

Alcona County Road Commission

BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

ALCONA COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

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Chairman

Harry L. Harvey
Vice Chairman

Theodore R. Somers
Member

Jesse J. Campbell
Managing Director

Renee LaVergne
Clerk

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

PHILLIP J. WOLF, CPA
JON D. SWANSON, CPA

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INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Alcona County Road Commission
301 N. Lake Street
Lincoln, MI 48742

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, major fund and the aggregate remaining fund information of the Alcona County Road Commission (a component unit of Alcona County, Michigan) as of and for the year ended December 31, 2016, 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 and Michigan Public Act 51 of 1951, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, major fund and the aggregate remaining fund information of the Alcona County Road Commission, as of December 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules on pages 4 through 8 and pages 28 through 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Board of County Road Commissioners
Alcona County Road Commission

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

In accordance with *Government Auditing Standards* and Michigan Public Act 51 of 1951, as amended, we have also issued our reports dated March 10, 2017 on our consideration of the Alcona 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 these reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and Michigan Public Act 51 of 1951, as amended in considering the Alcona County Road Commission's internal control over financial reporting and compliance.



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

May 9, 2017

Management's Discussion and Analysis

Using This Annual Report

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

Reporting the Road Commission as a Whole

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

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

Reporting the Road Commission's Major Fund

Our analysis of the Road Commission's major fund begins on page 11. The Road Commission currently has two funds, the general operations fund and pension trust fund, in which all of the Road Commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.
- Fiduciary fund – The Road Commission is trustee, or fiduciary, for its employees' pension plans. The Road Commission is responsible for ensuring that the assets reported in the fiduciary funds are used for their intended purposes. All of the Road Commission's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the Road Commission's government-wide financial statements because the Road Commission cannot use these assets to finance its operations.

The Road Commission as a Whole

The Road Commission's net position increased 3.6% from \$24,153,585 to \$25,013,842 for the year ended December 31, 2016. The net position and change in net position are summarized below.

It is important for the reader to realize that the increase in net position is largely a result of the Road Commission reporting infrastructure assets from prior years and the current year in accordance with Government Accounting Standards Board (GASB) Statement Number 34.

Net position as of the year ended December 31, 2015 and 2016 are as follows:

	<u>Governmental Activities</u> <u>2015</u>	<u>Governmental Activities</u> <u>2016</u>
Current Assets	\$ 4,005,452	\$ 4,214,284
Capital Assets	<u>21,470,976</u>	<u>22,072,808</u>
Total Assets	<u>25,476,428</u>	<u>26,287,092</u>
Current Liabilities	350,440	399,067
Noncurrent Liabilities	<u>866,047</u>	<u>817,806</u>
Total Liabilities	<u>1,216,487</u>	<u>1,216,873</u>
Deferred Inflows of Resources	<u>106,356</u>	<u>56,377</u>
Net Position		
Net Investment in Capital Assets	20,749,752	21,407,436
Restricted for County Roads	<u>3,403,833</u>	<u>3,606,406</u>
Total Net Position	<u>\$ 24,153,585</u>	<u>\$ 25,013,842</u>

A summary of changes in net position for the year ended December 31, 2015 and 2016 are as follows:

	Governmental Activities <u>2015</u>	Governmental Activities <u>2016</u>
Program Revenues		
Charges for Services	\$ 705,234	\$ 487,031
Operating Grants and Contributions	3,347,867	3,360,002
Capital Grants and Contributions	1,464,173	1,221,604
Interest Earned	2,581	8,181
General Revenues		
Property Taxes	375,791	-
Other	1,748,115	301,777
Gain on Disposals	<u>-</u>	<u>-</u>
Total Revenues	<u>7,643,761</u>	<u>5,378,595</u>
Program Expenses		
Primary Roads	460,761	1,051,503
Local Roads	1,609,452	1,333,663
State Trunkline	557,010	467,776
Net Equipment Expense	178,364	296,668
Net Administrative Expense	305,718	308,993
Interest Expense and Other	<u>989,752</u>	<u>1,059,735</u>
Total Expenses	<u>4,101,057</u>	<u>4,518,338</u>
Changes in Net Position	3,542,704	860,257
Net Position – Beginning	<u>20,610,881</u>	<u>24,153,585</u>
Net Position – Ending	<u>\$ 24,153,585</u>	<u>\$ 25,013,842</u>

The Road Commission's Fund

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

For the year ended December 31, 2016, the fund balance as listed on page 13 of the general operations fund increased by \$410,947 as compared to an increase of \$989,859 in the fund balance for the prior year. Total revenues were \$5,578,161, a decrease of \$1,866,034 as compared to last year. This change in revenues resulted primarily from a decrease in Other Revenue.

Total expenditures were \$5,167,214, a decrease of \$1,287,122 as compared to last year. This change in expenditures is primarily due to a decrease in capital outlay.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The revenue budget for 2016 was \$89,083 less than the actual receipts. This was due to an increase in charges for services. Major improvements to county roads are undertaken on a cost participation basis with Alcona County's eleven (11) townships. However, in setting the budget it is difficult to project what projects townships may wish to pursue in the coming year.

Road Commission expenditures were projected at \$5,136,757 while actual expenditures were \$5,167,214. This resulted in total expenditures over budget by \$30,457

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2015 and 2016, the Road Commission had the following amounts invested in capital assets:

	<u>2015</u>	<u>2016</u>
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 7,943,927	\$ 7,988,102
Other Capital Assets		
Buildings and Improvements	2,283,214	2,295,139
Road Equipment	5,361,294	5,335,529
Other Equipment	121,066	170,797
Depletable Assets	95,995	95,995
Infrastructure and Improvements	<u>17,266,170</u>	<u>17,993,578</u>
Total Capital Assets at Historic Cost	<u>25,127,759</u>	<u>25,891,038</u>
Total Accumulated Depreciation	<u>(11,600,710)</u>	<u>(11,806,332)</u>
Total Net Capital Assets	<u>\$ 21,470,976</u>	<u>\$ 22,072,808</u>

Prior and current year's major additions included the following:

	<u>2015</u>	<u>2016</u>
Land Improvements	\$ 28,254	\$ 44,175
Various Resurfacing Projects/Bridges	\$ 1,435,919	\$ 1,718,423
Trucks/Equipment/Buildings	<u>\$ 2,354,341</u>	<u>\$ 580,508</u>

Debt Administration

The Road Commission currently has long-term debt in the amount of \$874,894 which represents installment purchase agreements for heavy equipment and vested employee benefits. The Road Commission paid \$55,852 toward its installment agreements during fiscal 2016.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2017 budget. One of the factors is the economy. The Road Commission derives approximately 70% of its revenues from the Michigan Transportation Fund or MTF. The MTF consists of state collected fuel taxes and vehicle registration fees. The portion of MTF that is distributed to county road commissions by the State of Michigan is based on such factors as mileage and population. Because of its limited population, Alcona County ranks 72nd of 83 counties in Michigan in MTF fund allocations. The continuing economic downturn has resulted in less consumption of fuel and some diversion of MTF revenues to other Michigan Departments; consequently, fewer Michigan Transportation Funds are available for distribution.

The Board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Alcona County's 727 mile transportation system. Therefore, the Board attempts to manage the public's money wisely and equitably and in the best interest of the motoring public and the citizens of the County.

Ongoing stagnant revenues and increasing costs continue to compel conservative spending patterns where ever possible and vigilant efforts to be innovative and resourceful are made to ensure the least impact to services provided

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Alcona County Road Commission administrative offices at 301 N. Lake Street, P.O. Box 40, Lincoln, Michigan 48742, by phone 989-736-8168, or by email at roads@alconacrc.com.

Basic Financial Statements

Alcona County Road Commission

Statement of Net Position December 31, 2016

ASSETS

Cash and Equivalents	\$ 3,263,625
Investments	172,136
Accounts Receivable:	
Michigan Transportation Fund	455,328
State Trunkline Maintenance	61,465
State Other	481
Due on County Road Agreements	473
Sundry	3,258
Inventories:	
Road Materials	212,227
Equipment, Parts and Materials	45,291
Capital Assets (Not Depreciated)	7,988,102
Capital Assets (Net of Accumulated Depreciation)	<u>14,084,706</u>
Total Assets	<u>26,287,092</u>

LIABILITIES

Accounts Payable	54,174
Accrued Liabilities	25,064
Advances	262,741
Installment Purchase Agreements Payable - Due within one year	57,088
Installment Purchase Agreements Payable - Due in more than one year	608,284
Vested Employee Benefits - Due in more than one year	<u>209,522</u>
Total Liabilities	<u>1,216,873</u>

DEFERRED INFLOWS OF RESOURCES

Unavailable Revenues - Forest Road Funds	<u>56,377</u>
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NET POSITION

Net Investment in Capital Assets	21,407,436
Unrestricted	<u>3,606,406</u>
Total Net Position	<u>\$ 25,013,842</u>

Alcona County Road Commission

Statement of Activities For the Year Ended December 31, 2016

Program Expenses:	
Primary Road Maintenance and Preventive Maintenance	\$ 1,051,503
Local Road Maintenance and Preventive Maintenance	1,333,663
State Trunkline Maintenance	467,776
Net Equipment Expense	296,668
Net Administrative Expense	308,993
Vested Employee Benefits	8,808
Depreciation Expense - Unallocated	1,035,691
Interest Expense	15,236
	<hr/>
Total Program Expenses	4,518,338
Program Revenues:	
Charges for Services	487,031
Operating Grants and Contributions:	
State Grants	2,886,816
Contributions from Local Units	473,186
Interest and Other	8,181
Capital Grants and Contributions:	
Contributions from Local Units	918,578
Federal Grants	303,026
	<hr/>
Total Program Revenues	5,076,818
	<hr/>
Net Program Revenues (Expenses)	558,480
General Revenues:	
Other - Insurance Proceeds	301,777
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Total General Revenues	301,777
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Change in Net Position	860,257
Net Position - Beginning Balance	24,153,585
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Net Position - Ending Balance	\$ 25,013,842
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Alcona County Road Commission

Balance Sheet
December 31, 2016

	<u>Governmental</u> <u>Fund Type</u> <u>General</u> <u>Operating Fund</u>
ASSETS	
Cash and Equivalents	\$ 3,263,625
Investments	172,136
Receivables':	
Michigan Transportation Fund	455,328
State Trunkline Maintenance	61,465
State Other	481
Due on County Road Agreements	473
Sundry	3,258
Inventories:	
Road Materials	212,227
Equipment, Parts and Materials	45,291
Total Assets	<u><u>\$ 4,214,284</u></u>
LIABILITIES	
Accounts Payable	\$ 54,174
Accrued Liabilities	25,064
Advances	262,741
Total Liabilities	<u>341,979</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable Revenues - Forest Road Funds	<u>56,377</u>
FUND BALANCE	
Nonspendable	257,518
Committed	209,522
Unassigned	3,348,888
Total Fund Balance	<u>3,815,928</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u><u>\$ 4,214,284</u></u>

Alcona County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Position For the Year Ended December 31, 2016

Total Governmental Fund Balance	\$ 3,815,928
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	22,072,808
Other long-term liabilities are not available to pay for current period expenditures and therefore are not reported in the funds.	<u>(874,894)</u>
Net Position of Governmental Activities	<u><u>\$ 25,013,842</u></u>

Alcona County Road Commission

Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended December 31, 2016

	Governmental Fund Type <u>General Operating Fund</u>
Revenues	
License and Permits	\$ 10,465
Federal Sources	303,026
State Sources	3,086,382
Contributions form Local Units	1,391,764
Charges for Services	476,566
Interest Earned	8,181
Other Revenue	<u>301,777</u>
Total Revenues	<u>5,578,161</u>
Expenditures	
Public Works	5,218,003
Capital Outlay	(121,877)
Debt Service	<u>71,088</u>
Total Expenditures	<u>5,167,214</u>
Excess of Revenues Over (Under) Expenditures	410,947
Fund Balance - Beginning of Year	<u>3,404,981</u>
Fund Balance - End of Year	<u>\$ 3,815,928</u>

Alcona County Road Commission

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2016

Net Change in Fund Balance - Total Governmental Funds	\$ 410,947
<p>Amounts reported for governmental activities in the statements are different because:</p>	
Governmental funds report capital outlays and infrastructure improvements as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation and equipment retirements in the current period.	601,832
Note/lease proceeds provide current financial resources in governmental funds and increases liabilities in the statement of net position. Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net position.	55,852
Decrease in state revenue related to local agency payments which is not considered available under modified accrual.	(199,566)
	<u>(8,808)</u>
Change in vested employee benefits and accrued interest recognized as an expense in the statement of activities.	<u><u>\$ 860,257</u></u>

Alcona County Road Commission

Statement of Net Position
Fiduciary Fund
December 31, 2016

	<u>Pension Trust Fund</u>
ASSETS	
Investments - Restricted	<u>\$ 1,338,921</u>
NET POSITION	
Held in Trust for Pension Benefits	<u>\$ 1,338,921</u>

Alcona County Road Commission

Statement of Changes in Fiduciary Net Position Fiduciary Fund For the Year Ended December 31, 2016

	<u>Pension Trust Fund</u>
ADDITIONS:	
Contributions:	
Employer	\$ 65,607
Investment Earnings:	
Interest and Dividends Income and Net Appreciation (Decline) in Fair Value	<u>105,712</u>
Total Additions (Deductions)	<u>171,319</u>
DEDUCTIONS:	
Withdrawals	101,869
Fees	<u>3,790</u>
Total Deductions	<u>105,659</u>
Change in Net Position	65,660
Net Position - Beginning Balance	<u>1,273,261</u>
Net Position - Ending Balance	<u><u>\$ 1,338,921</u></u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The adoption of a county road system was authorized by Act 283 of 1909 (MCL 224.1). On June 24th, 1919, the Board of Supervisors for Alcona County adopted a resolution for a special election on August 28th to decide "Shall the County Road System be adopted by the County of Alcona." On August 28th, 1919, voters of Alcona County approved adoption of the County Road System on a vote of 589 yes and 322 no. The first Board of Road Commissioners was appointed by the Board of Supervisors on October 15th, 1919. The County Road Commission operates under a Board of County Road Commissioners of three (3) members which appoints a manager/engineer to administer the county road system. The Board of County Road Commissioners is elected biannually for the full term of six (6) years. The Road Commission services public roads throughout the County of Alcona, Michigan. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioner's approval.

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

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

B. Government-Wide and Fund Financial Statements

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for the operating fund (governmental fund) and pension trust fund. The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements. The operating fund is the only major fund of the Road Commission. The Pension Trust Fund is a fiduciary fund which accounts for monies held on behalf of employees who participate in the defined contribution pension plan under the accrual basis of accounting.

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

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

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

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government. Under the terms of grant agreements, the Road Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Road Commission's policy to first apply cost-reimbursement restricted grant resources to such programs, followed by categorical block grants, and then by general unrestricted revenues.

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

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

Inventories

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

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

Depreciation

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

Land Improvements	3 to 20 years
Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineers' Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 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, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Road Commission has no items that qualify for reporting in this category.

Deferred Inflows of Resources

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

Long-Term Obligations

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

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

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

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

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

Use of Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission’s Chief Administrative Officer (manager) and fiscal officer prepare and submit a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The Board has authorized the Chief Administrative Officer to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 25 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements. All budgeted appropriations lapse at year end.

NOTE 3 - CASH AND EQUIVALENTS

	<u>Carrying Amount</u>
Petty Cash	\$ 250
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	<u>3,263,375</u>
Total Cash and Equivalents	<u>\$ 3,263,625</u>

Road Commission resolutions require investments for pension benefits in the amount of \$1,338,921 to be restricted. Pension investments are held by Empower in individual participant accounts not in the name of the Road Commission. Mutual funds of \$1,338,921 are not rated.

At year end, the Road Commission’s road fund and fiduciary fund had the following investments at fair value:

<u>Investments</u>	<u>Fair Value</u>	<u>Concentration</u>	<u>Rating</u>
Road Fund:			
Bond Funds – less than 1 year	\$ <u>172,136</u>	12%	Not assigned
Fiduciary Fund:			
Mutual Funds – less than 1 year	\$ <u>1,338,921</u>	88%	Not assigned

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

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

Custodial credit risk. 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 securities that are in the possession of an outside party. Of the Road Commission’s \$1,444,402 of investments, \$1,444,402 is not in the name of the Road Commission, but in the name of the agent or Alcona County. Investing activities are performed in accordance with the County of Alcona’s investment policy. Credit quality ratings of public money funds were not available from the financial institutions or are unrated.

NOTE 3 - CASH AND EQUIVALENTS (Continued)

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the Commission’s deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. As of year end, \$2,490,080 of the Road Commission’s bank balance of \$2,784,241 was exposed to credit risk because it was uninsured and uncollateralized.

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

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

The Commission has the following fair value measurements as of December 31, 2016:

Held by Pension Trustee or Commission:

Investment	Fair Value Balances at 12/31/2016	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities:				
Bonds	\$ 172,136	\$ -	\$ 172,136	\$ -
Mutual Fund	<u>1,338,921</u>	<u>1,338,921</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 1,511,057</u>	<u>\$ 1,338,921</u>	<u>\$ 172,136</u>	<u>\$ -</u>

Statutory Authority:

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

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

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

NOTE 3 - CASH AND EQUIVALENTS (Continued)

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

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

NOTE 4 - CAPITAL ASSETS

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

	Beginning Balances	Additions	Adjustments/ Deductions	Ending Balances
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 91,689	\$ -	\$ -	\$ 91,689
Land Improvements - Infrastructure	<u>7,852,238</u>	<u>44,175</u>	<u>-</u>	<u>7,896,413</u>
Subtotal	<u>7,943,927</u>	<u>44,175</u>	<u>-</u>	<u>7,988,102</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	65,691	-	-	65,691
Buildings	2,217,523	11,925	-	2,229,448
Road Equipment	5,361,294	518,872	544,637	5,335,529
Shop Equipment	69,175	45,842	-	115,017
Office Equipment	46,512	3,869	-	50,381
Engineers' Equipment	5,399	-	-	5,399
Depletable	95,995	-	-	95,995
Infrastructure - Bridge	6,532,427	986	-	6,533,413
Infrastructure - Roads	<u>10,733,743</u>	<u>1,717,437</u>	<u>991,015</u>	<u>11,460,165</u>
Subtotal	<u>25,127,759</u>	<u>2,298,931</u>	<u>1,535,652</u>	<u>25,891,038</u>

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Adjustments/ Deductions</u>	<u>Ending Balances</u>
<i>Less Accumulated Depreciation</i>				
Land Improvements	65,691	-	-	65,691
Buildings	377,701	72,633	-	450,334
Road Equipment	3,765,366	616,219	541,440	3,840,145
Shop Equipment	11,232	11,268	-	22,500
Office Equipment	32,407	2,266	-	34,673
Engineers' Equipment	5,399	-	-	5,399
Depletable	95,995	-	-	95,995
Infrastructure - Bridges	4,049,601	228,411	-	4,278,012
Infrastructure – Roads	<u>3,197,318</u>	<u>807,280</u>	<u>991,015</u>	<u>3,013,583</u>
Subtotal	<u>11,600,710</u>	<u>1,738,077</u>	<u>1,532,455</u>	<u>11,806,332</u>
Net Capital Assets Being Depreciated	<u>13,527,049</u>	<u>560,854</u>	<u>3,197</u>	<u>14,084,706</u>
Total Net Capital Assets	<u>\$ 21,470,976</u>	<u>\$ 605,029</u>	<u>\$ (3,197)</u>	<u>\$ 22,072,808</u>

Depreciation expense is charged to operations of the Alcona County Road Commission as follows:

Depreciation – Unallocated	\$ 1,035,691
Net Equipment Expense	616,219
Net Administrative	2,266
Allocated	<u>83,901</u>
Total Depreciation Expense	<u>\$ 1,738,077</u>

NOTE 5 - DEFERRED COMPENSATION PLAN

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

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS

The Alcona County Road Commission contributes to the Alcona County Road Commission Retirement Plan, which is a defined contribution pension plan, fully funded through Empower. The Board of Road Commissioners is the trustee of the plan and therefore the activity of the plan is presented as a pension trust fund.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual’s account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant’s account, the returns earned on investments of those contributions, and forfeitures of other participant’s benefits that may be allocated to such participant’s account. Contributions made by the Road Commission are vested at 100% immediately. The Road Commission is required to contribute an amount equal to 7% of the employee’s gross earnings. Employees are not required to make contributions. The Road Commission made contributions in 2016 totaling \$65,607 based on employee wages of \$1,119,376. There are currently 29 employees included in the plan.

The Alcona County Road Commission Retirement Plan held no securities in or loans to parties related to the plan. The financial information for the pension plan was available through the Empower annual statement as of December 31, 2016 for presentation in the basic financial statements.

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2016, the federal aid received and expended by the Road Commission was \$303,026 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (included in MDOT’s single audit). Local federal force account projects are projects where the road commission performs the work and would be subject to single audit requirements if they expended \$750,000 or more in federal funds.

NOTE 8 - LONG-TERM DEBT

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

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
Installment payable to Finance Company, 2.19% interest rate, payable in monthly installments of \$1,209, secured by equipment.	\$ 110,299	\$ -	\$ 12,210	\$ 98,089	\$ 12,479
Installment payable to Finance Company, 2.19% interest rate, payable in monthly installments of \$1,696, secured by equipment.	178,049	-	16,620	161,429	16,987
Installment payable to Finance Company, 2.19% interest rate, payable in monthly installments of \$1,510, secured by equipment.	216,438	-	13,511	202,927	13,811

NOTE 8 - LONG-TERM DEBT (Continued)

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
Installment payable to Finance Company, 2.19% interest rate, payable in monthly installments of \$1,510, secured by equipment.	216,438	-	13,511	202,927	13,811
Vested Employee Benefits (1)	<u>200,714</u>	<u>8,808</u>	<u>-</u>	<u>209,522</u>	<u>-</u>
TOTAL	<u>\$ 921,938</u>	<u>8,808</u>	<u>\$ 55,852</u>	<u>\$ 874,894</u>	<u>\$ 57,088</u>

The employee policies regarding the accumulation and payment of vested employee benefits are as follows:

Vacation – Maximum carry-forward is 10 days each year. Unused vacation pay will be paid at current rates at date of employment separation. \$28,292 was accrued at year end and recorded as a liability.

Sick Leave – A maximum of 114 days can be accumulated. Unused sick leave will be paid at current rates at date of separation to 75% upon retirement, 50% upon death, and 25% upon separation with 10 years seniority. \$181,230 was accrued at year end.

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

Annual debt service requirements for the installments are as follows:

	<u>Principal</u>	<u>Interest</u>
2017	\$ 57,088	\$ 14,001
2018	<u>608,284</u>	<u>12,065</u>
Total	<u>\$ 665,372</u>	<u>\$ 26,066</u>

NOTE 9 - POST EMPLOYMENT BENEFITS

One payment was submitted on behalf of one retiree for \$1,500. Effective July 1, 2009, the Road Commission remits payments for retired employees at age 62, 63, or 64 up to \$1,500 per year for hospital, medical, and life insurance purposes until the retiree reaches age 65 in accordance with Article 19, section 4 of the Labor Agreement negotiated with Teamsters Local 214.

NOTE 10 - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract. The amount of equipment advance for fiscal 2015 was \$262,741.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants for specific projects, purposes and maintenance. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant or maintenance agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims would not have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at December 31, 2016.

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

NOTE 12 - SUBSEQUENT EVENTS

After fiscal year-end, the Road Commission authorized and executed an equipment purchase in the amount of \$51,794 and 2 tandem dump trucks for \$121,578.

Required Supplementary Information

Alcona County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues - Budget and Actual For the Year Ended December 31, 2016

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits	\$ 11,813	\$ 12,325	\$ 10,465	\$ (1,860)
Federal Sources	721,676	417,003	303,026	(113,977)
State Sources				
Michigan Transportation Fund and Grants	2,498,841	2,773,296	2,830,596	57,300
Economic Development	541,940	205,786	255,786	50,000
Contributions from Local Units	959,166	1,392,455	1,391,764	(691)
Charges for Services	339,442	378,786	476,566	97,780
Interest Earned	1,204	7,631	8,181	550
Other Revenue	214,000	301,796	301,777	(19)
Total Revenue	<u>\$ 5,288,082</u>	<u>\$ 5,489,078</u>	<u>\$ 5,578,161</u>	<u>\$ 89,083</u>

Alcona County Road Commission

Required Supplementary Information
Budgetary Comparison Schedule
Statement of Expenditures - Budget and Actual
For the Year Ended December 31, 2016

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 1,639,051	\$ 1,285,855	\$ 1,314,201	\$ (28,346)
Routine/Preventive Maintenance	921,299	1,043,716	1,051,503	(7,787)
Local Road				
Preservation/Structural Improvements	110,000	463,454	448,396	15,058
Routine/Preventive Maintenance	1,432,223	1,336,717	1,330,466	6,251
State Trunkline - Maintenance	388,677	425,031	443,046	(18,015)
State Trunkline - Nonmaintenance	19,109	24,492	24,730	(238)
Equipment Expense - Net	196,116	231,039	296,668	(65,629)
Administrative Expense - Net	345,662	308,900	308,993	(93)
Capital Outlay - Net	131,134	(53,772)	(121,877)	68,105
Debt Service	71,088	71,325	71,088	237
Total Expenditures	5,254,359	5,136,757	5,167,214	\$ (30,457)
Fund Balance - January 1, 2016	3,404,981	3,404,981		
Total Budget	\$ 8,659,340	\$ 8,541,738		

Other Information

Alcona County Road Commission

Analysis of Changes in Fund Balance For the Year Ended December 31, 2016

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 3,047,325	\$ 1,623,611	\$ 907,225	\$ 5,578,161
Total Expenditures	<u>2,621,902</u>	<u>2,070,373</u>	<u>474,939</u>	<u>5,167,214</u>
Excess of Revenues Over (Under) Expenditures	425,423	(446,762)	432,286	410,947
Optional Transfers In (Out)	(446,762)	446,762	-	-
Fund Balance - January 1, 2016	<u>2,689,664</u>	<u>-</u>	<u>715,317</u>	<u>3,404,981</u>
Fund Balance - December 31, 2016	<u>\$ 2,668,325</u>	<u>\$ -</u>	<u>\$ 1,147,603</u>	<u>\$ 3,815,928</u>

Alcona County Road Commission

Analysis of Revenues For the Year Ended December 31, 2016

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ -	\$ -	\$ 10,465	\$ 10,465
Federal Sources	303,026	-	-	303,026
State Sources				
Michigan Transportation Fund				
Engineering	5,950	4,050	-	10,000
Urban Road	52,346	17,266	-	69,612
Allocation	1,505,177	1,024,349	-	2,529,526
Snow Removal	-	22,008	-	22,008
Other	-	-	199,450	199,450
Economic Development				
Forest Road	150,000	-	-	150,000
Rural Primary	105,786	-	-	105,786
Contributions from Local Units				
Townships	918,578	472,686	-	1,391,264
Other	-	500	-	500
Charges for Services				
State Trunkline - Maintenance	-	-	368,214	368,214
State Trunkline - Non-maintenance	-	-	24,730	24,730
Salvage Sales	-	-	852	852
Other	-	82,752	18	82,770
Interest Earned	6,462	-	1,719	8,181
Other				
Gain on Equipment Disposals	-	-	35,454	35,454
Other	-	-	266,323	266,323
Total Revenue	\$ 3,047,325	\$ 1,623,611	\$ 907,225	\$ 5,578,161

Alcona County Road Commission

Analysis of Expenditures For the Year Ended December 31, 2016

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 1,314,201	\$ -	\$ -	\$ 1,314,201
Routine/Preventive Maintenance	1,051,503	-	-	1,051,503
Local Road				
Preservation/Structural Improvements	-	448,396	-	448,396
Routine/Preventive Maintenance	-	1,330,466	-	1,330,466
State Trunkline Maintenance	-	-	443,046	443,046
State Trunkline Nonmaintenance	-	-	24,730	24,730
Equipment Expense - Net	79,826	158,890	57,952	296,668
Administrative Expense - Net	176,372	132,621	-	308,993
Capital Outlay - Net	-	-	(121,877)	(121,877)
Debt Service				
Debt Principal Payments	-	-	55,852	55,852
Interest Expense	-	-	15,236	15,236
Total Expenditures	<u>\$ 2,621,902</u>	<u>\$ 2,070,373</u>	<u>\$ 474,939</u>	<u>\$ 5,167,214</u>

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

PHILLIP J. WOLF, CPA
JON D. SWANSON, CPA

**MEMBER AICPA
DIVISION FOR CPA FIRMS**

MEMBER MACPA

**OFFICES IN
MICHIGAN & WISCONSIN**

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

Board of County Road Commissioners
Alcona County Road Commission
301 N. Lake Street
Lincoln, Michigan 48742

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, major fund, and the aggregate remaining fund information as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Alcona County Road Commission's basic financial statements and have issued our report thereon dated May 9, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Road Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

Alcona County Road Commission Response to Findings

The Alcona County Road Commission's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Alcona County Road Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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



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

May 9, 2017



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

PHILLIP J. WOLF, CPA
JON D. SWANSON, CPA

**MEMBER AICPA
DIVISION FOR CPA FIRMS**

MEMBER MACPA

**OFFICES IN
MICHIGAN & WISCONSIN**

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

Board of County Road Commissioners
Alcona County Road Commission
301 N. Lake Street
Lincoln, Michigan 48742

Report on Compliance

We have audited the Alcona County Road Commission's compliance with the types of compliance requirements describe in Michigan Public Act 51 of 1951, as amended, for the period ended December 31, 2016.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, Alcona County Road Commission complied, in all material respects, with the types of compliance requirements referred to above for the year ended December 31, 2016.

Purpose of this Report

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



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

May 9, 2017

Internal Control Over Financial Statements – Significant Deficiencies

Segregation of Duties

Finding 2016-001

Condition/Criteria: The Clerk performs several functions of receipting, inventory posting, inventory, purchasing, disbursing, and posting to the general ledger. To provide a system of checks and balances, these functions are generally assigned to separate positions to minimize the potential for unauthorized transactions.

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

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

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

Planned Corrective Action: The Board has implemented compensating controls to reduce the risks discussed above.

- Contact Person Responsible for Correction:
Jessie Campbell, Manager



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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Members of the Board of County Road Commissioners
Alcona County Road Commission
301 N. Lake Street
Lincoln, MI 48742

We have audited the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of the Alcona County Road Commission for the year ended December 31, 2016, and have issued our reports thereon dated May 9, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted accounting standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

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

As stated in our engagement letter dated March 6, 2017, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis and budgetary comparison schedules, which supplement the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have been engaged to report on the individual schedules, which accompany the financial statements but are not RSI. Our responsibility for this other information, as described by professional standards, is to evaluate the presentation of the other information in relation to the financial statements as a whole and to report on whether the other information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our communication about planning matters dated March 6, 2017.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Alcona County Road Commission are described in Note 1 to the financial statements. One new accounting policy was adopted "GASB number 72" and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Road Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

- Management's estimate of depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- Vested Employee Benefits are based on management's estimates of hours and current wage rates which may not be in effect at the date of separation.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreement with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 9, 2017.

Management Consultations with Other Independent Accountants

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

Other Audit findings or Issues

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

Comments and Recommendations

Parts Management (Prior)

HMS software utilized by the Commission has a parts management module which would assist in the purchasing, inventory, and usage reporting of parts and other nonstock inventory items. Implementation of this software would increase internal control over parts management and eliminate redundant inventory procedures currently in practice. We strongly recommend the implementation of inventory software.

Status: The Commission anticipates implementation of the inventory software in the future. Item codes, amounts and procedures have been discussed.

Check Review (Prior)

Cancelled checks require only one signature by board procedure. To avoid potential conflicts and to strengthen the review process of cancelled checks, checks should be reviewed randomly to assure proper payment, by individuals who are not signatories or the Board could implement a dual signature requirement.

Status: No change.

Sick Pay Liability (Prior)

During our review of the sick pay liability, we noted the estimate was based upon a “100%” probability of payout. Management should review this probability based on on longevity and a range of 50% to 75% may be considered due to contract provisions.

Status: No change.

Public Act 298 of 2012 “Performance Audit”

Public Act 298 of 2012 allows the Department of Transportation to request the local agency (road commission, county, city or village expending Act 51 monies) to engage an auditor to conduct a “performance audit” of whether it has expended funds in compliance with Act 51 of 1951, as amended (Act 51). A “performance audit” is different in scope than a “financial audit”. A “performance audit” by definition is an independent examination of a program, function, operation or the management systems and procedures of a governmental entity to assess whether the entity is achieving economy, efficiency, and effectiveness in the employment of available resources. All local agencies will be required to have a Performance Audit for periods beginning October 1, 2015. The performance audit under Public Act 298 of 2012 must be performed by an independent certified public accountant that is currently licensed to practice in the State of Michigan or by an employee of the Department of Transportation. We recommend the Road Commission arrange to either have an independent CPA or MDOT employee be engaged to perform this “Performance Audit”.

Uniform Administrative Requirements

As a precondition to receive federal funds, prospective recipients must have effective administrative and financial internal controls. The Uniform Guidance requires *written* policies and procedures regarding:

- Cash Management – Section 200.302(b)(6) payment procedures
- Allowability of Costs – Section 200.302(b)(7) in accordance with Subpart E – Cost Principals
- Conflict of Interest – Section 200.318(c) covering standards of conduct
- Procurement – Section 200.319(c) for purchasing
- Method of Conducting Technical Evaluations – Section 200.320(d)(3) regarding proposals
- Travel Reimbursement – Section 200.474(b) regarding travel expenses

Written policies should include provisions for training and consequences for violations of policies. The Commission should review its current written policies for compliance with the above requirements regarding federal awards and amend as necessary.

Other Matters

We applied certain limited procedures to the management’s discussion and analysis and budgetary comparison schedules, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquires, the basic financial statements, and our knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the individual schedules, which accompany the financial statements but are not RSI. With respect to this other information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of the Alcona County Road Commission, the cognizant audit agencies and other federal and state agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



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

May 9, 2017