

Chippewa County Road Commission

BASIC FINANCIAL STATEMENTS

December 31, 2013

CHIPPEWA COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

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Chairman

Bernard P. LaJoie
Vice Chairman

Bradley L. Ormsbee
Member

Robert Laitinen
Manager

Brian Decker
Office Manager

Christine McDowell
Executive Assistant/Clerk

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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, 2013, 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, 2013, 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, page 28 and pages 29 through 30 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 and schedule of expenditures of federal awards are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2014 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, 2014

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 and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 11. The fund financial statements begin on page 29 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 approximately .46% from \$77.8 million to \$78.2 million for the year ended December 31, 2013. The Net Position and Change in Net Position are summarized below.

Unrestricted Net Position increased \$267,894. The primary reason for the increase was an increase in Michigan Transportation Funds.

Net Position as of the years ended December 31, 2012 and 2013 follows:

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2013</u>
Current Assets	\$ 3,510,428	\$ 3,923,236
Capital Assets	<u>78,874,602</u>	<u>79,253,625</u>
Total Assets	<u>\$ 82,385,030</u>	<u>\$ 83,176,861</u>
Current Liabilities	\$ 1,959,768	\$ 1,853,995
Noncurrent Liabilities	<u>2,600,066</u>	<u>3,137,928</u>
Total Liabilities	<u>4,559,834</u>	<u>4,991,923</u>
Net Position		
Net Investment in Capital Assets	78,362,343	78,454,191
Unrestricted	<u>(537,147)</u>	<u>(269,253)</u>
Total Net Position	<u>\$ 77,825,196</u>	<u>\$ 78,184,938</u>

A summary of Changes in Net Position for the years ended December 31, 2012 and 2013 follows:

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2013</u>
Program Revenues		
Charges for Services	\$ 2,441,456	\$ 3,083,927
Grants and Contributions	7,072,208	6,800,369
Interest and Other	9,718	7,248
General Revenues		
Property Taxes	612,832	760,721
Gain (Loss) on Equipment Disposal	338	358
Total Revenues	<u>10,136,552</u>	<u>10,652,623</u>
Program Expenses		
Primary Roads	3,427,956	3,991,510
Local Roads	2,984,078	3,177,345
State Trunkline	2,341,503	2,850,910
Equipment Expense	(87,194)	(133,297)
Administrative	349,942	240,179
Interest Expense and Other	<u>(192,710)</u>	<u>166,234</u>
Total Expenses	<u>8,823,575</u>	<u>10,292,881</u>
Changes in Net Position	1,312,977	359,742
Net Position – Beginning	<u>76,512,219</u>	<u>77,825,196</u>
Net Position – Ending	<u>\$ 77,825,196</u>	<u>\$ 78,184,938</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, 2013, the fund balance of the general operations fund increased \$423 thousand as compared to a decrease of \$575 thousand in the fund balance for the prior year. Total revenues were \$11.2 million, an increase of \$900 thousand as compared to last year. This change in revenues resulted primarily from loans and federal project funding.

Total expenditures were \$10.8 million, same amount as compared to last year.

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 2013 was \$87 thousand more than the actual receipts. This was due, in part, to the projection of federal funding. The Road Commission budgets for the receipt of funds from the federal government for projects on primary and local roads.

Road Commission expenditures were projected at \$11 million while actual expenditures were \$10.8 million. This resulted in total expenditures being under budget by \$191 thousand. There were several items that account for the variance in the projection of the budget.

Capital Assets

As of December 31, 2012 and 2013, the Road Commission had invested in capital assets as follows:

	<u>2012</u>	<u>2013</u>
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 48,375,045	\$ 49,478,453
Other Capital Assets		
Buildings and Improvements	4,258,922	4,270,896
Road Equipment	12,506,977	12,542,445
Other Equipment and Assets	1,551,456	1,563,390
Infrastructure	<u>49,893,225</u>	<u>50,470,334</u>
Total Capital Assets at Historic Cost	116,585,625	118,325,518
Total Accumulated Depreciation	<u>(37,711,023)</u>	<u>(39,071,893)</u>
Total Net Capital Assets	<u>\$ 78,874,602</u>	<u>\$ 79,253,625</u>

Major additions included the following:

Buildings	\$ <u>-</u>	\$ 14,269
Land & Improvements	\$ <u>1,701,777</u>	\$ 1,103,408
Various Resurfacing Projects and Bridges	\$ <u>2,566,833</u>	\$ 1,964,204
Trucks/Equipment/Other	\$ <u>169,842</u>	\$ 159,375

Debt

The Road Commission currently has long-term debt in the amount of \$928,690 which represents a State Infrastructure bank loan, equipment financing and compensated absences. Additionally, due to provisions of GASB Statement 45, the Commission recorded a \$2,376,931 obligation for other post employment benefits.

Economic Factors and Next Year's Budget

The Board of County Road Commissioner's considered many factors when setting the fiscal year 2014 budget. One of the factors is the economy. The Road Commission derives approximately 60% of its revenues from the fuel tax collected. The continuing economic downturn has 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, 2013

ASSETS

Cash and Equivalents	\$ 1,045,465
Accounts Receivable:	
Property Taxes	785,742
Michigan Transportation Fund	682,388
State Trunkline Maintenance	467,984
Due on County Road Agreements	200,671
Inventories:	
Road Materials	309,973
Equipment, Parts and Materials	268,212
Prepaid Items	162,801
Capital Assets (Nondepreciable)	49,478,453
Capital Assets (Net of Accumulated Depreciation)	<u>29,775,172</u>
Total Assets	<u>\$ 83,176,861</u>

LIABILITIES

Accounts Payable	\$ 234,217
Accrued Liabilities	177,192
Due to Other Units	135,771
Advances	353,380
Installment Purchase Agreements Payable – Due within one year	167,693
Installment Purchase Agreements Payable – Due in more than one year	631,741
Compensated Absences Payable – Due in more than one year	129,256
OPEB Obligation – Due in more than one year	<u>2,376,931</u>
Total Liabilities	<u>4,206,181</u>

DEFERRED INFLOWS OF RESOURCES

Taxes Levied for a Subsequent Period	<u>785,742</u>
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NET POSITION

Net Investment in Capital Assets	78,454,191
Unrestricted	<u>(269,253)</u>
Total Net Position	<u>\$ 78,184,938</u>

Chippewa County Road Commission

Statement of Activities For the Year Ended December 31, 2013

Program Expenses:	
Primary Road Maintenance and Preventive Maintenance	\$ 3,991,510
Local Road Maintenance and Preventive Maintenance	3,177,345
State Trunkline	2,850,910
Net Equipment Expense	(133,297)
Net Administrative Expense	240,179
Compensated Absences and Benefits	155,532
Interest Expense	<u>10,702</u>
Total Program Expenses	<u>10,292,881</u>
Program Revenues:	
Charges for Services	3,083,927
Operating Grants and Contributions:	
State Grants	3,730,735
Contributions from Local Units	2,022
Interest and Other	7,248
Capital Grants and Contributions:	
Federal Grants	1,042,996
State Grants	1,678,235
Contributions from Local Units	<u>346,381</u>
Total Program Revenues	<u>9,891,544</u>
Net Program Revenues	<u>(401,337)</u>
General Revenue	
Property Taxes	760,721
Gain on Equipment Disposal	<u>358</u>
Total General Revenues	<u>761,079</u>
Changes in Net Position	359,742
Net Position – Beginning of Year	<u>77,825,196</u>
Net Position – End of Year	<u>\$ 78,184,938</u>

Chippewa County Road Commission

Balance Sheet December 31, 2013

	<u>Governmental Fund Type</u> General <u>Operating Fund</u>
ASSETS	
Cash and Equivalents	\$ 1,045,465
Accounts Receivable:	
Property Taxes	785,742
Michigan Transportation Fund	682,388
State Trunkline Maintenance	467,984
Due on County Road Agreements	200,671
Inventories:	
Road Materials	309,973
Equipment, Parts, and Materials	268,212
Prepaid Items	<u>162,801</u>
Total Assets	<u>\$ 3,923,236</u>
LIABILITIES	
Accounts Payable	\$ 234,217
Accrued Liabilities	177,192
Due to Other Units	135,771
Advances	<u>353,380</u>
Total Liabilities	<u>900,560</u>
DEFERRED INFLOWS OF RESOURCES	
Taxes Levied for a Subsequent Period	<u>785,742</u>
FUND BALANCE	
Nonspendable	740,986
Committed	129,256
Unassigned	<u>1,366,692</u>
Total Fund Balance	<u>2,236,934</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 3,923,236</u>

Chippewa County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Position For the Year Ended December 31, 2013

Total Governmental Fund Balance \$ 2,236,934

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. 79,253,625

Other long-term liabilities are not available to pay for current period
expenditures and therefore are not reported in the funds. (3,305,621)

Net Position of Governmental Activities \$ 78,184,938

Chippewa County Road Commission

Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended December 31, 2013

	<u>General Operating Fund</u>
Revenues	
Property Taxes	\$ 760,721
License and Permits	330
Federal Sources	1,042,996
State Sources	5,408,970
Contributions from Local Units	348,403
Charges for Services	3,002,988
Interest Earned	7,248
Other Revenue	80,967
Other Financing Sources	<u>550,000</u>
Total Revenues	<u>11,202,623</u>
Expenditures	
Public Works	10,906,658
Capital Outlay	(400,988)
Debt Service	<u>273,527</u>
Total Expenditures	<u>10,779,197</u>
Excess of Revenues Over (Under) Expenditures	423,426
Fund Balance – January 1, 2013	<u>1,813,508</u>
Fund Balance – December 31, 2013	<u>\$ 2,236,934</u>

Chippewa County Road Commission

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2013

Net Change in Fund Balance – Total Governmental Funds	\$ 423,426
Amounts reported for governmental activities in the statements are different because:	
Governmental funds report capital outlays and infrastructure improvements as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation and equipment retirements in the current period.	379,023
Note/lease proceeds provide current financial resources in governmental funds and increases liabilities in the statement of net position. Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net position.	(287,175)
Change in compensated absences and OPEB obligation recognized as an expense in the statement of activities.	<u>(155,532)</u>
Change in Net Position of Governmental Activities	<u>\$ 359,742</u>

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 3 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 and liabilities 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 are 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, Cash Equivalents and Investments**

Cash and cash 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2013 taxable valuation of \$1,090,374,752 for Road Millage amounted to \$1,077,096 less \$291,354 for cities and villages, (on which ad valorem taxes of .09879 mills were levied) for road maintenance purposes resulted in net total of \$785,742.

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 2013 ad valorem tax is levied and collectible December 1, 2013, 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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Road Commission has no items that qualify for reporting in this category.

Deferred Inflows of Resources

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

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the 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 and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

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

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

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Road Commission has classified Inventories and Prepaid Items as being Nonspendable as these items are not expected to be converted to cash within the next year.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the 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. The Road Commission has committed local match obligations and compensated absences.
- 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 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The 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.

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.

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>1,045,315</u>	<u>1,227,564</u>
Total Cash and Equivalents	<u>\$ 1,045,465</u>	<u>\$ 1,227,564</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, \$727,564 of the Road Commission’s bank balance of \$1,227,564 was exposed to credit risk because it was uninsured and uncollateralized.

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 01/01/13	Additions	Adjustments/ Deductions	Ending Balances 12/31/13
<i>Capital Assets Not Being Depreciated</i>				
Land and Improvements	\$ 269,402	\$ -	\$ -	\$ 269,402
Land/Improvements - Infrastructure	48,105,643	1,103,408	-	49,209,051
Subtotal	<u>48,375,045</u>	<u>1,103,408</u>	<u>-</u>	<u>49,478,453</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	4,258,922	14,269	2,295	4,270,896
Road Equipment	12,506,977	141,105	105,637	12,542,445
Shop Equipment	265,799	7,837	-	273,636
Office Equipment	51,359	6,470	6,336	51,493
Engineers’ Equipment	61,758	3,963	-	65,721
Depletable Assets	1,172,540	-	-	1,172,540
Infrastructure – Roads	36,688,083	1,964,204	1,387,095	37,265,192
Infrastructure – Bridges	13,205,142	-	-	13,205,142
Subtotal	<u>68,210,580</u>	<u>2,137,848</u>	<u>1,501,363</u>	<u>68,847,065</u>

NOTE 5 - CAPITAL ASSETS (Continued)

	Beginning Balances 01/01/13	Additions	Adjustments/ Deductions	Ending Balances 12/31/13
<i>Less Accumulated Depreciation</i>				
Buildings	2,061,446	111,720	1,925	2,171,241
Road Equipment	11,733,982	415,888	105,637	12,044,233
Shop Equipment	187,847	17,103	-	204,950
Office Equipment	49,004	2,956	6,336	45,624
Engineers' Equipment	61,758	1,101	-	62,859
Depletable Assets	292,549	37,100	-	329,649
Infrastructure – Roads	15,738,274	2,003,220	1,387,095	16,354,399
Infrastructure – Bridges	<u>7,586,163</u>	<u>272,775</u>	<u>-</u>	<u>7,858,938</u>
Subtotal	<u>37,711,023</u>	<u>2,861,863</u>	<u>1,500,993</u>	<u>39,071,893</u>
Net Capital Assets Being Depreciated	<u>30,499,557</u>	<u>(724,015)</u>	<u>370</u>	<u>29,775,172</u>
Total Net Capital Assets	<u>\$ 78,874,602</u>	<u>\$ 379,393</u>	<u>\$ 370</u>	<u>\$ 79,253,625</u>

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

Primary Road Maintenance and Preventive Maintenance	\$ 1,226,539
Local Road Maintenance and Preventive Maintenance	1,049,456
Equipment Expense	415,888
Administrative	8,211
Other Allocated	<u>161,769</u>
Total Depreciation Expense	<u>\$ 2,861,863</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Chippewa County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 1134 Municipal Way, Lansing, Michigan.

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS SYSTEMS (Continued)

Funding Policy – The obligation to contribute and maintain the system for these employees was established by negotiation with the Chippewa County Road Commission’s competitive bargaining units and requires an employee contribution of 2% of wages. The Commission contributed an additional monthly fixed amount of \$44,542 and 6.67% of payroll cost for employees after February 2004.

Annual Pension Costs – For year ended 2013, the Chippewa County Road Commission’s annual pension cost of \$431,898 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2011, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a ten year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 26 years.

Three year trend information as of December 31 follows:

Year Ended <u>Dec 31</u>	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 486,171	100%	0
2011	484,397	100%	0
2012	498,196	100%	0

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, 2013, the federal aid received and expended by the Road Commission was \$1,011,692 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 force account projects are projects where the Road Commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more amounted to \$31,304.

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 01/01/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/13</u>	<u>Due Within One Year</u>
Installment payable secured by Trucks, payable in monthly installments of \$10,494 including interest of 3.16%, due 2015.	\$ 270,175	\$ -	\$ 119,070	\$ 151,105	\$ 122,917
Installment payable secured by real estate mortgage, payable in monthly installments of \$5,055 including interest of 3.90%, due 2014.	72,209	-	58,907	13,302	13,302
Installment payable secured by Trucks, payable in monthly installments of \$14,029 including interest of 3.45%, due 2013.	53,922	-	53,922	-	-
Installment payable secured by radios, payable in monthly installments of \$2,721 including interest of 1.69%, due 2016.	115,953	-	30,926	85,027	31,474
State Infrastructure Bank note payable general obligation, 0% interest, due June 2015.	-	<u>550,000</u>	-	<u>550,000</u>	-
Subtotal	512,259	550,000	262,825	799,434	<u>\$ 167,693</u>
Compensated Absences (1)	<u>124,806</u>	<u>4,450</u>	<u>-</u>	<u>129,256</u>	
TOTAL LONG-TERM DEBT	<u>\$ 637,065</u>	<u>\$ 554,450</u>	<u>\$ 262,825</u>	<u>\$ 928,690</u>	

(1) Net increase.

Annual debt service requirements are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 167,693	\$ 4,280	\$ 171,973
2015	610,198	779	610,977
2016	<u>21,543</u>	<u>133</u>	<u>21,676</u>
Total	<u>\$ 799,434</u>	<u>\$ 5,192</u>	<u>\$ 804,626</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 2013, the Road Commission contributed \$917,639 to the plan. Total member contributions were \$40,532.

As of January 1, 2012, administrative employees began contributing to the health plan in accordance with Public Act 152 of 2011.

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	\$ 968,558
Interest on net OPEB obligation (4.5%)	100,163
Annual OPEB cost (expense)	<u>1,068,721</u>
Contributions made	<u>(917,639)</u>
Increase in net OPEB obligation	151,082
Net OPEB obligation – beginning of year	<u>2,225,849</u>
Net OPEB obligation – end of year	<u>\$ 2,376,931</u>

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (Continued)

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 2011, 2012 and 2013 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>
2011	\$ 1,098,685	76.70%	\$ 2,363,082
2012	1,132,451	112.12%	2,225,849
2013	1,068,721	85.86%	2,376,931

Funded Status and Funding Progress. As of December 31, 2010, the actuarial accrued liability for benefits was \$20,182,222, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$2,432,164, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 12.06%.

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.

In the December 31, 2010, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% 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 4.5% 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.

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 has asserted a claim regarding pending actions and environmental remediation by the Michigan Department of Environmental Quality. The Michigan Department of Environmental Quality has filed a lawsuit in response, alleging various violations of the Michigan Natural Resources and Environmental Protection Act. Litigation is ongoing at this time and the outcome of these actions is not determinable.

Required Supplementary Information

Chippewa County Road Commission

Required Supplementary Information Employee Retirement and Benefit Systems Schedule of Funding Progress December 31, 2013

Pension:

Three year trend information as of December 31, 2012 as follows:

	2010	2011	2012
Actuarial Value of Assets	\$ 10,499,225	\$ 10,422,470	\$ 10,218,858
Actuarial Accrued Liability	15,490,324	16,078,481	16,682,191
Unfunded AAL	4,991,099	5,656,011	6,463,333
Funded Ratio	68%	65%	61%
Covered Payroll	2,483,706	2,530,798	2,402,117
UAAL as a Percentage of Covered Payroll	201%	223%	269%

Health Benefits:

Actuarial Valuation Date		Actuarial Value of Assets (a)	Actuarial 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%

Chippewa County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues – Budget and Actual For the Year Ended December 31, 2013

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Property Taxes	\$ 758,000	\$ 762,000	\$ 760,721	\$ (1,279)
Federal Sources	1,534,250	1,100,000	1,042,996	(57,004)
State Sources	5,007,750	5,417,750	5,408,970	(8,780)
Contributions from Local Units	864,000	350,000	348,403	(1,597)
Charges for Services	2,084,100	3,000,000	3,002,988	2,988
Other Revenue	34,000	110,000	88,545	(21,455)
Other Financing Sources	<u>-</u>	<u>550,000</u>	<u>550,000</u>	<u>-</u>
Total Revenues	<u>\$ 10,282,100</u>	<u>\$ 11,289,750</u>	<u>\$ 11,202,623</u>	<u>\$ (87,127)</u>

Chippewa County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended December 31, 2013

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Primary Road	\$ 3,201,688	\$ 5,000,000	\$ 4,926,838	\$ 73,162
Local Road	2,215,000	3,060,000	3,022,028	37,972
State Trunkline	2,084,100	2,900,000	2,850,910	49,090
Equipment Expense – Net	100,000	(130,000)	(133,297)	3,297
Administrative Expense – Net	178,000	265,000	240,179	24,821
Capital Outlay – Net	(533,000)	(400,000)	(400,988)	988
Distributive	2,747,061	-	-	-
Debt Service	<u>289,251</u>	<u>275,000</u>	<u>273,527</u>	<u>1,473</u>
Total Expenditures	10,282,100	10,970,000	<u>\$ 10,779,197</u>	<u>\$ 190,803</u>
Fund Balance – January 1, 2013	<u>1,813,508</u>	<u>1,813,508</u>		
Total Budget	<u>\$ 12,095,608</u>	<u>\$ 12,783,508</u>		

Other Information

Chippewa County Road Commission

Other Information Analysis of Changes in Fund Balances For the Year Ended December 31, 2013

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Total Revenues	\$ 5,046,196	\$ 3,065,882	\$ 3,090,545	\$ 11,202,623
Total Expenditures	<u>5,035,497</u>	<u>3,065,882</u>	<u>2,677,818</u>	<u>10,779,197</u>
Excess of Revenues Over (Under) Expenditures	10,699	-	412,727	423,426
Optional Transfer	412,727	-	(412,727)	-
Fund Balance – January 1, 2013	<u>672,633</u>	<u>-</u>	<u>1,140,875</u>	<u>1,813,508</u>
Fund Balance – December 31, 2013	<u>\$ 1,096,059</u>	<u>\$ -</u>	<u>\$ 1,140,875</u>	<u>\$ 2,236,934</u>

Chippewa County Road Commission

Other Information Analysis of Revenues For the Year Ended December 31, 2013

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Property Taxes	\$ 233,299	\$ 527,422	\$ -	\$ 760,721
Licenses and Permits	-	330	-	330
Federal Sources				
Surface Transportation Program	723,347	-	-	723,347
C Funds	112,350	-	-	112,350
D Funds	175,995	-	-	175,995
Other	31,304	-	-	31,304
State Sources				
Michigan Transportation Fund				
Engineering	1,712	1,318	-	3,030
Allocation	2,253,531	1,734,170	-	3,987,701
Urban	241,526	51,973	-	293,499
Snow Removal	-	334,195	-	334,195
Economic Development Fund				
Urban Congestion	324,250	-	-	324,250
Rural Primary	235,933	-	-	235,933
Forest Road (E)	-	230,362	-	230,362
Contributions from Local Units				
Township	160,268	186,112	2,023	348,403
Charges for Services				
State Trunkline Maintenance	-	-	2,888,942	2,888,942
Nonmaintenance	-	-	97,362	97,362
Salvage Sales	-	-	16,684	16,684
Interest Earned	2,681	-	4,567	7,248
Gain (Loss) on Equipment Disposal	-	-	358	358
Other – Private	-	-	80,609	80,609
Other Financing Sources				
Installment Proceeds	<u>550,000</u>	<u>-</u>	<u>-</u>	<u>550,000</u>
Total Revenues	<u>\$ 5,046,196</u>	<u>\$ 3,065,882</u>	<u>\$ 3,090,545</u>	<u>\$ 11,202,623</u>

Chippewa County Road Commission

Other Information Analysis of Expenditures For the Year Ended December 31, 2013

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Primary Road				
Preservation	\$ 2,173,473	\$ -	\$ -	\$ 2,173,473
Maintenance	2,753,365	-	-	2,753,365
Local Road				
Preservation	-	894,139	-	894,139
Maintenance	-	2,127,889	-	2,127,889
State Trunkline Maintenance	-	-	2,753,548	2,753,548
State Trunkline Nonmaintenance	-	-	97,362	97,362
Equipment Expense – Net	(40,208)	(47,458)	(45,631)	(133,297)
Administrative Expense – Net	148,867	91,312	-	240,179
Capital Outlay – Net	-	-	(400,988)	(400,988)
Debt Service				
Debt Principal Payments	-	-	262,825	262,825
Interest Expense	-	-	10,702	10,702
Total Expenditures	<u>\$ 5,035,497</u>	<u>\$ 3,065,882</u>	<u>\$ 2,677,818</u>	<u>\$ 10,779,197</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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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, 2013, 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, 2014.

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 2013-001.

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

Purpose of this Report

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



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

April 2, 2014

SIGNIFICANT DEFICIENCIES

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

Finding 2013-001

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

Chippewa County Road Commission

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2013**

<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>Federal Expenditures</u>
U.S. Department of Transportation:				
Pass-Through Programs from the State of Michigan Department of Transportation (MDOT):				
Homestead Road	20.205	EBSL 1217(020)	105916	\$ 418,958
Riverside Drive 3 Mile Road to 4 Mile Road	20.205	STP 1317(015)	117323	112,350
Riverside Drive 9 Mile Road to 15 Mile Road	20.205	STP 1317(013)	105917	<u>480,384</u>
Subtotal MDOT Administered				<u>1,011,692</u>
Pass-Through Programs from the State of Michigan Department of Transportation (MDOT) Administered by the Chippewa County Road Commission (CCRC):				
County wide sign and post upgrade	20.205	STP 1217(016)	113582	<u>31,304</u>
Total U.S. Department of Transportation				<u>1,042,996</u>
Total Expenditures of Federal Awards				<u>\$ 1,042,996</u>