,108	-	-	144,108
State sources				
Michigan transportation funds				
Engineering	5,862	4,138	-	10,000
Snow removal	-	67,536	-	67,536
Allocation	1,876,972	1,325,108	-	3,202,080
Economic development funds				
Forest road (E)	89,056	-	-	89,056
Other	352,320	-	-	352,320
Other				
Other	33,867	-	-	33,867
Contributions from local units				
City and Village	-	220,862	-	220,862
Charges for services				
State trunkline maintenance	-	-	1,023,233	1,023,233
State trunkline non-maintenance	-	-	594,940	594,940
Salvage sales	-	-	5,449	5,449
Interest and rentals	1,192	19	5,846	7,057
Other				
Proceeds from sale of capital assets	61,882	-	3,102	64,984
Other	-	-	13,285	13,285
Total revenues	<u>3,139,663</u>	<u>1,617,663</u>	<u>1,674,513</u>	<u>6,431,839</u>
Other financing sources				
Proceeds from installment purchase:	463,104	-	-	463,104
Total revenues and other financing sources	<u>\$ 3,602,767</u>	<u>\$ 1,617,663</u>	<u>\$ 1,674,513</u>	<u>\$ 6,894,943</u>

Crawford County Road Commission

General Operating / Road Fund

Schedule of Expenditures by Component

For the Year Ended September 30, 2017

	Primary Road Funds	Local Road Funds	County Road Commission Funds	Total
Expenditures				
Construction / Capacity Improvements	\$ 7,174	\$ -	\$ -	\$ 7,174
Preservation / Structural Improvements				
Roads	841,194	248,953	-	1,090,147
Structures	316,028	-	-	316,028
Maintenance				
Roads	427,696	922,160	-	1,349,856
Winter maintenance	477,689	473,977	-	951,666
Traffic control	36,796	32,705	-	69,501
Total construction and maintenance	2,106,577	1,677,795	-	3,784,372
State trunkline maintenance	-	-	941,062	941,062
State trunkline non-maintenance	-	-	595,017	595,017
Administrative expense (net)	146,807	116,925	-	263,732
Equipment expense (net)	110,876	168,156	128,878	407,910
Capital outlay (net)	126,186	-	176,672	302,858
Debt service				
Principal	214,963	-	-	214,963
Interest	30,965	-	-	30,965
Total expenditures	\$ 2,736,374	\$ 1,962,876	\$ 1,841,629	\$ 6,540,879

Crawford County Road Commission

General Operating / Road Fund

Schedule of Changes in Fund Balance by Component

For the Year Ended September 30, 2017

	Primary Road Funds	Local Road Funds	County Road Commission Funds	Total
Total revenues	\$ 3,139,663	\$ 1,617,663	\$ 1,674,513	\$ 6,431,839
Total expenditures	2,736,374	1,962,876	1,841,629	6,540,879
Revenues over (under) expenditures	403,289	(345,213)	(167,116)	(109,040)
Other financing sources (uses)				
Interfund transfers	(345,213)	345,213	-	-
Proceeds from installment purchases	463,104	-	-	463,104
Total other financing sources (uses)	117,891	345,213	-	463,104
Revenues and other sources over (under) expenditures and other sources (uses)	521,180	-	(167,116)	354,064
Fund balance, beginning of year	779,427	153,323	1,049,364	1,982,114
Prior period adjustments	143,080	-	-	143,080
Fund balance, beginning of year, restated	922,507	153,323	1,049,364	2,125,194
Fund balance, end of year	\$ 1,443,687	\$ 153,323	\$ 882,248	\$ 2,479,258

INTERNAL CONTROL AND COMPLIANCE



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A VETERAN OWNED BUSINESS

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of County Road Commissioners
County of Crawford, Michigan
Grayling, Michigan

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 and the major fund of the ***Crawford County Road Commission***, a component unit of Crawford County, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the ***Crawford County Road Commission's*** basic financial statements and have issued our report thereon dated January 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ***Crawford 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 ***Crawford County Road Commission's*** internal control. Accordingly, we do not express an opinion on the effectiveness of the ***Crawford County Road Commission's*** internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, as described as findings 2017-1 and 2017-2 in the accompanying Schedule of Findings and Responses that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether *Crawford 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Road Commission's Responses to Findings

The *Crawford County Road Commission's* written responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Road Commission's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Smith + Klaehowitz PC

Saginaw, Michigan

January 25, 2018

Crawford County Road Commission

Schedule of Findings and Responses (*continued*)

For the Year Ended September 30, 2017

Finding 2017-1 – Preparation of Financial Statements in Accordance with U.S. GAAP (*repeated*)

Criteria: The Road Commission is required to prepare financial statements in accordance with accounting principles generally accepted in the United States (U.S. GAAP). This is a responsibility of the Road Commission's management. The preparation of financial statements in accordance with U.S. GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized entities, the Road Commission 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 U.S. GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a 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 government to perform this task internally.

Effect: As a result of this condition, the Road Commission lacks internal controls over the preparation of financial statements in accordance with U.S. 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 U.S. 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.

Crawford County Road Commission

Schedule of Findings and Responses (*concluded*)

For the Year Ended September 30,2017

Finding 2017-2 – Lack of Segregation of Duties

- Criteria:** An important component of any internal control system is appropriate segregation of duties over key accounting functions. To provide a system of checks and balances, these functions are generally assigned to different employees to minimize the potential for unauthorized transactions. Ideally, no single individual should be able to authorize a transaction, record the transaction in the accounting records and maintain custody of the assets resulting from the transaction. These includes having separate individuals that are authorized and capable of setting up vendors and processing accounts payable, setting up new employees and processing payroll information, making deposits, initiating ACH transactions and creating and posting manual journal entries. Proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and have the ability to conceal it.
- Condition:** As is the case with many organizations of similar size, the Road Commission lacks a sufficient number of accounting personnel in order to completely segregate incompatible duties within its accounting function.
- Cause:** Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the additional personnel that would be required to segregate all incompatible duties.
- Effect:** This condition creates opportunities for inaccurate or unauthorized disbursements or transfers of Road Commission assets and increases the potential for inaccurate reporting of financial activity.
- View of Responsible Officials:** The Road Commission is aware of the weakness in this area and has determined that the strong oversight and involvement of the Board of County Road Commissioners reduces the risk of unauthorized disbursements and inaccurate financial reporting to an acceptably low level.