

Chippewa County Road Commission

BASIC FINANCIAL STATEMENTS

December 31, 2017

CHIPPEWA COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

Richard B. Timmer
Chairman

Bradley L. Ormsbee
Vice Chairman

Jeremy K. Gagnon
Member

Robert Laitinen
Manager

Brian Decker
Office Manager

Amy Price
Executive Assistant/Clerk

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Chippewa County Road Commission
3949 S. Mackinac Trail
Sault Ste. Marie, MI 49783

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Chippewa County Road Commission (a component unit of Chippewa County, Michigan) as of and for the year ended December 31, 2017, and related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Chippewa County Road Commission, as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress, budgetary comparison schedules on pages 4 through 8, pages 30 through 32 and pages 33 through 34 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 Chippewa 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 financial statements.

The schedules of analysis 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 of analysis are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2018 on our consideration of the Chippewa County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Chippewa County Road Commission's internal control over financial reporting and compliance.



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

April 2, 2018

Management's Discussion and Analysis

Using This Annual Report

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

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, deferred outflows of resources, liabilities and deferred inflows of resources 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, deferred outflows of resources, liabilities and deferred inflows of resources) 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 fund financial statements begin on page 36 and provide detailed information about the major fund. The Road Commission currently has only one fund, the general operations 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.

The Road Commission as a Whole

The Road Commission's Net Position increased 1.4% from \$81,120,243 to \$82,244,879 for the year ended December 31, 2017. The Net Position and Change in Net Position are summarized below.

Unrestricted Net Position decreased \$411,231. The primary reason was an increase in other post employment benefits liabilities.

Net Position as of the years ended December 31, 2016 and 2017 follows:

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2017</u>
Current Assets	\$ 3,955,553	\$ 4,836,136
Capital Assets	<u>91,080,350</u>	<u>92,302,065</u>
Total Assets	<u>95,035,903</u>	<u>97,138,201</u>
Deferred Outflows of Resources	<u>1,072,369</u>	<u>458,470</u>
Current Liabilities	1,281,102	1,125,282
Noncurrent Liabilities	<u>12,889,486</u>	<u>13,178,783</u>
Total Liabilities	<u>14,170,588</u>	<u>14,304,065</u>
Deferred Inflows of Resources	<u>817,441</u>	<u>1,047,727</u>
Net Position		
Net Investment in Capital Assets	90,264,550	91,800,417
Unrestricted	<u>(9,144,307)</u>	<u>(9,555,538)</u>
Total Net Position	<u>\$ 81,120,243</u>	<u>\$ 82,244,879</u>

A summary of Changes in Net Position for the years ended December 31, 2016 and 2017 follows:

	Governmental Activities	
	2016	2017
Program Revenues		
Charges for Services	\$ 2,762,791	\$ 2,977,826
Grants and Contributions	14,321,406	8,847,698
Interest and Other	28,256	1,700
General Revenues		
Property Taxes	808,468	812,324
Gain (Loss) on Equipment Disposal	5,617	21,437
Total Revenues	<u>17,926,538</u>	<u>12,660,985</u>
Program Expenses		
Primary Roads	4,165,614	3,547,273
Local Roads	2,526,086	3,338,095
State Trunkline	2,864,754	2,600,102
Equipment Expense	297,058	289,441
Administrative	360,070	299,024
Interest Expense and Other	566,590	1,462,414
Total Expenses	<u>10,780,172</u>	<u>11,536,349</u>
Change in Net Position	7,146,366	1,124,636
Net Position – Beginning as Restated	<u>73,973,877</u>	<u>81,120,243</u>
Net Position – Ending	<u>\$ 81,120,243</u>	<u>\$ 82,244,879</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.

For the year ended December 31, 2017, the fund balance of the general operations fund increased \$1,034,717 as compared to an increase of \$96,630 in the fund balance for the prior year. Total revenues were \$12,660,984, a decrease of \$5,623,021 as compared to last year. This change in revenues resulted primarily from federal, state and local project funding reductions.

Total expenditures were \$11,626,267, a decrease of \$6,561,108. The decrease is largely due to the causeway project.

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 2017 was \$180,016 more than the actual receipts. This was due, in part, to the projection of state sources. The Road Commission budgets for the receipt of funds from the state for projects on primary and local roads as earned.

Road Commission expenditures were projected at \$11,560,000 while actual expenditures were \$11,626,267. This resulted in total expenditures being over budget by \$66,267. There were several items that account for the variance in the projection of the budget.

Capital Assets

As of December 31, 2016 and 2017, the Road Commission had invested in capital assets as follows:

	<u>2016</u>	<u>2017</u>
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 53,115,436	\$ 53,999,827
Construction in Progress	8,354,982	-
Other Capital Assets		
Buildings and Improvements	5,082,566	5,122,365
Road Equipment	13,741,885	13,891,527
Other Equipment and Assets	1,631,363	1,676,449
Infrastructure	<u>52,397,799</u>	<u>62,486,038</u>
Total Capital Assets at Historic Cost	134,324,031	137,176,206
Total Accumulated Depreciation	<u>(43,243,681)</u>	<u>(44,874,141)</u>
Total Net Capital Assets	<u>\$ 91,080,350</u>	<u>\$ 92,302,065</u>

Major additions included the following:

Buildings	<u>\$ 74,629</u>	<u>\$ 39,799</u>
Land & Improvements	<u>\$ 1,311,423</u>	<u>\$ 884,391</u>
Various Resurfacing Projects and Bridges	<u>\$ 9,319,247</u>	<u>\$ 2,898,807</u>
Trucks/Equipment/Other	<u>\$ 135,529</u>	<u>\$ 524,031</u>

Debt

The Road Commission currently has long-term debt in the amount of \$13,410,549 which represents bank loans, equipment financing, pension and benefit liabilities, and compensated absences. Due to provisions of applicable GASB Statements, the Commission recorded a \$3,230,146 and \$9,551,135 liability for other post employment benefits and pension, respectively.

Economic Factors and Next Year's Budget

The Board of County Road Commissioner's considered many factors when setting the fiscal year 2018 budget. One of the factors is the economy. The Road Commission derives approximately 60% of its revenues from the fuel tax collected. The economic changes have resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed. If a decrease in funding occurs, road projects may be reduced. Additionally, management may consider reducing labor costs through attrition and adjusting health care benefits.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Chippewa County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of the County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show 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 Chippewa County Road Commission administrative offices at 3949 S. Mackinac Trail, Sault Ste. Marie, MI 49783.

Basic Financial Statements

Chippewa County Road Commission

Statement of Net Position December 31, 2017

ASSETS

Cash and Equivalents	\$ 1,484,005
Accounts Receivable:	
Taxes	826,484
Michigan Transportation Fund	946,974
State Trunkline Maintenance	461,670
Due from Federal Government	1,687
Due on County Road Agreements	19,870
Sundry Accounts	81,555
Inventories:	
Road Materials	644,766
Equipment, Parts and Materials	235,803
Prepaid Items	133,322
Capital Assets (Not Depreciated)	53,999,827
Capital Assets (Net of Accumulated Depreciation)	38,302,238
Total Assets	<u>97,138,201</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension changes in assumptions	<u>458,470</u>
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LIABILITIES

Accounts Payable	222,448
Accrued Liabilities	92,934
Advances	578,134
Notes Payable - Due within one year	231,766
Notes Payable - Due in more than one year	269,882
Vested Employee Benefits - Due in more than one year	127,620
Other Post Employment Benefits - Due in more than one year	3,230,146
Net Pension Liability - Due in more than one year	9,551,135
Total Liabilities	<u>14,304,065</u>

DEFERRED INFLOWS OF RESOURCES

Pension investment experience and earnings	221,243
Taxes Levied for Subsequent Period	826,484
Total Deferred Inflows of Resources	<u>1,047,727</u>

NET POSITION

Net Investment in Capital Assets	91,800,417
Unrestricted (Deficit)	<u>(9,555,538)</u>
Total Net Position	<u>\$ 82,244,879</u>

Chippewa County Road Commission

Statement of Activities For the Year Ended December 31, 2017

Program Expenses:	
Primary Road Maintenance and Preventive Maintenance	\$ 3,547,273
Local Road Maintenance and Preventive Maintenance	3,338,095
State Trunkline	2,600,102
Net Equipment Expense	289,441
Net Administrative Expense	299,024
Interest Expense	16,465
Other	1,445,949
Total Program Expenses	<u>11,536,349</u>
Program Revenues:	
Charges for Services:	
Licenses and Permits	1,700
Charges for Services	2,977,826
Operating Grants and Contributions:	
State Grants	5,056,437
Contributions from Local Units	3,304
Interest Earnings	4,759
Capital Grants and Contributions:	
Federal Grants	854,003
State Grants	1,709,151
Contributions from Local Units	1,220,044
Total Program Revenues	<u>11,827,224</u>
Net Program Revenues (Expenses)	<u>290,875</u>
General Revenues:	
Taxes - Real Property	812,324
Gain (Loss) on Disposal	21,437
Total General Revenues	<u>833,761</u>
Change in Net Position	1,124,636
Net Position - Beginning Balance	<u>81,120,243</u>
Net Position - Ending Balance	<u>\$ 82,244,879</u>

Chippewa County Road Commission

Balance Sheet
December 31, 2017

	<u>Governmental</u> <u>Fund Type</u> <u>General</u> <u>Operating Fund</u>
ASSETS	
Cash and Equivalents	\$ 1,484,005
Accounts Receivable:	
Taxes	826,484
Michigan Transportation Fund	946,974
State Trunkline Maintenance	461,670
Due from Federal Government	1,687
Due on County Road Agreements	19,870
Sundry Accounts	81,555
Inventories:	
Road Materials	644,766
Equipment, Parts and Materials	235,803
Prepaid Items	133,322
Total Assets	<u><u>\$ 4,836,136</u></u>
LIABILITIES	
Accounts Payable	\$ 222,448
Accrued Liabilities	92,934
Advances	578,134
Total Liabilities	<u>893,516</u>
DEFERRED INFLOWS OF RESOURCES	
Taxes Levied for Subsequent Period	826,484
Total Deferred Inflows of Resources	<u>826,484</u>
FUND BALANCE	
Nonspendable	1,013,891
Unassigned	2,102,245
Total Fund Balance	<u><u>\$ 3,116,136</u></u>

Chippewa County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Position For the Year Ended December 31, 2017

Total Governmental Fund Balance	\$ 3,116,136
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.	92,302,065
Net pension liability requirement.	(9,551,135)
Deferred outflows or inflows resulting from pension items.	237,227
Other long-term liabilities are not available to pay in the current period and therefore are not reported in the funds.	<u>(3,859,414)</u>
Net Position of Governmental Activities	<u><u>\$ 82,244,879</u></u>

Chippewa County Road Commission

Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended December 31, 2017

	Governmental Fund Type
	General Operating Fund
Revenues	
Property Taxes	\$ 812,324
Licenses and Permits	1,700
Federal Sources	854,003
State Sources	6,765,588
Contributions form Local Units	1,223,347
Charges for Services	2,879,151
Interest Earnings and Rent	4,759
Other Revenue	120,112
Total Revenues	<u>12,660,984</u>
Expenditures	
Public Works	11,415,229
Capital Outlay	(119,579)
Debt Service	330,617
Total Expenditures	<u>11,626,267</u>
Excess of Revenues Over (Under) Expenditures	1,034,717
Fund Balance - Beginning of Year	<u>2,081,419</u>
Fund Balance - End of Year	<u><u>\$ 3,116,136</u></u>

Chippewa County Road Commission

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities For the Year Ended December 31, 2017

Net Change in Fund Balance - Total Governmental Funds \$ 1,034,717

Amounts reported for governmental activities in the statements are different because:

Governmental funds report capital outlays and infrastructure costs 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 in the current period. 1,221,715

Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net position. Note proceeds provide current financial resources to governmental funds, but entering into loan agreements increases long-term liabilities in the statement of net position. 314,152

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (1,445,948)

Net Change in Net Position of Governmental Activities \$ 1,124,636

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Chippewa 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 Chippewa County Road Commission.

A. Reporting Entity

The Chippewa County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a three-member Board of County Road Commissioners appointed by the Chippewa County Board of County Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board 61, "The Financial Reporting Entity," 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 Chippewa County Road Commission, a discretely presented component unit of Chippewa 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 Chippewa County Road Commission. There is only one fund reported in the government-wide financial statements.

The statement of net position presents the Road Commission's assets deferred outflows of resources, liabilities and deferred inflows of resources with the difference being reported as either invested in capital assets or restricted net position.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government. Under the terms of grant agreements, the 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 Commission's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

Cash, 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.

Inventories

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

Prepaid Items

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

Property Taxes Receivable

The property tax is levied each December 1st. on the taxable valuation of property located in the County as of the preceding December 31st. The 2017 taxable valuation of \$1,132,636,343 for Road Millage amounted to \$1,110,263 less \$283,779 for cities and villages, (on which ad valorem taxes of .09879 mills were levied) for road maintenance purposes resulted in a net total of \$826,484.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the government-wide financial statements, the tax is recorded as revenue when the tax is levied in the current year. Although the County’s 2017 ad valorem tax is levied and collectible December 1, 2017, it is the Road Commission’s policy to recognize revenues from the current tax levy in the subsequent year. When the proceeds of this levy are budgeted, and made available for the financing of the Road Commission’s operations in the governmental fund financial statements. The tax receivable is offset to deferred inflows.

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 Chippewa County Road Commission as assets with an initial individual cost of more than \$2,500 and/or 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:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineers’ Equipment	3 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years
Depletable Assets	10 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 pension 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 property taxes and pension items that qualify for reporting in this category.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plan and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Long-Term Obligations

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

Compensated Absences (Vacation and Sick Leave)

Vacation – Prior to February 1, 1981, employees with vacation time will be credited to the employee and it may be used at the employee’s discretion. Beginning February 1, 1985, employees may carry forward 40 hours of vacation per year, which must be used by the end of the next calendar year. Vacation pay is calculated and paid at the current rate of pay.

Sick Leave – Employees hired before February 1, 1993, may accumulate a maximum of 168 days of sick leave. Upon death or retirement, employees are paid for a maximum of 132 days at their current rate of pay. Employees hired on or after February 1, 1993, may accumulate a maximum of 600 hours of sick leave. Upon death or retirement, after 20 years of service employees are paid for 50% of their accumulated sick hours at their current rate of pay.

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.

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 and Prepaid Items as being Nonspendable as these items are not expected to be converted to cash within the next year.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **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 Board. These amounts cannot be used for any other purpose unless the Board 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.
- **Assigned:** This classification includes amounts that are constrained by the Board's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- **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 Board 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.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**Budgetary Procedures**

Budgetary procedures are established pursuant to PA 2 of 1968, as amended, which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Office Manager prepares a budget in accordance with the Act which is adopted by the Board at a public hearing each December. All budgets lapse at fiscal year end. Any violations of the Act are indicated on page 34.

NOTE 3 - CASH AND EQUIVALENTS

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

NOTE 3 - CASH AND EQUIVALENTS (Continued)

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

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Petty Cash	\$ 150	\$ -
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	<u>1,483,855</u>	<u>1,630,560</u>
Total Cash and Equivalents	<u>\$ 1,484,005</u>	<u>\$ 1,630,560</u>

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 deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the Road Commission’s deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. As of year end, \$1,130,560 of the Road Commission’s bank balance of \$1,630,560 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 judgement and considers factors specific to each asset or liability.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Chippewa 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 (Chippewa 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 Chippewa County Road Commission’s financial statements.

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balances 01/01/17	Additions	Adjustments/ Deductions	Ending Balances 12/31/17
<i>Capital Assets Not Being Depreciated</i>				
Land and Improvements	\$ 372,230	\$ -	\$ -	\$ 372,230
Land/Improvements - Infrastructure	52,743,206	884,391	-	53,627,597
Construction in Progress	<u>8,354,982</u>	<u>-</u>	<u>8,354,982</u>	<u>-</u>
Subtotal	<u>61,470,418</u>	<u>884,391</u>	<u>8,354,982</u>	<u>53,999,827</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	5,082,566	39,799	-	5,122,365
Road Equipment	13,741,885	466,422	316,780	13,891,527
Shop Equipment	274,672	1,000	3,499	272,173
Office Equipment	57,695	18,506	-	76,201
Engineers' Equipment	70,558	38,103	9,024	99,637
Depletable Assets	1,228,438	-	-	1,228,438
Infrastructure – Roads	39,192,657	2,289,983	1,165,550	40,317,090
Infrastructure – Bridges	<u>13,205,142</u>	<u>8,963,806</u>	<u>-</u>	<u>22,168,948</u>
Subtotal	<u>72,853,613</u>	<u>11,817,619</u>	<u>1,494,853</u>	<u>83,176,379</u>
<i>Less Accumulated Depreciation</i>				
Buildings	2,573,552	143,163	-	2,716,715
Road Equipment	12,333,411	553,081	316,122	12,570,370
Shop Equipment	252,277	14,331	3,207	263,401
Office Equipment	54,123	3,123	-	57,246
Engineers' Equipment	68,035	6,378	9,024	65,389
Depletable Assets	405,128	3,450	-	408,578
Infrastructure – Roads	18,897,892	2,167,900	1,165,550	19,900,242
Infrastructure – Bridges	<u>8,659,263</u>	<u>232,937</u>	<u>-</u>	<u>8,892,200</u>
Subtotal	<u>43,243,681</u>	<u>3,124,363</u>	<u>1,493,903</u>	<u>44,874,141</u>
Net Capital Assets Being Depreciated	<u>29,609,932</u>	<u>8,693,256</u>	<u>(950)</u>	<u>38,302,238</u>
Total Net Capital Assets	<u>\$ 91,080,350</u>	<u>\$ 9,577,647</u>	<u>\$ (8,355,932)</u>	<u>\$ 92,302,065</u>

NOTE 5 - CAPITAL ASSETS (Continued)

Depletion/depreciation expense was charged to programs of the Chippewa County Road Commission as follows:

Primary Road Maintenance and Preventive Maintenance	\$ 1,249,427
Local Road Maintenance and Preventive Maintenance	1,151,410
Equipment Expense	553,081
Administrative	15,000
Other Allocated	<u>155,445</u>
Total Depreciation Expense	<u>\$ 3,124,363</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS SYSTEMS

Description of Plan and Plan Assets

The Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.25% times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2016.

General Information about the Pension Plan

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

01 – General: Closed Division	
	<u>2016 Valuation</u>
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
Employee Contributions	0%
Act 88:	Yes (Adopted 11/20/1970)

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

02 – General: Open Division	
	<u>2016 Valuation</u>
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
Employee Contributions	2%
Act 88:	Yes (Adopted 2/1/2004)

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	86
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>66</u>
	156

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission’s competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The Road Commission is required to contribute at an actuarially determined monthly amount for 2017 was \$69,599.

Net Pension Liability

The Road Commission’s net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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

Inflation	2.50 %
Salary increases	3.75 %
Investment rate of return	7.75 %, net of interest and administrative expense including inflation

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

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of January 1, 2009, through December 31, 2013.)

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

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

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

Discount Rate. The discount rate used to measure the total pension liability is 8.0% for 2016. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2016	\$ 19,328,344	\$ 9,437,495	\$ 9,890,849
Service cost	312,302	-	312,302
Interest on total pension liability	1,505,449	-	1,505,449
Difference between expected and actual experience	(92,224)	-	(92,224)
Employer contributions	-	842,918	(842,918)
Employee contributions	-	40,590	(40,590)
Net investment income	-	1,223,866	(1,223,866)
Benefit payments, including employee refunds	(1,332,756)	(1,332,756)	-
Administrative expense	-	(19,412)	19,412
Other changes	22,721	-	22,721
Net changes	415,492	755,206	(339,714)
Balances as of December 31, 2017	\$ 19,743,836	\$ 10,192,701	\$ 9,551,135

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the Road Commission, calculated using the discount rate of 8.00%, as well as what the Road Commission’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Road Commission’s net pension liability	\$11,625,219	\$9,551,135	\$7,782,118

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued MERS financial report.

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

For the year ended December 31, 2017, the Road Commission recognized pension expense of \$1,338,343. At December 31, 2017, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 28,529
Changes in assumptions	458,470	-
Net difference between projected and actual earnings on pension plan investments	-	192,714
Total	\$ 458,470	\$ 221,243

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recorded in pension expense as follows:

<u>Year Ended December 31:</u>	
2018	\$ 255,300
2019	255,300
2020	(175,852)
2021	(97,521)

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Annual Pension Cost

During the year ended December 31, 2017, the Road Commission’s contributions totaling \$842,918 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2015. 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 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 projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases. The unfunded actuarial liability is amortized as a level percent of payroll on a closed basis. The remaining amortization period is 24 years.

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, 2017, the federal aid received and expended by the Road Commission was \$679,619 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT’s single audit). Local administered projects are projects where the Road Commissions perform the work and would be subject to single audit requirements if they expended \$750,000 or more.

NOTE 8 - 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.

NOTE 9 - LONG-TERM DEBT

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

	<u>Balance 01/01/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/17</u>	<u>Due Within One Year</u>
Installment payable secured by trucks, payable in monthly installments of \$12,272 including interest of 1.89%, due 2019.	\$ 487,105	\$ -	\$ 225,302	\$ 261,803	\$ 143,768
Installment payable secured by equipment, payable in monthly installments of \$3,760 including interest of 2.75%, due 2020.	153,798	-	41,408	112,390	42,601

NOTE 9 - LONG-TERM DEBT (Continued)

	Balance 01/01/17	Additions	Reductions	Balance 12/31/17	Due Within One Year
Installment payable secured by equipment, payable in monthly installments of \$4,026 including interest of 2.95%, due 2020.	174,897	-	47,442	127,455	45,397
Subtotal	815,800	-	314,152	501,648	<u>\$ 231,766</u>
Compensated Absences (1)	150,890	-	23,270	127,620	
TOTAL LONG-TERM DEBT	<u>\$ 966,690</u>	<u>\$ -</u>	<u>\$ 337,422</u>	<u>\$ 629,248</u>	

(1) Net decrease.

Annual debt service requirements are as follows:

	Principal	Interest	Total
2018	231,766	8,930	240,696
2019	208,302	4,150	212,452
2020	<u>61,580</u>	<u>657</u>	<u>62,237</u>
Total	<u>\$ 501,648</u>	<u>\$ 13,737</u>	<u>\$ 515,385</u>

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits, the Chippewa County Road Commission agrees to provide 100% of BC/BS and prescription drug coverage benefits to eligible retirees and/or their spouses who retire after February 1, 1985 and who were hired prior to February 1, 2005 until retiree’s death. If a retiree dies, the current spouse shall be provided the same coverage until attainment of Medicare eligibility. Upon attainment of Medicare eligibility, the retiree’s spouse will be responsible for 100% of the cost of any medical coverage if they elect to stay in the group.

For eligible retirees who were hired after February 1, 2005, the Chippewa County Road Commission agrees to pay a fixed percent of the premium for BC/BS and prescription drug coverage benefits based on years of service, but only until attainment of Medicare eligibility, at which time, 100% of premium shall be paid for by the retiree and or spouse if they elect to remain in the group.

Plan Description. The Road Commission administers a single-employer healthcare plan (“the Retiree Health Plan”). The plan provides healthcare insurance for eligible retirees through the Road Commission’s group health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiations between the Road Commission and employees. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy. Contribution requirements also are negotiated between the Road Commission and employees. The Road Commission contributes 100% of the cost of current-year premiums for eligible retired plan members. For fiscal year 2017, the Road Commission contributed \$622,770 to the plan. Total member contributions were \$25,141.

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (Continued)

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

Annual required contribution	\$ 1,542,729
Interest on net OPEB obligation (3.5%)	<u>78,972</u>
Annual OPEB cost (expense)	1,621,701
Contributions made	<u>(647,911)</u>
Decrease in net OPEB obligation	973,790
Net OPEB obligation – beginning of year	<u>2,256,356</u>
Net OPEB obligation – end of year	<u>\$ 3,230,146</u>

The Road Commission’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2015, 2016 and 2017 is as follows:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 1,301,251	105%	\$ 2,322,345
2016	\$ 1,341,472	105%	\$ 2,256,356
2017	\$ 1,621,701	40%	\$ 3,230,146

Funded Status and Funding Progress. As of December 31, 2017, the actuarial accrued liability for benefits was \$27,396,310, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$2,904,342, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 943%.

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

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

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (Continued)

In the December 31, 2017, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included no investment rate of return and an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 5% over six years. Both rates included a 2.5% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis over a 23 year period. The mortality assumption used the RP2000 Mortality Combined Healthy Tables projected 20 years with the U.S. Projection Scale AA.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants – The Road Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant 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.

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 (\$2,000 for errors and omissions) for each insured event. The maximum limit of liability for each occurrence is \$10,500,000.

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.

Environmental Remediation – The Road Commission has implemented environmental impact evaluation procedures at its Trout Lake and Strongs, Michigan locations. The cost estimated of any environmental remediation is not determinable at this time. Ongoing monitoring of any existing contamination has been implemented at both Michigan locations and the sources of contamination have been removed from both sites. Future potential liabilities, if any, are undeterminable as of the opinion date.

The Road Commission from time to time is named as a defendant in accident claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. Insurance coverage related to these claims and lawsuits, if any, is categorized under the general liability insurance program. It is the opinion of management and legal counsel that reasonable estimates of the Road Commission's current liability for these matters, if any, have been recorded.

There are nonaccident liability and condemnation lawsuits currently pending against the Road Commission claiming amounts for damages and relief without stated limitations. It is the opinion of management and legal counsel that reasonable estimates of the Road Commission's current liability for these matters, if any, have been recorded.

NOTE 12 - SUBSEQUENT EVENTS

During January 2018, the Road Commission executed purchase orders for vehicles and equipment in the amount of \$922,000.

Required Supplementary Information

**Required Supplementary Information
Employee Retirement and Benefit Systems
Schedule of Funding Progress
December 31, 2017**

Health Benefits:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percent of Covered Payroll ((b - a) / c)</u>
2010	\$ -	\$ 20,182,222	\$ 20,182,222	0.0%	\$ 2,432,164	830%
2013	\$ -	\$ 22,606,011	\$ 22,606,011	0.0%	\$ 2,882,015	784%
2017	\$ -	\$ 27,396,310	\$ 27,396,310	0.0%	\$ 2,904,342	943%

Chippewa County Road Commission

Employee Retirement and Benefit Systems Schedule of Funding Progress For the Year Ended December 31, 2017

	2015	2016	2017
Total pension liability			
Service cost	\$ 281,858	\$ 285,706	\$ 312,302
Interest	1,397,298	1,434,259	1,505,449
Difference between expected and actual experience	-	81,278	(92,224)
Changes in assumptions	-	916,942	-
Benefit payments, including refund of member contributions	(1,201,033)	(1,262,953)	(1,332,756)
Other changes	(1,078)	(471)	22,721
Net change in total pension liability	477,045	1,454,761	415,492
Total pension liability - beginning	17,396,538	17,873,583	19,328,344
Total pension liability - ending	<u>\$ 17,873,583</u>	<u>\$ 19,328,344</u>	<u>\$ 19,743,836</u>
Plan fiduciary net position			
Contributions - employer	\$ 685,503	\$ 762,975	\$ 842,918
Contributions - employee	32,043	35,320	40,590
Net investment income	(139,106)	993,016	1,223,866
Benefit payments, including refunds of member contributions	(1,201,033)	(1,262,953)	(1,332,756)
Administrative expense	(20,530)	(19,619)	(19,412)
Net change in plan fiduciary net position	(643,123)	508,739	755,206
Plan fiduciary net position - beginning	9,571,879	8,928,756	9,437,495
Plan fiduciary net position - ending	<u>\$ 8,928,756</u>	<u>\$ 9,437,495</u>	<u>\$ 10,192,701</u>
Net pension liability - ending	<u>\$ 8,944,827</u>	<u>\$ 9,890,849</u>	<u>\$ 9,551,135</u>
Plan fiduciary net position as a percentage of the total pension liability	50%	49%	52%
Covered - employee payroll	\$ 3,086,023	\$ 3,076,955	\$ 3,244,097
Net pension liability as a percentage of covered-employee payroll	290%	321%	294%

Chippewa County Road Commission

Employee Retirement and Benefit Systems Schedule of Funding Progress For the Year Ended December 31, 2017

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contribution	\$ 685,503	\$ 762,975	\$ 842,918
Contributions in relation to the actuarially determined contribution	<u>(685,503)</u>	<u>(762,975)</u>	<u>(842,918)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 2,660,500	\$ 3,086,023	\$ 3,076,955
Contributions as a percentage of covered-employee payroll	26%	25%	27%

Notes to Schedule:

Actuarially determined contribution rates are calculated as of December 31st, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	22 years
Asset valuation method	5-years smoothed market
Inflation	2.50%
Salary increases	3.75%, average, including inflation
Investment rate of return	7.75%
Retirement age	Varies depending on plan adoption
Mortality	Assumptions were based on the RP2014 Mortality Table - Blended 50% Male / 50% Female

Chippewa County Road Commission

Required Supplementary Information
Budgetary Comparison Schedule
Statement of Revenues - Budget and Actual
For the Year Ended December 31, 2017

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes	\$ 785,000	\$ 815,000	\$ 812,324	\$ (2,676)
Federal Sources	979,000	860,000	854,003	(5,997)
State Sources	5,989,606	6,900,000	6,765,588	(134,412)
Contributions from Local Units	1,165,000	1,230,000	1,223,347	(6,653)
Charges for Services	2,660,000	2,900,000	2,879,151	(20,849)
Other Revenue	141,000	136,000	126,571	(9,429)
Total Revenues	<u>\$ 11,719,606</u>	<u>\$ 12,841,000</u>	<u>\$ 12,660,984</u>	<u>\$ (180,016)</u>

Chippewa County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures - Budget and Actual For the Year Ended December 31, 2017

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road	\$ 3,199,400	\$ 4,770,000	\$ 4,796,824	\$ (26,824)
Local Road	2,351,100	3,460,000	3,429,838	30,162
Trunkline Maintenance	2,600,000	2,615,000	2,600,102	14,898
Administrative Expense - Net	117,000	300,000	289,441	10,559
Equipment Expense - Net	200,000	215,000	299,024	(84,024)
Capital Outlay - Net	(275,000)	(150,000)	(119,579)	(30,421)
Debt Service	240,689	350,000	330,617	19,383
Distributive	3,286,417	-	-	-
Total Expenditures	11,719,606	11,560,000	<u>\$ 11,626,267</u>	<u>\$ (66,267)</u>
Fund Balance - January 1, 2017	2,081,419	2,081,419		
Total Budget	<u>\$ 13,801,025</u>	<u>\$ 13,641,419</u>		

Other Information

Chippewa County Road Commission

Analysis of Changes in Fund Balance For the Year Ended December 31, 2017

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 5,066,898	\$ 4,663,629	\$ 2,930,457	\$ 12,660,984
Total Expenditures	5,064,052	3,643,065	2,919,150	11,626,267
Excess of Revenues Over (Under) Expenditures	2,846	1,020,564	11,307	1,034,717
Fund Balance - January 1, 2017	1,424,354	145,821	511,244	2,081,419
Fund Balance - December 31, 2017	<u>\$ 1,427,200</u>	<u>\$ 1,166,385</u>	<u>\$ 522,551</u>	<u>\$ 3,116,136</u>

Chippewa County Road Commission

Analysis of Revenues For the Year Ended December 31, 2017

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes	\$ -	\$ 812,324	\$ -	\$ 812,324
Licenses and Permits	-	-	1,700	1,700
Federal Sources				
Surface Transportation Program	679,619	-	-	679,619
Other	174,384	-	-	174,384
State Sources				
Michigan Transportation Fund				
Engineering	5,563	4,437	-	10,000
Allocation	3,134,014	2,499,505	-	5,633,519
Snow Removal	-	368,541	-	368,541
Urban Road	329,207	66,493	-	395,700
Rural Primary	127,470	-	-	127,470
Forest Road	230,358	-	-	230,358
Contributions from Local Units				
Townships	383,047	836,996	-	1,220,043
Other	-	-	3,304	3,304
Charges for Services				
Trunkline Maintenance	-	-	2,848,454	2,848,454
Trunkline Nonmaintenance	-	-	23,443	23,443
Salvage Sales	-	-	7,254	7,254
Interest and Rents				
Interest Earnings	3,236	333	1,190	4,759
Other Revenue				
Gain on Equipment Disposals	-	-	21,437	21,437
Other	-	75,000	23,675	98,675
Total Revenues	<u>\$ 5,066,898</u>	<u>\$ 4,663,629</u>	<u>\$ 2,930,457</u>	<u>\$ 12,660,984</u>

Chippewa County Road Commission

Analysis of Expenditures For the Year Ended December 31, 2017

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation	\$ 2,540,045	\$ -	\$ -	\$ 2,540,045
Maintenance	2,256,779	-	-	2,256,779
Local Road				
Preservation	-	1,243,152	-	1,243,152
Maintenance	-	2,186,686	-	2,186,686
Trunkline Maintenance	-	-	2,576,659	2,576,659
Trunkline Nonmaintenance	-	-	23,443	23,443
Administrative Expense - Net	168,768	120,673	-	289,441
Equipment Expense - Net	98,460	92,554	108,010	299,024
Capital Outlay - Net	-	-	(119,579)	(119,579)
Debt Service				
Debt Principal Payments	-	-	314,152	314,152
Interest Expense	-	-	16,465	16,465
Total Expenditures	<u>\$ 5,064,052</u>	<u>\$ 3,643,065</u>	<u>\$ 2,919,150</u>	<u>\$ 11,626,267</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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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
Chippewa County Road Commission
3949 S. Mackinac Trail
Sault Ste. Marie, Michigan 49783

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and major fund of the Chippewa County Road Commission (a component unit of Chippewa County, Michigan), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Chippewa County Road Commission's basic financial statements and have issued our report thereon dated April 2, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Chippewa 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 Chippewa County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Chippewa 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies listed as 2017-001 and 2017-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Chippewa County 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as items 2017-002.

Chippewa County Road Commission's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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

April 2, 2018

Chippewa County Road Commission

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Project Number</u>	<u>Paid to Subrecipients</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation:					
Pass-Through Programs from the State of Michigan Department of Transportation (MDOT)					
Townline Road From M-129	20.205	STP 1717(006)	130379	\$ -	\$ 613,992
Gogomain M129 to Pennington	20.205	STP 1617(010)	113006	-	54,551
Townline Road From M-129	20.205	STP 1617(012)	113005	-	5,442
Traffic marking	20.205	STP 1617(006)	126883	-	5,634
Subtotal MDOT Administered				-	679,619
Total U.S. Department of Transportation				-	679,619
U.S. Department of Commerce:					
Pass Through Program from the Great Lakes Commission					
Little Rapids Resoration Project	11.463	NA13NMF4630217	N/A	-	174,384
Total Expenditures of Federal Awards				\$ -	\$ 854,003

SIGNIFICANT DEFICIENCIES

*Preparation of the Financial Statements in Accordance
with Generally Accepted Accounting Principles*

Finding 2017-001

Specific Requirement: Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 115 requires management to prepare annual audit statements in accordance with GASB Statement Number 34. (Audit report format)

Criteria: Internal controls should be in place to provide reasonable assurance to the Commission that management reports financial statements (with GASB Statement number 34 formats) necessary to monitor and report annual financial activity without auditor intervention.

Condition: Auditor modifies financial statements and footnotes to comply with governmental generally accepted accounting principles.

Effect: The effect of this condition places a reliance on the independent auditor as part of the Commission's internal controls over financial reporting.

Cause: Change in application of auditing standard.

Recommendation: The Commission should consider subcontracting financial statement preparation activities to monitor and report annual financial activity in accordance with GASB Statement Number 34 or train staff to accomplish this element.

Planned Corrective Action: In the past, the Board has relied on the auditors for this type of reporting for cost effectiveness. Due to limited resources, management does not wish to allocate additional funds to change this process. Management reviews adjustments for accuracy upon completion and reconciles discrepancies and other disclosures.

- Contact Person(s) Responsible for Correction:
Robert Laitinen, Manager

Significant Deficiencies – Noncompliance with State Statutes

Excess Expenditures Over Appropriations

Finding 2017-002

Condition: Our examination indicated one instance of noncompliance with the provisions of Public Act 621 of 1978, Section 18(1), as amended, the Uniform Budgeting and Accounting Act.

The Road Commission's 2017 General Appropriations Act (budget) provided for expenditures of the following funds to be controlled to the activity level. During the fiscal year ended December 31, 2017, expenditures were incurred in excess of amounts appropriated in the amended budgets.

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Public Act 621 of 1978, as amended.

During the year ended December 31, 2017, the Road Commission incurred expenditures in certain budgetary funds, which were in excess of the amount appropriated as reported on page 34.

Effect: The Road Commission has not complied with various State Statutes.

Cause: Additional billings for fiscal year 2017 were submitted after year end that were unknown to management.

Recommendation: The Road Commission personnel responsible for administering the activities of the various funds of the Road Commission have developed budgetary control procedures for the General Fund. These procedures could not identify an overage which is unknown by management until after the fiscal year ends.

Corrective Action Plan: Management does monitor budgets closely and perform budget amendments on a timely basis. We will work to implement budget amendments as soon as information becomes available to us; however, because the budgets lapse at year end amendments can only be made as information becomes available.

- Contact Person(s) Responsible for Correction:
Robert Laitinen, Manager



ANDERSON, TACKMAN & COMPANY, PLC
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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Members of the Board of County Road Commissioners
Chippewa County Road Commission
3949 S. Mackinac Trail
Sault Ste. Marie, MI 49783

We have audited the financial statements of the governmental activities and major fund of the Chippewa County Road Commission (a component unit of Chippewa County, Michigan) for the year ended December 31, 2017, and have issued our reports thereon dated April 2, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing 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, 2018, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with 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 Chippewa 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 Chippewa 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, schedule of funding progress, 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 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 your Board Packet.

Significant Audit Findings

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 Chippewa County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing polices 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 the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate to determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued compensated absences liability is based on current hourly rates and policies.
- Management's estimate of the Acturarily Determined Contribution for OPEB Obligations and Net Pension Liabilities were based on various assumptions regarding life expectancies, inflation, premium increases, and investment rates.

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. In addition, there were no misstatements detected as a result of audit procedures and corrected by management that 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 April 2, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the 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 as to determine 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

Information Technology (Prior Year)

The Board may want to perform vulnerability or intrusion scans or tests to assure that unauthorized or illegal access to Commission software or data has not occurred to prevent or detect theft of private information. Additionally, this procedure detects "ghost" programs operating for other than Commission purposes due to the internet.

Status: No change.

Uniform Administrative Requirements (Prior Year)

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

Uniform Administrative Requirements (Continued)

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.

Status: No change.

Health Benefits (Prior Year)

The Board utilized the actuarial method during 2013 to project the future accrued actuarial liability for health benefit obligations. The Commission should consider updating this actuarial projection of health benefit costs during fiscal 2017 in accordance with guidance contained in GASB Statement number 74. The Board could also change its valuation of these costs to the alternate method if it elected not to update the actuarial method, however an update is required in either case.

Status: Corrected.

Other Postemployment Benefits

In June 2015, the Governmental Accounting Standards Board issued Statement Number 75 – “Financial Reporting for Postemployment Benefits Other Than Pensions.” The standard addresses how to measure long-term liabilities and annual costs of Other Postemployment Benefits (OPEB) for the purposes of reporting them in the financial statements. The standard does not apply to how a governmental unit should fund future OPEB payments, however. The standard makes significant changes which will increase the liability and may adjust annual OPEB expense as well. A net OPEB liability will be reported in the employer’s statement of net position which could amount to a significant increase than past amounts reported. The OPEB expense will also be significantly more volatile, since there will likely be two sets of calculations for expense and funding. Additionally, changes in methods and assumptions used in the actuarial calculations, more extensive footnote disclosures and required supplementary information will be needed.

The standard is effective for fiscal years beginning after June 15, 2017. We encourage the Board and management to review the provisions of this new standard and anticipate its effect on the financial reporting process.

Single Approach for Reporting Leases

The Governmental Accounting Standards Board (GASB) issued guidance that establishes a single approach to accounting for and reporting leases by state and local governments. The single approach is based on the principle that leases are financing of the right to use an underlying asset.

GASB Statement No. 87, *Leases*, provides guidance for lease contracts for nonfinancial assets – including vehicles heavy equipment, and buildings – but excludes nonexchange transactions, including donates assets, and leases of intangible assets.

Under the new Statement a lessee government is required to recognize (1) a lease liability and (2) an intangible asset representing the lessee’s right to use the leased asset. A lessor government is required to recognize (1) a lease receivable and (2) a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements.

Single Approach for Reporting Leases (Continued)

A lease also will report the following in its financial statements:

- Amortization expense for using the lease asset (similar to depreciation) over the shorter of the term of the lease or the useful life of the underlying asset.
- Interest expense on the lease liability
- Note disclosures about the lease, including a general description of the leasing arrangement, the amount of the lease assets recognized, and a schedule of future lease payment to be made.

Limited exceptions to the single-approach guidance are provided for:

- Short-term leases, defined as lasting a maximum of 12 months at inception, including any options to extend.
- Financial purchases
- Certain regulated leases, such as between municipal airports and air carriers.

The full text of Statement 87 is available on the GASB website, www.gasb.org.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, schedule of funding progress, 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 inquires 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 Chippewa 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

April 2, 2018