Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	Shiawassee County Road Commission	Shiawassee

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
12/31/05	5/19/06	6/1/06

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

	YES	NO	**Check each applicable box below**. (See instructions for further detail.)
1.	☒	☐	All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.	☒	☐	There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.	☒	☐	The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.	☒	☐	The local unit has adopted a budget for all required funds.
5.	☒	☐	A public hearing on the budget was held in accordance with State statute.
6.	☒	☐	The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.	☒	☐	The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.	☒	☐	The local unit only holds deposits/investments that comply with statutory requirements.
9.	☒	☐	The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan,* as revised (see Appendix H of Bulletin).
10.	☒	☐	There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.	☒	☐	The local unit is free of repeated comments from previous years.
12.	☒	☐	The audit opinion is UNQUALIFIED.
13.	☒	☐	The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.	☒	☐	The board or council approves all invoices prior to payment as required by charter or statute.
15.	☒	☐	To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	☒	
The letter of Comments and Recommendations	☒	None
Other (Describe)	☒	N/A

Certified Public Accountant (Firm Name)	Telephone Number		
Abraham & Gaffney, P.C.	517.351.6836		
Street Address	**City**	**State**	**Zip**
3511 Coolidge Road, Suite 100	East Lansing	MI	48823

Authorizing CPA Signature	Printed Name	License Number
Abraham & Gaffney, P.C.	Steven R. Kirinovic	1101022020

Shiawassee County Road Commission
Corunna, Michigan

FINANCIAL STATEMENTS

December 31, 2005

Shiawassee County Road Commission

TABLE OF CONTENTS

December 31, 2005

	Page
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-viii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Governmental Fund Balance Sheet	3
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	6
Notes to Financial Statements	7-17
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL OPERATING FUND	
Budgetary Comparison Schedule - Statement of Revenues - Budget and Actual	18
Budgetary Comparison Schedule - Schedule of Expenditures - Budget and Actual	19-20
OTHER SUPPLEMENTARY INFORMATION	
GENERAL OPERATING FUND	
Statement of Changes in Fund Balance	21
Analysis of Changes in Fund Balance	22
Analysis of Revenues	23
Analysis of Expenditures	24
Schedule of Changes in Capital Assets	25
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	26

Principals
Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

Board of the County Road Commissioners
Shiawassee County
Corunna, Michigan

We have audited the accompanying component unit financial statements of the governmental activities and the major fund of the Shiawassee County Road Commission, a component unit of Shiawassee County, Michigan as of and for the year ended December 31, 2005, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Shiawassee County Road Commission as of December 31, 2005, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 19, 2006, on our consideration of the Shiawassee County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the component unit financial statements that collectively comprise the Shiawassee County Road Commission financial statements. The Other Supplementary Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the component unit financial statements of the Shiawassee County Road Commission. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 19, 2006

Our discussion and analysis of Shiawassee County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and the other supplementary information section - an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Shiawassee County Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Shiawassee County Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Road Commission's financial health or position.

- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

REPORTING THE SHIAWASSEE COUNTY ROAD COMMISSION AS A WHOLE

Government-Wide Statements

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

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (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 assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has only one fund, the general operations fund. All of the Shiawassee County Road Commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. The General Operating Fund budget vs. actual schedules is located on pages 18 through 20. The other supplementary information begins on page 21 and provides detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year-end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Shiawassee County 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 assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE

The Road Commission's net assets increased $2,727,670 from a restated $48,846,438 to $51,574,108 for the year ended December 31, 2005. The net assets and change in net assets are summarized below.

Net Assets

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

The primary reason for the increase of net assets in 2005 was the increase of additions to road infrastructure and purchasing of road equipment.

Net assets as of years ended December 31, 2004 and 2005 follows:

	2004	2005
Current and other assets	$ 4,708,211	$ 5,488,081
Capital assets	46,047,810	47,351,555
Total assets	50,756,021	52,839,636
Current liabilities	177,053	327,506
Noncurrent liabilities	1,007,647	938,022
Total liabilities	1,184,700	1,265,528
Invested in capital assets, net related of debt	45,557,810	46,871,555
Restricted for county roads	4,013,511	4,702,553
Total net assets	$ 49,571,321	$ 51,574,108

Changes in Net Assets

This is the third year of Governmental Accounting Standards Board Statement No. 34, which required this reporting model. The following table presents comparison between 2004 and 2005 year data.

A summary of changes in net assets for the years ended December 31, 2004 and 2005 follows:

	Governmental Activities	
	Restated 2004	2005
Program Revenues		
Charges for services	$ 1,334,134	$ 1,132,833
Operating grants and contributions	7,988,811	7,875,739
Capital grants and contributions	1,691,662	778,444
General Revenues		
Interest	28,747	65,686
Other	-	40,256
Special item		
Gain (loss) on equipment disposal	65,150	(142,089)
Total Revenues	11,108,504	9,750,869
Expenses		
Primary roads	1,836,557	940,084
Local roads	1,963,893	510,876
State trunkline	1,284,323	1,083,104
Equipment - net	957,454	850,080
Administrative - net	600,435	668,382
Infrastructure depreciation	3,202,197	2,960,562
Interest expense	14,443	10,111
Total Expenses	9,859,302	7,023,199
Increase in Net Assets	$ 1,249,202	$ 2,727,670

The Shiawassee County Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes. For the year ended December 31, 2005 the fund balance of the general operations fund increased $682,822 compared to an increase of $537,590 in the fund balance for the year ended December 31, 2004. Total operating revenues were $9,892,958, a decrease of $1,387,126 compared to the year ended December 31, 2004. This difference in revenue resulted primarily from a decrease in Federal Aid/Critical Bridge participation of $924,717 and a decrease in Michigan Transportation Funds of $326,738.

Total expenditures were $9,210,136, a decrease of $1,532,358 as compared to last year. This change in expenditures is primarily due to a decrease in primary road bridge reconstruction in the amount of $1,692,999. There were no trunk line non-maintenance projects in 2005 which resulted in a decrease of $201,219. There was also a decrease in capital outlay in the amount of $549,638. There was an increase of $664,575 for local road bridge reconstruction projects that were completed during 2005.

A summary of changes in the fund level financial information of the Operating Fund is as follows:

	12/31/04 Operating Fund	12/31/05 Operating Fund
Revenues		
License and permits	$ 31,164	$ 35,861
Federal grants	1,503,330	622,756
State grants	6,563,650	6,192,769
Contributions from local units	1,613,493	1,838,658
Charges for services	1,285,735	1,084,066
Interest and rents	45,982	78,592
Other	236,730	40,256
Total Revenues	11,280,084	9,892,958
Expenditures		
Primary road	5,153,297	3,418,915
Local road	3,553,573	4,355,593
State trunkline	1,284,323	1,083,104
Equipment - net	(120,633)	152,150
Administrative - net	601,945	621,191
Capital outlay	108,626	(441,012)
Debt service	161,363	20,195
Total Expenditures	10,742,494	9,210,136
Excess of Revenues over Expenditures	537,590	682,822
Fund Balance - beginning	3,757,620	4,295,210
Fund Balance - ending	$ 4,295,210	$ 4,978,032

BUDGETARY HIGHLIGHTS

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

The final amended revenue budget for 2005 was $139,435 higher than the original budget. The actual revenue recognized during 2005 was greater than the final amended budget by $93,480 mainly due to increased funding greater than what was budgeted for Michigan Transportation Funds, Federal Aid and State Trunkline Maintenance.

The final amended expenditure budget for 2005 was $160,565 lower than the original budget primarily due to various favorable and unfavorable variances in expenditure line-items throughout the General Operating Fund. The actual expenditures recognized during 2005 were less than the final amended budget by $662,287. This was primarily due to lower than anticipated maintenance costs for local and primary roads.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2005, the Road Commission had invested $47,351,555 in capital assets. This amount represents a net increase (including additions, deductions, and reclassifications) of $2,028,628 as follows:

	Restated 2004	2005
Capital Assets Not Being Depreciated		
Land and improvements	$ 223,248	$ 223,248
Infrastructure - land improvements	4,009,616	4,289,510
Subtotal	4,232,864	4,512,758
Capital Assets Being Depreciated		
Buildings	2,078,193	2,108,728
Equipment	6,273,142	6,288,105
Depletable assets	153,402	153,402
Infrastructure	61,125,879	64,917,352
Subtotal	69,630,616	73,467,587
Total Capital Assets	79,863,480	77,980,345
Total Accumulated Depreciation	(28,540,553)	(30,628,790)
Total Net Capital Assets	$ 45,322,927	$ 47,351,555

This year's major capital asset additions included the following:

Infrastructure - land improvements	$ 396,714
Buildings	30,535
Equipment	
Road	392,052
Shop	12,306
Office	7,852
Infrastructure	
Roads	3,556,057
Bridges	1,716,231
	$ 6,111,747

During 2005, the Road Commission traded in and/or disposed of equipment (road, shop, office and engineer) with a purchase amount of $1,994,882 related depreciation of $1,623,582 and net book value of $371,300.

Debt

As of December 31, 2005, the Road Commission had $480,000 in bonds versus $490,000 last year, a decrease of 2.1% as shown below:

	2004	2005	Change	% of Change
Bonds Payable	$ 490,000	$ 480,000	$(10,000)	(2.1%)

Other obligations include accrued compensated absences related to vacation pay and sick leave and related payroll taxes in the amount of $271,273 as of December 31, 2005. More detailed information about the Road

Commission's long-term liabilities is presented in Notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The board of county road commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. The Road Commission derives approximately 55% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive $5,350,141, 2.42% less Michigan Transportation Fund revenues in 2006. The Road Commission received approximately 18% of its revenues from township contributions during 2005. This amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. During 2006, we expect to receive at least $1,000,000 in federal and state aid for road projects. The above items were considered when adopting the budget for 2006. Amounts available for appropriation in the budget are $9,443,519 a decrease of $409,183 over the 2005 budget of $9,852,702.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Shiawassee County Road Commission's administrative offices at 701 W. Corunna Avenue, Corunna, Michigan 48817.

BASIC FINANCIAL STATEMENTS

Shiawassee County Road Commission

STATEMENT OF NET ASSETS

December 31, 2005

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	$ 1,406,957
Investments	2,498,611
Due from other governmental units	
State	1,064,133
Local	208,531
Inventory	309,849
Total current assets	5,488,081
Noncurrent assets	
Capital assets not being depreciated	4,512,758
Capital assets, net of accumulated depreciation	42,838,797
Total noncurrent assets	47,351,555
TOTAL ASSETS	52,839,636
LIABILITIES	
Current liabilities	
Accounts payable	51,105
Accrued liabilities	49,377
Accrued interest payable	4,206
Current portion of compensated absences	67,818
Current portion of long-term debt	155,000
Total current liabilities	327,506
Noncurrent liabilities	
Advances - State of Michigan	409,567
Noncurrent portion of compensated absences	203,455
Noncurrent portion of long-term debt	325,000
Total noncurrent liabilities	938,022
TOTAL LIABILITIES	1,265,528
NET ASSETS	
Invested in capital assets, net of related debt	46,871,555
Restricted for County Roads	4,702,553
TOTAL NET ASSETS	$ 51,574,108

See accompanying notes to financial statements

Shiawassee County Road Commission

STATEMENT OF ACTIVITIES

Year Ended December 31, 2005

	Governmental Activities
Program Expenses	
Primary Road	$ 940,084
Local Road	510,876
State Trunkline	1,083,104
Equipment - net	850,080
Administrative - net	668,382
Infrastructure depreciation	2,960,562
Interest expense	10,111
TOTAL PROGRAM EXPENSE	7,023,199
Program Revenues	
Charges for services	1,132,833
Operating grants and contributions	7,875,739
Capital grants and contributions	778,444
TOTAL PROGRAM REVENUES	9,787,016
NET PROGRAM REVENUES	2,763,817
General Revenue	
Interest	65,686
Other	40,256
Special Item	
Loss on equipment disposal	(142,089)
CHANGE IN NET ASSETS	2,727,670
Restated net assets, beginning of the year	48,846,438
Net assets, end of the year	$ 51,574,108

See accompanying notes to financial statements

Shiawassee County Road Commission

GOVERNMENTAL FUND BALANCE SHEET

December 31, 2005

	Governmental Fund Types General Operating
ASSETS	
Cash and cash equivalents	$ 1,406,957
Investments	2,498,611
Due from other governmental units	
State	1,064,133
Local	208,531
Inventory	309,849
TOTAL ASSETS	$ 5,488,081
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	$ 51,105
Accrued liabilities	49,377
Advances - State of Michigan	409,567
TOTAL LIABILITIES	510,049
FUND EQUITY	
Fund balance	
Reserved for primary road	669,367
Reserved for local road	2,607,109
Unreserved - undesignated	1,701,556
TOTAL FUND EQUITY	4,978,032
TOTAL LIABILITIES AND FUND EQUITY	$ 5,488,081

See accompanying notes to financial statements

Shiawassee County Road Commission

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

Year Ended December 31, 2005

Total fund balance - governmental funds		$ 4,978,032
Amounts reported for the governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		
The cost of capital assets is	$ 77,980,345	
Accumulated depreciation is	(30,628,790)	
Capital assets, net		47,351,555
Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Fund Balance Sheet. Long-term liabilities at year-end consist of:		
Bonds payable	480,000	
Accrued interest payable	4,206	
Compensated absences	271,273	
		(755,479)
Net assets of governmental activities		$ 51,574,108

See accompanying notes to financial statements.

Shiawassee County Road Commission

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND

Year Ended December 31, 2005

	General Operating Fund
REVENUES	
License and permits	$ 35,861
Intergovernmental	8,654,183
Charges for services	1,084,066
Interest and rents	78,592
Other	40,256
TOTAL REVENUES	9,892,958
EXPENDITURES	
Current	
Primary Road	3,418,915
Local Road	4,355,593
State Trunkline	1,083,104
Equipment - net	152,150
Administrative - net	621,191
Capital outlay	(441,012)
Debt Service	20,195
TOTAL EXPENDITURES	9,210,136
EXCESS OF REVENUES OVER EXPENDITURES	682,822
Fund balances, beginning of year	4,295,210
Fund balances, end of year	$ 4,978,032

See accompanying notes to financial statements

Shiawassee County Road Commission

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2005

Net change in fund balances - total governmental funds		$ 682,822
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	$ 5,882,536	
Building and equipment depreciation	(522,046)	
Infrastructure depreciation	(2,960,562)	
Excess of capital outlay over depreciation expense		2,399,928
In the statement of activities, only the gain or loss on the sale of the capital assets is reported, whereas in the governmental fund, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of capital assets sold.		(371,300)
Repayment of long-term debt and borrowing of long-term debt is reported as expenditures in governmental fund, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:		
Bond principal retirement - 2004 MTF Refunding Bonds		10,000
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental fund. These activities consist of:		
Decrease in accrued interest payable	84	
Decrease in accrued compensated absences	6,136	
		6,220
Change in net assets of governmental activities		$ 2,727,670

See accompanying notes to financial statements.

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Shiawassee County Road Commission (the "Commission") is a component unit of Shiawassee County, Michigan. The Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, and contributions from other local units of government for work performed for road projects throughout the county.

The Commission, which is established pursuant to the County Road Law (MCL 224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Commission. The Commission provides services to sixteen (16) Townships in Shiawassee County and maintains over 1,094 miles of local and primary roads.

1. Reporting Entity

The Commission is required by Public Act 51 of the State of Michigan to have an audit performed of its operations. This financial report has been prepared to meet this State requirement.

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Shiawassee County Road Commission. The Commission is considered a component unit of Shiawassee County, Michigan and is discretely presented in Shiawassee County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Corunna, Michigan.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Commission as a whole.

The statement of activities presents the direct functional expenses of the Commission and the program revenues that support them. Direct expenses are specifically associated with a service, program, or Commission and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and shows how governmental functions are either self-financing or supported by the general revenues of the Commission.

FUND FINANCIAL STATEMENTS

The Commission uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Commission's individual major fund.

The major fund of the Commission is:

a. Special Revenue Fund - This general operating fund is used to account for all financial resources of the Commission, which are restricted to expenditures for specified county road related purposes.

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The governmental fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues which are considered measurable, but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Commission has elected not to follow subsequent private-sector guidance

5. Budgets and Budgetary Accounting

The annual budget of the Commission is prepared by Commission management and approved by the Board. Any revisions to the original budget are approved by the Board before the end of the fiscal year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of the Commission's checking accounts, imprest cash, and short-term investments with an original maturity of 90 days or less.

Investments consist of certificates of deposit with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

7. Inventories

Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Capital Assets

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

GASB Statement No. 34 required major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized.

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

Buildings	30 - 50 years
Road Equipment	5 - 8 years
Shop Equipment	10 years
Engineering Equipment	4 - 10 years
Office Equipment	4 - 10 years
Infrastructure - Roads	5 - 30 years
Infrastructure - Bridges	12 - 50 years

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under the governmental activities within in the Operating Fund Statement of Net Assets.

10. Accrued Vacation and Sick Leave

In accordance with contracts negotiated with the various employee groups of the Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount along with related payroll taxes is recorded in the government-wide financial statements.

11. Equipment Rentals

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

12. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure 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 A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Commission. All Commission receipts are deposited with the Shiawassee County Treasurer's Office, and in order to make disbursements, the Shiawassee County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer. All funds of the Commission are held with the County Treasurer in separate accounts in the Commission's name.

In accordance with Michigan Compiled Laws, the Commission is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.

4. The United States government or Federal agency obligations repurchase agreements.

5. Bankers acceptances of United States Banks.

6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of $100,000 for deposits in an insured bank for savings deposits and $100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of $100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

The Commission's bank deposits at December 31, 2005, are composed of the following:

	Carrying Amount	Bank Balance
Cash		
Checking accounts	$ 365,561	$ 553,094
Savings and money market accounts	1,041,346	1,041,346
Certificates of deposit	2,498,611	2,498,611
	$ 3,905,518	$ 4,093,051

Bank deposits of the Commission are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Commission. As of December 31, 2005, the Commission's accounts were insured by the FDIC for $300,000 and the amount of $3,793,051 was uninsured and uncollateralized.

The cash caption on the balance sheet includes $50 in imprest cash.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The Commission's investments were not subject to rating by a NRSRO.

Interest rate risk

The Commission has adopted a policy that indicates how the Commission will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Commission has adopted a policy that indicates how the Commission will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Commission's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Commission has adopted a policy that indicates how the Commission will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

NOTE C: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2005 was as follows:

	Restated Balance Jan. 1, 2005	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Dec. 31, 2005
Capital assets not being depreciated				
Land and land improvements	$ 223,248	$ -	$ -	$ 223,248
Infrastructure - land improvements	4,009,616	396,714	116,820	4,289,510
Subtotal	4,232,864	396,714	116,820	4,512,758
Capital assets being depreciated/depleted				
Buildings	2,078,193	30,535	-	2,108,728
Equipment -				
Road	5,952,668	392,052	353,877	5,990,843
Shop	95,641	12,306	-	107,947
Office	155,843	7,852	43,370	120,325
Engineer	68,990	-	-	68,990
Infrastructure - roads	46,629,190	3,556,057	1,251,604	48,933,643
Infrastructure - bridges	14,496,689	1,716,231	229,211	15,983,709
Depletable assets	153,402	-	-	153,402
Subtotal	69,630,616	5,715,033	1,878,062	73,467,587
Less Accumulated Depreciation/Depletion				
Buildings	(736,367)	(52,264)	-	(788,631)
Equipment -				
Road	(4,197,004)	(678,329)	(328,608)	(4,546,725)
Shop	(58,007)	(8,542)	-	(66,549)
Office	(141,188)	(8,608)	(43,370)	(106,426)
Engineer	(54,699)	(3,514)	-	(58,213)
Infrastructure - roads	(19,862,367)	(2,635,049)	(1,251,604)	(21,245,812)
Infrastructure - bridges	(3,337,519)	(325,513)	-	(3,663,032)
Depletion	(153,402)	-	-	(153,402)
Subtotal	(28,540,553)	(3,711,819)	(1,623,582)	(30,628,790)
Net Capital Assets Being Depreciated	41,090,063	2,003,214	254,480	42,838,797
Total Net Capital Assets	$45,322,927	$ 2,399,928	$ 371,300	$47,351,555

Depreciation expense was charged to the following activities:

	Amount
Net Equipment Expense	
Direct Equipment	$ 678,329
Indirect Equipment	19,601
Net Administrative Expense	53,327
Infrastructure	2,960,562
	$ 3,711,819

NOTE C: CAPITAL ASSETS - CONTINUED

In the current year there was a reclassification between capital assets not being depreciated and capital assets being depreciated in the amount of $229,211. This adjustment has been reflected here in the notes and properly excluded from the reconciliation between fund level and government-wide financial statements.

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the Commission for the year ended December 31, 2005:

	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005	Amounts due within one year
Governmental Activities					
2004 MTF Refunding Bonds	$ 490,000	$ -	$ 10,000	$ 480,000	$ 155,000
Compensated Absences	277,409	-	6,136	271,273	67,818
	$ 767,409	$ -0-	$ 16,136	$ 751,273	$ 222,818

Significant details regarding outstanding long-term debt (including current portions) are presented below.

Bonds payable at December 31, 2005, are as follows:

$490,000 Michigan Transportation Refunding Bond, Series 2004 A, dated February 18, 2004 due in annual installments ranging from $155,000 to $165,000 through May 1, 2008, with interest ranging from 2.0 to 2.3 percent, payable semi-annually.	$ 480,000

Advance Refunding - Current

On February 18, 2004, the Commission defeased the MMBA Transportation Fund Program Bond, Series 1992 C which was due and payable August 1, 1992 through August 1, 2007. This was accomplished by establishing an irrevocable trust with an escrow agent composted of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The Commission issued 2004 Michigan Transportation Fund Refunding Bond in the amount of $490,000. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the Commission's financial statements. At December 31, 2005, bonds due and payable August 1, 2006 through May 1, 2008 for the MMBA Transportation Fund Program Bond, Series 1992 C in the amount of $330,000 are considered defeased.

Compensated Absences - Vacation and Sick Leave

In accordance with Commission personnel policies and/or contracts negotiated with various employee groups of the Commission, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts.

Accumulated vacation and sick leave and related payroll taxes represents a liability to the Commission, which is presented in a current and long-term portion of the liability. For this reason, the total liability reported in the government-wide financial statements represents a current liability of $67,818 and a long term liability of $203,455 at December 31, 2005.

NOTE D: LONG-TERM DEBT - CONTINUED

The annual requirements to pay general long-term debt principal and interest outstanding for the following bonds and installment contracts at December 31, 2005, are as follows:

Year Ending December 31,	2004 MTF Refunding Bonds Principal	Interest
2006	$ 155,000	$ 8,545
2007	160,000	5,395
2008	165,000	1,898
	$ 480,000	$ 15,838

NOTE E: FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal assistance for Highway Research, Planning and Construction pertaining to their County. However, only the federal financial assistance applicable to force account expenditure is required to be audited for compliance under the Single Audit Act through Commission procurement. The reason for this requirement is that the Commission is required to have accounting and administrative control over the force account portion while the balance is administered by Michigan Department of Transportation.

During the period ended December 31, 2005, the Road Commission of Shiawassee County had no federal financial assistance (local force revenue) applicable to force account expenditures. As a result, an audit for compliance under the Single Audit Act is not required.

NOTE F: EMPLOYEE RETIREMENT SYSTEM

The Commission participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time employees are covered by the retirement system.

The benefits and conditions outlined below are for general information only. Public Act 427 of 1984, as amended, covers the benefits and conditions of the Municipal Retirement systems.

Normal Retirement:

Age 50 with 25 or more years of credited service
Age 55 with 15 or more years of credited service
Age 60 with 10 or more years of credited service (reduced to 8 or 6 years depending on benefits)
Mandatory Retirement: None

Deferred Retirement:

The termination of membership before age 60, other than by retirement or death, after 10 years of credited service is considered a deferred retirement. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

NOTE F: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Benefit allowances are computed based on the applicable criteria as detailed within the plan. Death and disability benefits are also provided.

Funding Policy

Covered employees can contribute between 0% and 10% of their annual salary to the retirement system. Employees must contribute 5% of annual compensation. The Commission is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended December 31, 2005 the Commission's annual pension cost of $286,053 for the plan was equal to the Commission's required contribution. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases depending on age, merit, longevity, and promotional salary increases. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

Three (3) year trend information

	Year Ended December 31,		
	2002	2003	2004
Actuarial value of assets	$ 9,757,935	$10,070,372	$10,527,570
Actuarial accrued liability (AAL)	12,677,814	13,235,700	13,846,831
Unfunded AAL	2,919,879	3,165,328	3,319,261
Funded ratio	77%	76%	76%
Covered payroll	1,857,180	2,003,779	2,118,124
UAAL as a percentage of covered payroll	157%	158%	157%
Annual pension cost	228,671	280,709	286,053
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTE G: CONTINGENT LIABILITIES

The Commission participates in a number of Federal and State assisted grant programs which are subject to compliance audits. The programs and the periodic program compliance audits of many of the programs have not yet been conducted, completed, or resolved. Accordingly, the Commission's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Commission expects such amounts, if any, to be immaterial.

There are various other legal actions pending against the Commission. Due to the inconclusive nature of many of the actions, it is not possible for Corporation Counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. These actions, for which a reasonable estimate can be determined of the potential liability, if any, are considered by the Commission and legal counsel to be immaterial.

NOTE H: RISK MANAGEMENT

The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, trunkline, excess liability, auto liability, directors' and officers' liability, errors and omissions and physical damage. The Road Commission participates in the County Road Association Self-Insurance Fund for workers' compensation insurance and has full statutory coverage for workers' disability compensation and employers' liability as granted by the State of Michigan under Chapter 6, Section 418.611 of the Workers' Disability Compensation Act. The Commission has no liability for additional assessments based on the claims filed against the fund nor do they have rights to dividends.

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the financial statements, the Shiawassee County Road Commission budgeted expenditures in the General Operating Fund have been shown at the functional classification level. The approved budget of the Shiawassee County Road Commission has been adopted the activity level for the General Operating Fund.

	Amended Amount Appropriated	Actual Amount Expended	Variance
General Operating Fund			
State Trunkline			
Maintenance	$ 1,025,000	$ 1,083,104	$ 58,104
Equipment			
Operating	254,720	283,295	28,575

NOTE J: FUND BALANCE RESERVES

Reserved fund balance within the fund level financial statements is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of December 31, 2005:

General Operating Fund	
Reserved for	
Primary Road	$ 669,367
Local Road	2,607,110
	$ 3,276,477

NOTE K: FLEXIBLE BENEFITS PLAN

In November 1993 the Commission implemented a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Service Code. The plan is available to all employees following 30 days of employment. The plan permits them to reduce their salary and put these amounts into a flexible benefits account up to certain limits. The plan allows the employee to reduce their salary and apply it to required premium payments. A participating employee may elect instead a cash alternative to supplement salary compensation in lieu of a nontaxable health benefit. An employee's elected cash alternative will be considered a taxable benefit under the Flexible Benefit Plan.

The plan is administered by Shiawassee County Road Commission.

NOTE L: RESTATEMENT OF NET ASSETS

As of January 1, 2005, the Road Commission recognized seal coating in accordance with the Uniform Accounting Procedures manual for county road commissions referring to the Act 51 definition of seal coating. As a result, seal coating that was recorded as capital assets as of December 31, 2004 has been removed.

Governmental activities net assets as of December 31, 2004	$ 49,571,321
Less: items no long considered capital assets	724,883
Restated governmental activities net assets as of December 31, 2004	$ 48,846,438

REQUIRED SUPPLEMENTARY INFORMATION

Shiawassee County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF REVENUES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Licenses and permits				
Permits	$ 32,000	$ 36,000	$ 35,861	$ (139)
Intergovernmental				
Federal sources				
Critical Bridge	641,047	557,389	570,835	13,446
Safety	51,921	51,921	51,921	-0-
State sources				
Motor Vehicle Highway Funds				
Engineering	9,900	9,966	9,966	-0-
Primary road	3,609,000	3,532,737	3,543,742	11,005
Local road	1,746,145	1,720,945	1,732,164	11,219
Primary urban road	120,130	134,813	136,148	1,335
Local urban road	61,825	60,867	60,872	5
Critical Bridge	107,032	107,032	107,032	-0-
Negotiated contract	500,000	602,845	602,845	-0-
Local sources				
Township contributions	1,808,246	1,782,775	1,782,774	(1)
Other contributions	10,000	55,500	55,884	384
Total intergovernmental	8,665,246	8,616,790	8,654,183	37,393
Charges for services				
State Trunkline maintenance				
Direct charges	910,665	1,025,000	1,083,104	58,104
Salvage sales	1,000	499	962	463
Total charges for services	911,665	1,025,499	1,084,066	58,567
Interest and rents	46,132	80,933	78,592	(2,341)
Other				
Sale of equipment	5,000	40,256	40,256	-0-
TOTAL REVENUES	$ 9,660,043	$ 9,799,478	$ 9,892,958	$ 93,480

Shiawassee County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES				
Current				
Primary road				
Maintenance	$ 1,685,000	$ 1,800,000	$ 1,776,557	$ 23,443
Heavy maintenance	2,022,530	1,655,000	1,494,096	160,904
Structure maintenance	229,309	175,000	148,262	26,738
Total primary road	3,936,839	3,630,000	3,418,915	211,085
Local road				
Construction	150,000	-	-	-0-
Maintenance	1,992,910	1,999,000	1,812,109	186,891
Heavy maintenance	1,584,363	1,850,000	1,716,769	133,231
Structure maintenance	845,710	846,361	826,715	19,646
Total local road	4,572,983	4,695,361	4,355,593	339,768
State Trunkline				
Maintenance	910,665	1,025,000	1,083,104	(58,104)
Equipment				
Direct	1,563,000	1,366,000	1,320,797	45,203
Indirect	550,000	465,000	452,802	12,198
Operating	210,000	254,720	283,295	(28,575)
Less: Equipment rental	(1,950,000)	(1,818,325)	(1,904,744)	86,419
Total equipment	373,000	267,395	152,150	115,245
Administrative				
Administration	731,000	775,000	728,157	46,843
Less:				
Handling charges	(500)	(3,200)	(2,878)	(322)
Overhead - State	(80,117)	(89,000)	(96,801)	7,801
Purchase discount	(12,500)	(7,000)	(7,287)	287
Total administrative	637,883	675,800	621,191	54,609

Shiawassee County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL - CONTINUED

GENERAL OPERATING FUND

Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES - CONTINUED				
Capital outlay				
Capital outlay	580,000	442,745	442,745	-0-
Less:				
Depreciation and depletion	(866,077)	(751,573)	(751,257)	(316)
Trade in allowance	(132,500)	(132,500)	(132,500)	-0-
Total capital outlay	(418,577)	(441,328)	(441,012)	(316)
Debt service				
Principal payments	10,000	10,000	10,000	-0-
Interest payments	10,195	10,195	10,195	-0-
Total debt service	20,195	20,195	20,195	-0-
TOTAL EXPENDITURES	$ 10,032,988	$ 9,872,423	$ 9,210,136	$ 662,287

OTHER SUPPLEMENTARY INFORMATION

Shiawassee County Road Commission

STATEMENT OF CHANGES IN FUND BALANCE

GENERAL OPERATING FUND

Year Ended December 31, 2005

TOTAL REVENUES	$ 9,892,958
TOTAL EXPENDITURES	9,210,136
EXCESS OF REVENUE OVER EXPENDITURES	682,822
Fund balance, beginning of year	4,295,210
Fund balance, end of year	$ 4,978,032

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF CHANGES IN FUND BALANCE

Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	$ 4,785,104	$ 3,867,196	$ 1,240,658	$ 9,892,958
TOTAL EXPENDITURES	3,739,987	4,777,676	692,473	9,210,136
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,045,117	(910,480)	548,185	682,822
OTHER FINANCING SOURCES (USES)				
Optional transfers in	-	1,105,975	-	1,105,975
Optional transfers out	(1,105,975)	-	-	(1,105,975)
TOTAL OTHER FINANCING SOURCES (USES)	(1,105,975)	1,105,975	-0-	-0-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(60,858)	195,495	548,185	682,822
Fund balance, beginning of year	730,225	2,411,614	1,153,371	4,295,210
Fund balance, end of year	$ 669,367	$ 2,607,109	$ 1,701,556	$ 4,978,032

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES

Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Licenses and permits				
Permits	$ -	$ -	$ 35,861	$ 35,861
Intergovernmental				
Federal sources	101,980	520,776	-	622,756
State sources	4,298,816	1,893,953	-	6,192,769
Local sources	373,141	1,415,585	49,932	1,838,658
Total intergovernmental	4,773,937	3,830,314	49,932	8,654,183
Charges for services				
State Trunkline				
Direct charges	-	-	1,083,104	1,083,104
Salvage sales	-	-	962	962
Total charges for services	-0-	-0-	1,084,066	1,084,066
Interest and rents	11,167	36,882	30,543	78,592
Other				
Gain on sale of equipment	-	-	40,256	40,256
TOTAL REVENUES	$ 4,785,104	$ 3,867,196	$ 1,240,658	$ 9,892,958

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF EXPENDITURES

Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission	Total
EXPENDITURES				
Heavy Maintenance	$ 1,494,096	$ 1,716,769	$ -	$ 3,210,865
Structure Maintenance	148,262	826,715	-	974,977
Maintenance	1,776,557	1,812,109	-	3,588,666
State Trunkline	-	-	1,083,104	1,083,104
Equipment Expense - Net	47,897	74,067	30,186	152,150
Administrative Expense - Net	273,175	348,016	-	621,191
Capital Outlay - Net	-	-	(441,012)	(441,012)
Debt Service	-	-	20,195	20,195
TOTAL EXPENDITURES	$ 3,739,987	$ 4,777,676	$ 692,473	$ 9,210,136

Shiawassee County Road Commission

SCHEDULE OF CHANGES IN CAPITAL ASSETS

Year Ended December 31, 2005

	Restated Balance Jan. 1, 2005	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Dec. 31, 2005
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land and land improvements	$ 223,248	$ -	$ -	$ 223,248
Infrastructure - land improvements	4,009,616	396,714	116,820	4,289,510
Subtotal	4,232,864	396,714	116,820	4,512,758
CAPITAL ASSETS BEING DEPRECIATED/DEPLETED				
Buildings	2,078,193	30,535	-	2,108,728
Equipment				
Road	5,952,668	392,052	353,877	5,990,843
Shop	95,641	12,306	-	107,947
Office	155,843	7,852	43,370	120,325
Engineer	68,990	-	-	68,990
Infrastructure - Roads	46,629,190	3,556,057	1,251,604	48,933,643
Infrastructure - Bridges	14,496,689	1,716,231	229,211	15,983,709
Depletable assets	153,402	-	-	153,402
Subtotal	69,630,616	5,715,033	1,878,062	73,467,587
LESS ACCUMULATED DEPRECIATION/DEPLETION				
Buildings	(736,367)	(52,264)	-	(788,631)
Equipment				
Road	(4,197,004)	(678,329)	(328,608)	(4,546,725)
Shop	(58,007)	(8,542)	-	(66,549)
Office	(141,188)	(8,608)	(43,370)	(106,426)
Engineer	(54,699)	(3,514)	-	(58,213)
Infrastructure - Roads	(19,862,367)	(2,635,049)	(1,251,604)	(21,245,812)
Infrastructure - Bridges	(3,337,519)	(325,513)	-	(3,663,032)
Depletion	(153,402)	-	-	(153,402)
Subtotal	(28,540,553)	(3,711,819)	(1,623,582)	(30,628,790)
Net Capital Assets Being Depreciated	41,090,063	2,003,214	254,480	42,838,797
Total Net Capital Assets	$ 45,322,927	$ 2,399,928	$ 371,300	$ 47,351,555

Principals
Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of County Road Commissioners
Shiawassee County
Corunna, Michigan

We have audited the accompanying component unit financial statements of the governmental activities and the major fund of Shiawassee County Road Commission as of and for the year ended December 31, 2005, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated April 19, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shiawassee County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shiawassee 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of County Road Commissioner's and the pass-through grantors and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 19, 2006