Chippewa County Road Commission

BASIC FINANCIAL STATEMENTS

December 31, 2016

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

TABLE OF CONTENTS

TABLE OF CONTENTS (Continued)

ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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

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

MEMBER AICPA
DIVISION FOR CPA FIRMS
MEMBER MACPA
OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

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, 2016, 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 and Michigan Public Act 51 of 1951, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

16978 S. RILEY AVENUE
KINCHELOE, MICHIGAN 49788

(906) 495-5952 / FAX 495-7312
E-mail: antack@antack.com

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, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Board of County Road Commissioners
Chippewa County Road Commission

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

In accordance with *Government Auditing Standards* and Michigan Public Act 51 of 1951, as amended, we have also issued our report dated April 7, 2017 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* and Michigan Public Act 51 of 1951, as amended in considering the Chippewa County Road Commission's internal control over financial reporting and compliance.

Anderson Tackman & Co. PLC

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

April 7, 2017

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 and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net position are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the Road Commission's major fund begins on page 11. The 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 9.7% from $73,973,877 to $81,120,243 for the year ended December 31, 2016. The Net Position and Change in Net Position are summarized below.

Unrestricted Net Position decreased $805,932. The primary reason was an increase in pension liabilities.

Net Position as of the years ended December 31, 2016 and 2015 follows:

	Governmental Activities	
	2016	2015
Current Assets	$ 3,955,553	$ 4,366,795
Capital Assets	91,080,350	83,347,246
Total Assets	95,035,903	87,714,041
Deferred Outflows of Resources	1,072,369	726,396
Current Liabilities	1,281,102	1,437,654
Noncurrent Liabilities	12,889,486	12,222,610
Total Liabilities	14,170,588	13,660,264
Deferred Inflows of Resources	817,441	806,296
Net Position		
Net Investment in Capital Assets	90,264,550	82,312,252
Unrestricted	(9,144,307)	(8,338,375)
Total Net Position	$ 81,120,243	$ 73,973,877

A summary of Changes in Net Position for the years ended December 31, 2016 and 2015 follows:

	Governmental Activities	
	2016	2015
Program Revenues		
Charges for Services	$ 2,762,791	$ 2,146,581
Grants and Contributions	14,321,406	7,998,098
Interest and Other	28,256	5,767
General Revenues		
Property Taxes	808,468	795,716
Gain (Loss) on Equipment Disposal	5,617	87,290
Total Revenues	17,926,538	11,033,452
Program Expenses		
Primary Roads	4,165,614	3,104,733
Local Roads	2,526,086	3,459,804
State Trunkline	2,864,754	2,181,882
Equipment Expense	297,058	729,694
Administrative	360,070	358,281
Interest Expense and Other	566,590	316,843
Total Expenses	10,780,172	10,151,237
Change in Net Position	7,146,366	882,215
Net Position – Beginning as Restated	73,973,877	73,091,662
Net Position – Ending	$ 81,120,243	$ 73,973,877

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, 2016, the fund balance of the general operations fund increased $96,630 as compared to a decrease of $1,467,797 in the fund balance for the prior year. Total revenues were $18,284,005, an increase of $6,467,150 as compared to last year. This change in revenues resulted primarily from federal, state and local project funding.

Total expenditures were $18,187,375, an increase of $4,902,723. The increase 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 2016 was $195,995 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 $18,367,189 while actual expenditures were $18,187,375. This resulted in total expenditures being under budget by $179,814. There were several items that account for the variance in the projection of the budget.

Capital Assets

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

	2016	2015
Capital Assets Not Being Depreciated		
Land and Improvements	$ 53,115,436	$ 51,804,013
Construction in Progress	8,354,982	640,208
Other Capital Assets		
Buildings and Improvements	5,082,566	5,007,937
Road Equipment	13,741,885	13,821,125
Other Equipment and Assets	1,631,363	1,574,194
Infrastructure	52,397,799	51,935,531
Total Capital Assets at Historic Cost	134,324,031	124,783,008
Total Accumulated Depreciation	(43,243,681)	(41,435,762)
Total Net Capital Assets	$ 91,080,350	$ 83,347,246

Major additions included the following:

	2016	2015
Buildings	$ 74,629	$ 64,406
Land & Improvements	$ 1,311,423	$ 1,321,104
Various Resurfacing Projects and Bridges	$ 9,319,247	$ 2,254,724
Trucks/Equipment/Other	$ 135,529	$ 1,931,503

Debt

The Road Commission currently has long-term debt in the amount of $13,113,895 which represents bank loans, equipment financing, pension and benefit liabilities, and compensated absences. Due to provisions of applicable GASB Statements, the Commission recorded a $2,256,356 and $9,890,849 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 2017 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

Statement of Net Position
December 31, 2016

ASSETS		
Cash and Equivalents	$	665,983
Accounts Receivable:		
Taxes		817,441
Michigan Transportation Fund		806,214
State Trunkline Maintenance		655,009
Due from Federal Government		72,957
Due on County Road Agreements		117,875
Sundry Accounts		31,742
Inventories:		
Road Materials		501,253
Equipment, Parts and Materials		212,036
Prepaid Items		75,043
Capital Assets (Not Depreciated)		61,470,418
Capital Assets (Net of Accumulated Depreciation)		29,609,932
Total Assets		95,035,903
DEFERRED OUTFLOWS OF RESOURCES		
Pension investment experience and contributions		1,072,369
LIABILITIES		
Accounts Payable		269,108
Accrued Liabilities		110,277
Advances		677,308
Notes Payable - Due within one year		224,409
Notes Payable - Due in more than one year		591,391
Vested Employee Benefits- Due in more than one year		150,890
Other Post Employment Benefits - Due in more than one year		2,256,356
Net Pension Liability - Due in more than one year		9,890,849
Total Liabilities		14,170,588
DEFERRED INFLOWS OF RESOURCES		
Taxes Levied for Subsequent Period		817,441
NET POSITION		
Net Investment in Capital Assets		90,264,550
Unrestricted (Deficit)		(9,144,307)
Total Net Position	$	81,120,243

See accompanying notes to financial statements.

Statement of Activities
For the Year Ended December 31, 2016

Program Expenses:	
Primary Road Maintenance	
and Preventive Maintenance	$ 4,165,614
Local Road Maintenance	
and Preventive Maintenance	2,526,086
State Trunkline	2,864,754
Net Equipment Expense	297,058
Net Administrative Expense	360,070
Interest Expense	21,495
Other	545,095
Total Program Expenses	10,780,172
Program Revenues:	
Charges for Services:	
Licenses and Permits	800
Charges for Services	2,761,991
Operating Grants and Contributions:	
State Grants	3,736,166
Interest Earnings	28,256
Capital Grants and Contributions:	
Federal Grants	8,350,120
State Grants	1,595,605
Contributions from Local Units	639,515
Total Program Revenues	17,112,453
Net Program Revenues (Expenses)	6,332,281
General Revenues:	
Taxes - Real Property	808,468
Gain (Loss) on Disposal	5,617
Total General Revenues	814,085
Change in Net Position	7,146,366
Net Position - Beginning Balance	73,973,877
Net Position - Ending Balance	$ 81,120,243

Balance Sheet
December 31, 2016

		Governmental Fund Type General Operating Fund
ASSETS		
Cash and Equivalents	$	665,983
Accounts Receivable:		
Taxes		817,441
Michigan Transportation Fund		806,214
State Trunkline Maintenance		655,009
Due from Federal Government		72,957
Due on County Road Agreements		117,875
Sundry Accounts		31,742
Inventories:		
Road Materials		501,253
Equipment, Parts and Materials		212,036
Prepaid Items		75,043
Total Assets	$	3,955,553
LIABILITIES		
Accounts Payable	$	269,108
Accrued Liabilities		110,277
Advances		677,308
Total Liabilities		1,056,693
DEFERRED INFLOWS OF RESOURCES		
Taxes Levied for Subsequent Period		817,441
Total Deferred Inflows of Resources		817,441
FUND BALANCE		
Nonspendable		788,332
Unassigned		1,293,087
Total Fund Balance	$	2,081,419

See accompanying notes to financial statements.

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

Total Governmental Fund Balance	$ 2,081,419
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.	91,080,350
Net pension liability requirement.	(9,890,849)
Deferred outflows resulting from pension assumptions and contributions.	1,072,369
Other long-term liabilities are not available to pay in the current period and therefore are not reported in the funds.	(3,223,046)
Net Position of Governmental Activities	$ 81,120,243

See accompanying notes to financial statements.

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

	Governmental Fund Type	
	General Operating Fund	
Revenues		
Property Taxes	$	808,468
License and Permits		800
Federal Sources		8,350,120
State Sources		5,689,238
Contributions form Local Units		639,515
Charges for Services		2,690,236
Interest Earnings and Rent		28,256
Other Revenue		77,372
Total Revenues		18,284,005
Expenditures		
Public Works		18,458,065
Capital Outlay		(511,379)
Debt Service		240,689
Total Expenditures		18,187,375
Excess of Revenues Over (Under) Expenditures		96,630
Fund Balance - Beginning of Year		1,984,789
Fund Balance - End of Year	$	2,081,419

See accompanying notes to financial statements.

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, 2016

Net Change in Fund Balance - Total Governmental Funds	$	96,630
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.		7,733,104
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.		219,194
Decrease in state revenue related to local agency payments which is not considered available under modified accrual.		(357,467)
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.		(545,095)
Net Change in Net Position of Governmental Activities	$	7,146,366

See accompanying notes to financial statements.

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 2016 taxable valuation of $1,122,086,251 for Road Millage amounted to $1,096,824 less $279,383 for cities and villages, (on which ad valorem taxes of .09879 mills were levied) for road maintenance purposes resulted in a net total of $817,441.

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 2016 ad valorem tax is levied and collectible December 1, 2016, 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 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.

	Carrying Amount	Financial Institution Balance
Petty Cash	$ 150	$ -
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	665,833	809,982
Total Cash and Equivalents	$ 665,983	$ 809,982

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, $309,982 of the Road Commission's bank balance of $809,982 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 01/01/16	Additions	Adjustments/ Deductions	Ending Balances 12/31/16
Capital Assets Not Being Depreciated				
Land and Improvements	$ 270,902	$ 101,328	$ -	$ 372,230
Land/Improvements - Infrastructure	51,533,111	1,210,095	-	52,743,206
Construction in Progress	640,208	7,714,774	-	8,354,982
Subtotal	52,444,221	9,026,197	-	61,470,418
Capital Assets Being Depreciated				
Buildings	5,007,937	74,629	-	5,082,566
Road Equipment	13,821,125	77,306	156,546	13,741,885
Shop Equipment	274,672	-	-	274,672
Office Equipment	58,249	-	554	57,695
Engineers’ Equipment	68,733	2,325	500	70,558
Depletable Assets	1,172,540	55,898	-	1,228,438
Infrastructure – Roads	38,730,389	1,604,473	1,142,205	39,192,657
Infrastructure – Bridges	13,205,142	-	-	13,205,142
Subtotal	72,338,787	1,814,631	1,299,805	72,853,613
Less Accumulated Depreciation				
Buildings	2,431,690	141,862	-	2,573,552
Road Equipment	11,873,755	616,202	156,546	12,333,411
Shop Equipment	236,052	16,225	-	252,277
Office Equipment	52,379	2,298	554	54,123
Engineers’ Equipment	66,923	1,612	500	68,035
Depletable Assets	388,431	16,697	-	405,128
Infrastructure – Roads	17,982,044	2,058,053	1,142,205	18,897,892
Infrastructure – Bridges	8,404,488	254,775	-	8,659,263
Subtotal	41,435,762	3,107,724	1,299,805	43,243,681
Net Capital Assets Being Depreciated	30,903,025	(1,293,093)	-	29,609,932
Total Net Capital Assets	$ 83,347,246	$ 7,733,104	$ -	$ 91,080,350

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	$	1,867,935
Local Road Maintenance		
and Preventive Maintenance		444,893
Equipment Expense		616,202
Administrative		9,409
Other Allocated		169,285
Total Depreciation Expense	$	3,107,724

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, 2015.

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	**2015 Valuation**
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 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

02 – General: Open Division	**2015 Valuation**
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)

<u>Employees Covered by Benefit Terms</u>

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

Inactive employees or beneficiaries currently receiving benefits	84
Inactive employees entitled to but not yet receiving benefits	4
Active employees	63
	151

<u>Funding Policy</u>

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 2016 $61,754.

<u>Net Pension Liability</u>

The Road Commission's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2015 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. For disabled retirees, the RP-2014 mortality table was used to reflect the higher expected mortality rates of disabled members.

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 9 - 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 8.25% for 2015 and will be 8.0% in 2016 and thereafter. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions well 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, 2015	$ 17,873,583	$ 8,928,756	$ 8,944,827
Service cost	285,706	-	285,706
Interest on total pension liability	1,434,259	-	1,434,259
Difference between expected and actual experience	81,278	-	81,278
Changes in assumptions	916,942	-	916,942
Employer contributions	-	762,975	(762,975)
Employee contributions	-	35,320	(35,320)
Net investment income	-	993,016	(993,016)
Benefit payments, including employee refunds	(1,262,953)	(1,262,953)	-
Administrative expense	-	(19,619)	19,619
Other changes	(471)	-	(471)
Net changes	1,454,761	508,739	946,022
Balances as of December 31, 2016	$ 19,328,344	$ 9,437,495	$ 9,890,849

NOTE 9 - 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	$11,943,303	$9,890,849	$8,140,800

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, 2016, the Road Commission recognized pension expense of $1,363,028. At December 31, 2016, 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	$ 323,701	$ -
Changes in assumptions	60,960	-
Net difference between projected and actual earnings on pension plan investments	687,708	-
Total	$ 1,072,369	$ -

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

Year Ended December 31:	
2017	$ 375,880
2018	375,880
2019	375,880
2020	(55,271)

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Annual Pension Cost

During the year ended December 31, 2016, the Road Commission's contributions totaling $762,975 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2014. 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, 2016, the federal aid received and expended by the Road Commission was $670,793 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.

	Balance 01/01/16	Additions	Reductions	Balance 12/31/16	Due Within One Year
Installment payable secured by trucks, payable in monthly installments of $12,272 including interest of 1.89%, due 2020.	$ 623,543	$ -	$ 136,438	$ 487,105	$ 139,260
Installment payable secured by equipment, payable in monthly installments of $3,760 including interest of 2.75%, due 2020.	194,085	-	40,287	153,798	41,409

NOTE 9 - LONG-TERM DEBT (Continued)

	Balance 01/01/16	Additions	Reductions	Balance 12/31/16	Due Within One Year
Installment payable secured by equipment, payable in monthly installments of $4,026 including interest of 2.95%, due 2020.	217,366	-	42,469	174,897	43,740
Subtotal	1,034,994	-	219,194	815,800	$ 224,409
Compensated Absences (1)	139,855	11,035	-	150,890	
TOTAL LONG-TERM DEBT	$ 1,174,849	$ 11,035	$ 219,194	$ 966,690	

(1) Net increase.

Annual debt service requirements are as follows:

	Principal	Interest	Total
2017	$ 224,409	$ 16,280	$ 240,689
2018	229,524	11,165	240,689
2019	234,761	5,928	240,689
2020	127,106	1,067	128,173
Total	$ 815,800	$ 34,440	$ 850,240

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 2016, the Road Commission contributed $1,407,461 to the plan. Total member contributions were $53,753.

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	$ 1,260,190
Interest on net OPEB obligation (3.5%)	81,282
Annual OPEB cost (expense)	1,341,472
Contributions made	(1,407,461)
Decrease in net OPEB obligation	(65,989)
Net OPEB obligation – beginning of year	2,322,345
Net OPEB obligation – end of year	$ 2,256,356

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 2014, 2015 and 2016 is as follows:

Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	$ 1,259,594	99%	$ 2,390,742
2015	$ 1,301,251	105%	$ 2,322,345
2016	$ 1,341,472	105%	$ 2,256,356

Funded Status and Funding Progress. As of December 31, 2013, the actuarial accrued liability for benefits was $22,606,011, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $2,882,015, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 784%.

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, 2013, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 3.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 9% initially, reduced by decrements to an ultimate rate of 3.5% after ten years. Both rates included a percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis over a 27 year period. The mortality assumption used the RP2000 Mortality Combined Healthy Tables projected 20 years with the U.S. Projection Scale BB.

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.

Required Supplementary Information

Required Supplementary Information
Employee Retirement and Benefit Systems
Schedule of Funding Progress
December 31, 2016

Health Benefits:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b – a) / c)
2008	$ -	$ 16,347,444	$ 16,347,444	0.0%	Not Available	-
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%

Employee Retirement and Benefit Systems
Schedule of Funding Progress
For the Year Ended December 31, 2016

	2015	2016
Total pension liability		
Service cost	$ 281,858	$ 285,706
Interest	1,397,298	1,434,259
Difference between expected and actual experience	-	81,278
Changes in assumptions	-	916,942
Benefit payments, including refund of member contributions	(1,201,033)	(1,262,953)
Other changes	(1,078)	(471)
Net change in total pension liability	477,045	1,454,761
Total pension liability - beginning	17,396,538	17,873,583
Total pension liability - ending	$ 17,873,583	$ 19,328,344
Plan fiduciary net position		
Contributions - employer	$ 685,503	$ 762,975
Contributions - employee	32,043	35,320
Net investment income	(139,106)	993,016
Benefit payments, including refunds of member contributions	(1,201,033)	(1,262,953)
Administrative expense	(20,530)	(19,619)
Net change in plan fiduciary net position	(643,123)	508,739
Plan fiduciary net position - beginning	9,571,879	8,928,756
Plan fiduciary net position - ending	$ 8,928,756	$ 9,437,495
Net pension liability - ending	$ 8,944,827	$ 9,890,849
Plan fiduciary net position as a percentage of the total pension liability	50%	49%
Covered - employee payroll	$ 3,086,023	$ 3,076,955
Net pension liability as a percentage of covered-employee payroll	290%	321%
Annual money-weighted rate of return, net of investment expense	-1%	11%

Employee Retirement and Benefit Systems
Schedule of Funding Progress
For the Year Ended December 31, 2016

	2015	2016
Actuarially determined contribution	$ 685,503	$ 762,975
Contributions in relation to the actuarially determined contribution	(685,503)	(762,975)
Contribution deficiency (excess)	$ -	$ -
Covered - employee payroll	$ 2,660,500	$ 3,086,023
Contributions as a percentage of covered-employee payroll	26%	25%

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	23 years
Asset valuation method	5-years smoothed market
Inflation	3.75%
Salary increases	4.5%, average, including inflation
Investment rate of return	7.75%
Retirement age	In the 2015 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience
Mortality	Assumptions were based on the RP2004 Mortality Table - Blended 50% Male / 50% Female

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

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes	$ 785,000	$ 809,000	$ 808,468	$ (532)
Federal Sources	7,238,400	8,400,000	8,350,120	(49,880)
				-
State Sources	5,955,045	5,835,000	5,333,717	(501,283)
Contributions from Local Units	1,345,000	650,000	639,515	(10,485)
Charges for Services	2,200,000	2,675,000	2,690,236	15,236
Other Revenue	56,000	111,000	106,428	(4,572)
Total Revenues	$ 17,579,445	$ 18,480,000	$ 18,284,005	$ (195,995)

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

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road	$ 9,118,927	$ 11,900,000	$ 11,795,148	$ 104,852
Local Road	3,181,500	3,236,500	3,141,035	95,465
Trunkline Maintenance	2,200,000	2,865,000	2,864,754	246
Administrative Expense - Net	239,500	380,000	360,070	19,930
Equipment Expense - Net	(100,000)	250,000	297,058	(47,058)
Capital Outlay - Net	(405,000)	(505,000)	(511,379)	6,379
Debt Service	240,689	240,689	240,689	-
Distributive	3,035,000	-	-	-
Total Expenditures	17,510,616	18,367,189	$ 18,187,375	$ 179,814
Fund Balance - January 1, 2016	1,984,789	1,984,789		
Total Budget	$ 19,495,405	$ 20,351,978		

Other Information

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

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	$ 12,102,634	$ 3,461,474	$ 2,719,897	$ 18,284,005
Total Expenditures	12,164,530	3,315,653	2,707,192	18,187,375
Excess of Revenues Over (Under) Expenditures	(61,896)	145,821	12,705	96,630
Fund Balance - October 1, 2015	1,486,250	-	498,539	1,984,789
Fund Balance - September 30, 2016	$ 1,424,354	$ 145,821	$ 511,244	$ 2,081,419

Analysis of Revenues
For the Year Ended December 31, 2016

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes	$ 808,468	$ -	$ -	$ 808,468
Licenses and Permits	-	800	-	800
Federal Sources				
Surface Transportation Program	613,192	-	-	613,192
Other	7,520,890	216,038	-	7,736,928
State Sources				
Michigan Transportation Fund				
Engineering	5,580	4,420	-	10,000
Allocation	2,408,181	1,907,615	-	4,315,796
Snow Removal	-	363,873	-	363,873
Urban Road	241,210	51,905	-	293,115
Rural Primary	120,575	-	-	120,575
Forest Road	-	230,358	-	230,358
Other	-	355,521	-	355,521
Contributions from Local Units				
Townships	380,682	258,728	-	639,410
Other	-	-	105	105
Charges for Services				
Trunkline Maintenance	-	-	2,513,418	2,513,418
Trunkline Nonmaintenance	-	-	172,874	172,874
Salvage Sales	-	-	3,944	3,944
Interest and Rents				
Interest Earnings	3,856	461	1,439	5,756
Property Rentals	-	-	22,500	22,500
Other Revenue				
Gain on Equipment Disposals	-	-	5,617	5,617
Other	-	71,755	-	71,755
Total Revenues	$ 12,102,634	$ 3,461,474	$ 2,719,897	$ 18,284,005

Analysis of Expenditures
For the Year Ended December 31, 2016

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Construction	$ 76,083	$ -	$ -	$ 76,083
Preservation	9,435,350	-	-	9,435,350
Maintenance	2,283,715	-	-	2,283,715
Local Road				
Preservation	-	1,017,909	-	1,017,909
Maintenance	-	2,123,126	-	2,123,126
Trunkline Maintenance	-	-	2,691,880	2,691,880
Trunkline Nonmaintenance	-	-	172,874	172,874
Administrative Expense - Net	284,348	75,722	-	360,070
Equipment Expense - Net	85,034	98,896	113,128	297,058
Capital Outlay - Net	-	-	(511,379)	(511,379)
Debt Service				
Debt Principal Payments	-	-	219,194	219,194
Interest Expense	-	-	21,495	21,495
Total Expenditures	$ 12,164,530	$ 3,315,653	$ 2,707,192	$ 18,187,375

Reports on Compliance

ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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

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

MEMBER AICPA
DIVISION FOR CPA FIRMS
MEMBER MACPA
OFFICES IN
MICHIGAN & WISCONSIN

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

Board of County Road Commissioners
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, 2016, 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 7, 2017.

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. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency listed as 2016-001.

16978 S. RILEY AVENUE
KINCHELOE, MICHIGAN 49788

(906) 495-5952 / FAX 495-7312
E-mail: antack@antack.com

Board of County Road Commissioners
Chippewa County Road Commission

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 & Co. PLC

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

April 7, 2017

ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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

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

MEMBER AICPA
DIVISION FOR CPA FIRMS
MEMBER MACPA
OFFICES IN
MICHIGAN & WISCONSIN

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

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

Report on Compliance

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

Management's Responsibility

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

Auditor's Responsibility

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

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

16978 S. RILEY AVENUE
KINCHELOE, MICHIGAN 49788

(906) 495-5952 / FAX 495-7312
E-mail: antack@antack.com

Board of County Road Commissioners
Chippewa County Road Commission

Opinion

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

Purpose of this Report

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

Anderson Tackman & Co. PLC

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

April 7, 2017

ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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

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

MEMBER AICPA
DIVISION FOR CPA FIRMS
MEMBER MACPA
OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the Chippewa County Road Commission's, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Chippewa County Road Commission's major federal programs for the year ended December 31, 2016. The Chippewa County Road Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for each of the Chippewa County Road Commission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Chippewa County Road Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

16978 S. RILEY AVENUE
KINCHELOE, MICHIGAN 49788

(906) 495-5952 / FAX 495-7312
E-mail: antack@antack.com

Board of County Road Commissioners
Chippewa County Road Commission

Opinion on Each Major Federal Program

In our opinion, the Chippewa County Road Commission, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the Chippewa County Road Commission, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Chippewa County Road Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Chippewa County Road Commission's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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

Anderson Tackman & Co. PLC

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

April 7, 2017

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Project Number	Paid to Subrecipients	Federal Expenditures
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 1617(012)	113005	$ -	$ 332,269
Gogomain M129 to Pennington	20.205	STP 1617(010)	113006	-	243,591
Guardrail upgrades	20.205	STP 1617(007)	120127	-	57,600
Traffic marking	20.205	STP 1617(006)	126883	-	36,180
Bridge approach	20.205	STP 1417(003)	120337	-	1,153
Subtotal MDOT Administered				-	670,793
Total U.S. Department of Transportation				-	670,793
U.S. Department of Commerce:					
Pass Through Program from the Great Lakes					
Commission					
Little Rapids Resoration Project	11.463	NA13NMF4630217	N/A	-	7,463,290
Total Expenditures of Federal Awards				$ -	$8,134,083

See accompanying notes to schedule of expenditures of federal awards.

NOTE A - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Chippewa County Road Commission, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - OVERSIGHT AGENCY:

The U.S. Department of Commerce has been assigned as the Oversight Agency during 2016, which provides the most direct funding.

NOTE C - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBER:

The CFDA number represents the federal program identification number. The numbers were either obtained from the grant award, from correspondence from the federal agency or from the CFDA catalog.

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	No

Identification of Major Programs:

CFDA Numbers	***Name of Federal Program***
11.463	Little Rapids Restoration Project

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

SIGNIFICANT DEFICIENCIES

Preparation of the Financial Statements in Accordance with Generally Accepted Accounting Principles ***Finding 2016-001***

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

Section III – Federal Award Findings and Questioned Costs

NONE.

Summary Schedule of Prior Year Audit Findings
For the Year Ended December 31, 2016

Section III – Federal Award Findings and Questioned Costs

NONE.