

**Chippewa County Road Commission**

**BASIC FINANCIAL STATEMENTS**

**December 31, 2011**

**CHIPPEWA COUNTY ROAD COMMISSION**

**BOARD OF COUNTY ROAD COMMISSIONERS**

Louis N. MacDonald  
Chairman

Richard B. Timmer  
Vice Chairman

Bernard P. LaJoie  
Member

Robert Laitinen  
Manager

Brian Decker  
Office Manager

Christine McDowell  
Executive Assistant

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the governmental activities and major fund of the Chippewa County Road Commission (a component unit of the County of Chippewa, Michigan) as of and for the year ended December 31, 2011, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Chippewa County Road Commission as of December 31, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2012 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, grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 3 through 7, page 27 and pages 28 through 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chippewa County Road Commission's financial statements as a whole. The schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedules 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.



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

March 8, 2012

## **Management's Discussion and Analysis**

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### **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 assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as 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 assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

### **Reporting the Road Commission's Major Fund**

Our analysis of the road commission's major fund begins on page 10. The fund financial statements begin on page 28 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 assets 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 assets increased approximately 5% from \$72.9 million to \$76.5 million for the year ended December 31, 2011. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, decreased \$490 thousand. The primary reason for the decrease was an increase in spending for local road projects and employee benefits.

Net assets as of the years ended December 31, 2011 and 2010 follows:

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Current Assets	\$ 4,056,235	\$ 4,436,676
Capital Assets	<u>77,419,498</u>	<u>73,607,622</u>
Total Assets	<u>\$ 81,475,733</u>	<u>\$ 78,044,298</u>
Current Liabilities	\$ 2,003,339	\$ 2,046,749
Noncurrent Liabilities	<u>2,960,176</u>	<u>3,143,358</u>
Total Liabilities	<u>4,963,515</u>	<u>5,190,107</u>
Net Assets		
Invested in Capital Assets -		
Net of Related Debt	76,688,060	72,539,831
Restricted (Unrestricted)	<u>(175,842)</u>	<u>314,360</u>
Total Net Assets	<u>\$ 76,512,218</u>	<u>\$ 72,854,191</u>



A summary of changes in net assets for the years ended December 31, 2011 and 2010 follows:

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Program Revenues		
Charges for Services	\$ 1,982,436	\$ 1,792,216
Grants and Contributions	9,662,266	6,877,193
Interest and Other	9,568	28,827
General Revenues		
Property Taxes	747,389	736,327
Gain (Loss) on Equipment Disposal	<u>(83,292)</u>	<u>128,306</u>
Total Revenues	<u>12,318,367</u>	<u>9,562,869</u>
Program Expenses		
Primary Roads	2,919,295	2,964,202
Local Roads	2,888,763	2,831,313
State Trunkline	1,875,259	1,704,349
Equipment Expense	416,057	381,258
Administrative	366,209	459,871
Interest Expense and Other	<u>194,757</u>	<u>772,867</u>
Total Expenses	<u>8,660,340</u>	<u>9,113,860</u>
Changes in Net Assets	3,658,027	449,009
Net Assets – Beginning	<u>72,854,191</u>	<u>72,405,182</u>
Net Assets – Ending	<u>\$ 76,512,218</u>	<u>\$ 72,854,191</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, 2011, the fund balance of the general operations fund decreased \$326 thousand as compared to a decrease of \$580 thousand in the fund balance for the prior year. Total revenues were \$12.4 million, an increase of \$2.3 million as compared to last year. This change in revenues resulted primarily from local contributions and state project funding.

Total expenditures were \$12.7 million, an increase of \$2.01 million as compared to last year. This change in expenditures is primarily the result of road improvements in the current 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 2011 was \$92 thousand more than the actual receipts. This was due, in part, to the projection of state funding. The Road Commission budgets for the receipt of funds from the state for projects on primary and local roads.

Road Commission expenditures were projected at \$12.548 million while actual expenditures were \$12.669 million. This resulted in total expenditures being over budget by \$121 thousand. There were several items that account for the variance in the projection of the budget.

**Capital Assets**

As of December 31, 2011 and 2010, the Road Commission had invested in capital assets as follows:

	<u>2011</u>	<u>2010</u>
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 46,673,268	\$ 42,818,717
Other Capital Assets		
Buildings and Improvements	4,258,922	4,344,972
Road Equipment	12,369,707	12,321,525
Other Equipment and Assets	1,548,002	1,561,711
Infrastructure	<u>48,482,137</u>	<u>46,696,134</u>
Total Capital Assets at Historic Cost	113,332,036	107,743,059
Total Accumulated Depreciation	<u>(35,912,538)</u>	<u>(34,135,437)</u>
Total Net Capital Assets	<u>\$ 77,419,498</u>	<u>\$ 73,607,622</u>

Major additions included the following:

Buildings	\$ 102,986	\$ 40,787
Land & Improvements	<u>\$ 3,854,551</u>	<u>\$ 1,748,500</u>
Various Resurfacing Projects and Bridges	<u>\$ 2,994,218</u>	<u>\$ 2,002,158</u>
Trucks/Equipment/Other	<u>\$ 59,345</u>	<u>\$ 1,321,104</u>

**Debt**

The Road Commission currently has long-term debt in the amount of \$932,158 which represents equipment financing and compensated absences. Additionally, due to provisions of GASB Statement 45, the Commission recorded a \$2,363,082 obligation for 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 2012 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**

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# Chippewa County Road Commission

## Statement of Net Assets December 31, 2011

### ASSETS

#### Current Assets:

Cash and Equivalents	\$ 760,053
Accounts Receivable:	
Property Taxes	745,407
Michigan Transportation Fund	666,332
State Trunkline Maintenance	298,916
Due on County Road Agreements	617,037
Sundry	368
Inventories:	
Road Materials	416,043
Equipment, Parts and Materials	349,780
Prepaid Expense	<u>202,299</u>
Total Current Assets	<u>4,056,235</u>

#### Noncurrent Assets:

Capital Assets (Nondepreciable)	46,673,268
Capital Assets (Net of Accumulated Depreciation)	<u>30,746,230</u>
Total Noncurrent Assets	<u>77,419,498</u>

Total Assets \$ 81,475,733

### LIABILITIES

#### Current Liabilities:

Accounts Payable	\$ 224,184
Accrued Liabilities	138,762
Due to State of Michigan	1,168
Advances	558,754
Deferred Tax Revenue	745,407
Installment Purchase Agreements Payable	<u>335,064</u>
Total Current Liabilities	<u>2,003,339</u>

#### Noncurrent Liabilities:

Compensated Absences Payable	200,720
OPEB Obligation	2,363,082
Installment Purchase Agreements Payable	<u>396,374</u>
Total Noncurrent Liabilities	<u>2,960,176</u>

Total Liabilities 4,963,515

### NET ASSETS

#### Invested in Capital Assets -

Net of Related Debt	76,688,060
Unrestricted	<u>(175,842)</u>

Total Net Assets \$ 76,512,218

# Chippewa County Road Commission

## Statement of Activities For the Year Ended December 31, 2011

### Program Expenses:

Primary Road Maintenance and Preventive Maintenance	\$ 2,919,295
Local Road Maintenance and Preventive Maintenance	2,888,763
State Trunkline	1,875,259
Net Equipment Expense	416,057
Net Administrative Expense	366,209
Compensated Absences and Benefits	164,441
Interest Expense	<u>30,316</u>

Total Program Expenses	<u>8,660,340</u>
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### Program Revenues:

Charges for Services:	
Charges for Services	1,982,436
Operating Grants and Contributions:	
State Grants	2,541,467
Contributions from Local Units	272,030
Interest and Other	9,568
Capital Grants and Contributions:	
Federal Grants	875,223
State Grants	2,533,779
Contributions from Local Units	<u>3,439,767</u>

Total Program Revenues	<u>11,654,270</u>
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Net Program Revenues	<u>2,993,930</u>
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### General Revenue

Property Taxes	747,389
Loss on Equipment Disposal	<u>(83,292)</u>

Total General Revenues	<u>664,097</u>
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Changes in Net Assets	3,658,027
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### Net Assets

Beginning of Year	<u>72,854,191</u>
End of Year	<u>\$ 76,512,218</u>

# Chippewa County Road Commission

## Balance Sheet December 31, 2011

	<u>Governmental Fund Type</u> <u>General Operating Fund</u>
<b>ASSETS</b>	
Cash and Equivalents	\$ 760,053
Accounts Receivable:	
Property Taxes	745,407
Michigan Transportation Fund	666,332
State Trunkline Maintenance	298,916
Due on County Road Agreements	617,037
Sundry	368
Inventories:	
Road Materials	416,043
Equipment, Parts, and Materials	349,780
Prepaid Expenses	<u>202,299</u>
Total Assets	<u>\$ 4,056,235</u>
<b>LIABILITIES AND FUND EQUITY</b>	
Liabilities:	
Accounts Payable	\$ 224,184
Accrued Liabilities	138,762
Due to State of Michigan	1,168
Advances	558,754
Deferred Tax Revenue	<u>745,407</u>
Total Liabilities	<u>1,668,275</u>
<b>FUND EQUITY</b>	
Fund Balance:	
Nonspendable	968,122
Restricted	884,054
Committed	<u>535,784</u>
Total Fund Equity	<u>2,387,960</u>
Total Liabilities and Fund Equity	<u>\$ 4,056,235</u>

## Chippewa County Road Commission

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### Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended December 31, 2011

Total Governmental Fund Balance	\$ 2,387,960
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Amounts reported for governmental activities in the statement  
of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	77,419,498
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Other long-term liabilities are not available to pay for current period expenditures and therefore are not reported in the funds.	<u>(3,295,240)</u>
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Net Assets of Governmental Activities	<u>\$ 76,512,218</u>
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# Chippewa County Road Commission

## Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended December 31, 2011

	General Operating Fund
Revenues	
Property Taxes	\$ 747,389
Federal Sources	875,223
State Sources	5,075,246
Contributions from Local Units	3,711,797
Charges for Services	1,946,290
Interest and Other	9,568
Other Revenue	<u>(22,487)</u>
Total Revenues	<u>12,343,026</u>
Expenditures	
Public Works	13,180,708
Capital Outlay	(878,590)
Debt Service	<u>366,669</u>
Total Expenditures	<u>12,668,787</u>
Excess of Revenues Over (Under) Expenditures	(325,761)
Fund Balance – January 1, 2011	<u>2,713,721</u>
Fund Balance – December 31, 2011	<u>\$ 2,387,960</u>

## Chippewa County Road Commission

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### 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, 2011

Net Change in Fund Balance – Total Governmental Funds	\$ (325,761)
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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.	3,811,876
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Note/lease proceeds provide current financial resources in governmental funds and increases liabilities in the statement of net assets. Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets.	336,353
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Change in compensated absences, interest on debt, and OPEB obligation recognized as an expense in the statement of activities.	<u>(164,441)</u>
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Change in Net Assets of Governmental Activities	<u>\$ 3,658,027</u>
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## **Notes to Financial Statements**

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**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 (GASB) Statement No. 14 and as amended by GASB No. 39, "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 assets 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 assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

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 assets 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, and Net Assets or Equity****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 Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense 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 2011 taxable valuation of \$104,920,438 for Road Millage amounted to \$1,036,509 less \$291,102 for cities and villages, (on which ad valorem taxes of 0.9879 mills were levied) for road maintenance purposes resulted in net total of \$745,407.

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 2011 ad valorem tax is levied and collectible December 1, 2011, 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 revenue.

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.

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**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
Engineering Department	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

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 assets.

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 480 hours of sick leave. Upon death or retirement, after 20 years of service employees are paid for 50% of their accumulated sick hours to a maximum of 240 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 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 Commission has classified Inventories and Prepaid Items as being Nonspendable as these items are not expected to be converted to cash or 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 Commission has committed current maturities of long-term notes payable 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. Expenditures exceeded appropriations in violation of Act as indicated in the Budgetary Comparison Schedule – Statement of Expenditures – Budget and Actual.

**NOTE 3 - CASH AND DEPOSITS**

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>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 759,903	\$ 715,086

*Interest rate risk.* The 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 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 Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end, \$18,422 of the Commission's bank balance of \$715,086 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 01/01/11	Additions	Adjustments/ Deductions	Ending Balances 12/31/11
<i>Capital Assets Not Being Depreciated</i>				
Land and Improvements	\$ 269,402	\$ -	\$ -	\$ 269,402
Land/Improvements - Infrastructure	42,549,315	3,854,551	-	46,403,866
Subtotal	42,818,717	3,854,551	-	46,673,268
<i>Capital Assets Being Depreciated</i>				
Buildings	4,344,972	102,986	(189,036)	4,258,922
Road Equipment	12,321,525	53,450	(5,268)	12,369,707
Shop Equipment	265,765	2,058	(4,824)	262,999
Office Equipment	61,971	3,514	(14,780)	50,705
Engineers' Equipment	61,758	-	-	61,758
Depletable Assets	1,172,217	323	-	1,172,540
Infrastructure – Roads	33,490,992	2,994,218	(1,208,215)	35,276,995
Infrastructure – Bridges	13,205,142	-	-	13,205,142
Subtotal	64,924,342	3,156,549	(1,422,123)	66,658,768

**NOTE 5 - CAPITAL ASSETS (Continued)**

	Beginning Balances 01/01/11	Additions	Adjustments/ Deductions	Ending Balances 12/31/11
<i>Less Accumulated Depreciation</i>				
Buildings	1,961,476	92,675	105,744	1,948,407
Road Equipment	10,337,105	844,444	5,268	11,176,281
Shop Equipment	160,503	16,419	4,824	172,098
Office Equipment	59,820	1,824	14,780	46,864
Engineers' Equipment	60,300	936	-	61,236
Depletable Assets	243,519	25,990	-	269,509
Infrastructure – Roads	14,306,633	1,843,603	1,208,215	14,942,021
Infrastructure – Bridges	7,006,081	290,041	-	7,296,122
Subtotal	34,135,437	3,115,932	1,338,831	35,912,538
Net Capital Assets Being Depreciated	30,788,905	40,617	(83,292)	30,746,230
Total Net Capital Assets	<u>\$ 73,607,622</u>	<u>\$ 3,895,168</u>	<u>\$ (83,292)</u>	<u>\$ 77,419,498</u>

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

Primary Road Maintenance and Preventive Maintenance	\$ 1,228,782
Local Road Maintenance and Preventive Maintenance	904,862
Equipment Expenses	844,444
Administrative	6,913
Other Allocated	<u>130,931</u>
Total Depreciation Expense	<u>\$ 3,115,932</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 employer contribution of 0% to 10% of wages. The Commission contributed an additional fixed amount and 7.75% of payroll cost for employees after February 2004.

**Annual Pension Costs** – For year ended 2011, the Chippewa County Road Commission’s annual pension cost of \$484,397 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, 2009, 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 28 years.

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2008	\$ 354,107	100%	0
2009	400,593	100%	0
2010	486,171	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, 2011, the federal aid received and expended by the Road Commission was \$875,223 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.

**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 01/01/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/11</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.	\$ 508,686	\$ -	\$ 123,260	\$ 385,426	\$ 115,026
Installment payable secured by real estate mortgage, payable in monthly installments of \$5,055 including interest of 3.90%, due 2014.	183,365	-	54,502	128,863	56,639
Installment payable secured by Trucks, payable in monthly installments of \$14,029 including interest of 3.45%, due 2013.	<u>375,740</u>	<u>-</u>	<u>158,591</u>	<u>217,149</u>	<u>163,399</u>
Subtotal	1,067,791	-	336,353	731,438	<u>\$ 335,064</u>
Compensated Absences (1)	<u>292,287</u>	<u>-</u>	<u>91,567</u>	<u>200,720</u>	
TOTAL LONG-TERM DEBT	<u>\$ 1,360,078</u>	<u>\$ -</u>	<u>\$ 427,920</u>	<u>\$ 932,158</u>	

(1) Net decrease.

Annual debt service requirements are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 335,064	\$ 19,867	\$ 354,931
2013	232,076	9,331	241,407
2014	135,883	3,473	139,356
2015	<u>28,415</u>	<u>267</u>	<u>28,682</u>
Total	<u>\$ 731,438</u>	<u>\$ 32,938</u>	<u>\$ 764,376</u>

**NOTE 10 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

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

*Funding Policy.* Contribution requirements also are negotiated between the Commission and employees. The Commission contributes 100% of the cost of current-year premiums for eligible retired plan members. For fiscal year 2011, the Commission contributed \$1,122,922 to the plan. Total member contributions were \$40,051.

As of February 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 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 Commission's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Commission's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 1,003,867
Interest on net OPEB obligation (4.5%)	94,818
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>1,098,685</u>
Contributions made	<u>(842,677)</u>
Increase in net OPEB obligation	256,008
Net OPEB obligation – beginning of year	<u>2,107,074</u>
Net OPEB obligation – end of year	<u>\$ 2,363,082</u>

**NOTE 10 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2009, 2010 and 2011 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>
2009	\$ 1,143,135	40.12%	1,368,988
2010	1,194,576	43.37%	2,107,074
2011	1,098,685	76.70%	2,363,082

*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%.

The projection of future benefit payments for an ongoing plan involves 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 or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

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 is 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 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 continuing contamination has been implemented at the both Michigan locations. Future potential liabilities, if any, are undeterminable as of the opinion date.

Township Collections – During February 2012, management determined that the allocation of road millage collections was not appropriate. The Commission has estimated that approximately \$127,000 of collections will have to be returned to Detour Village, Michigan from the Road Commission in the future. It is anticipated that services will be utilized to repay portions of this obligation.



## **Required Supplementary Information**

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# Chippewa County Road Commission

## Required Supplementary Information Employee Retirement and Benefit Systems Schedule of Funding Progress December 31, 2011

### Pension:

Three year trend information as of December 31, 2010 as follows:

	2008	2009	2010
Actuarial Value of Assets	\$ 10,703,532	\$ 10,507,551	\$ 10,499,225
Actuarial Accrued Liability	15,102,480	15,141,485	15,490,324
Unfunded AAL	4,398,948	4,633,934	4,991,099
Funded Ratio	71%	69%	68%
Covered Payroll	2,363,722	2,417,733	2,483,706
UAAL as a Percentage of Covered Payroll	186%	192%	201%

### 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	12.06%

## Chippewa County Road Commission

### Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues – Budget and Actual For the Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Property Taxes	\$ 735,000	\$ 748,000	\$ 747,389	\$ (611)
Federal Sources	1,032,540	880,000	875,223	(4,777)
State Sources	4,962,950	5,015,000	5,075,246	60,246
Contributions from Local Units	1,281,280	3,712,000	3,711,797	(203)
Charges for Services	1,580,000	1,830,000	1,946,290	116,290
Other Revenue	<u>32,000</u>	<u>66,000</u>	<u>(12,919)</u>	<u>(78,919)</u>
Total Revenue	<u>\$ 9,623,770</u>	<u>\$ 12,251,000</u>	<u>\$ 12,343,026</u>	<u>\$ 92,026</u>

## Chippewa County Road Commission

### Supplementary Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Primary Road	\$ 2,852,800	\$ 4,115,000	\$ 4,172,187	\$ (57,187)
Local Road	3,250,000	6,325,000	6,350,996	(25,996)
State Trunkline	1,500,000	1,780,000	1,875,259	(95,259)
Equipment Expense – Net	(300,000)	400,000	416,057	(16,057)
Administrative Expense – Net	213,500	403,500	366,209	37,291
Capital Outlay – Net	(755,500)	(843,000)	(878,590)	35,590
Distributive	2,620,000	-	-	-
Debt Service	<u>354,936</u>	<u>367,000</u>	<u>366,669</u>	<u>331</u>
Total Expenditures	9,735,736	12,547,500	<u>\$ 12,668,787</u>	<u>\$ (121,287)</u>
Fund Balance – January 1, 2011	<u>2,713,722</u>	<u>2,713,722</u>		
Total Budget	<u>\$ 12,449,458</u>	<u>\$ 15,261,222</u>		

## **Other Supplementary Information**

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## Chippewa County Road Commission

### Other Supplementary Information Analysis of Changes in Fund Balances For the Year Ended December 31, 2011

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 4,159,360	\$ 6,254,505	\$ 1,929,161	\$ 12,343,026
Total Expenditures	<u>4,436,817</u>	<u>6,750,410</u>	<u>1,481,560</u>	<u>12,668,787</u>
Excess of Revenues Over (Under) Expenditures	(277,457)	(495,905)	447,601	(325,761)
Interfund Transfers	-	495,905	(495,905)	-
Fund Balance – January 1, 2011	<u>1,200,097</u>	<u>-</u>	<u>1,513,624</u>	<u>2,713,721</u>
Fund Balance – December 31, 2011	<u>\$ 922,640</u>	<u>\$ -</u>	<u>\$ 1,465,320</u>	<u>\$ 2,387,960</u>

# Chippewa County Road Commission

## Other Supplementary Information Analysis of Revenues For the Year Ended December 31, 2011

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Property Taxes	\$ -	\$ 747,389	\$ -	\$ 747,389
Federal Sources				
Surface Transportation Program	738,547	-	-	738,547
D Funds	136,676	-	-	136,676
State Sources				
Michigan Transportation Fund				
Engineering	986	757	-	1,743
Allocation	2,198,457	1,688,272	-	3,886,729
Urban	236,874	50,720	-	287,594
Snow Removal	-	327,600	-	327,600
Economic Development Fund				
Rural Primary	341,217	-	-	341,217
Forest Road (E)	230,363	-	-	230,363
Contributions from Local Units				
Township	272,030	971,159	-	1,243,189
Other	-	2,468,608	-	2,468,608
Charges for Services				
State Trunkline Maintenance	-	-	1,890,576	1,890,576
Nonmaintenance	-	-	35,209	35,209
Salvage Sales	-	-	20,505	20,505
Interest and Rents	4,210	-	5,358	9,568
Gain (Loss) on Equipment Disposal	-	-	(58,633)	(58,633)
Other Revenue	-	-	36,146	36,146
Total Revenue	<u>\$ 4,159,360</u>	<u>\$ 6,254,505</u>	<u>\$ 1,929,161</u>	<u>\$ 12,343,026</u>

## Chippewa County Road Commission

### Other Supplementary Information Analysis of Expenditures For the Year Ended December 31, 2011

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Primary Road				
Preservation	\$ 2,481,673	\$ -	\$ -	\$ 2,481,673
Maintenance	1,690,514	-	-	1,690,514
Local Road				
Preservation	-	4,367,095	-	4,367,095
Maintenance	-	1,983,901	-	1,983,901
State Trunkline Maintenance	-	-	1,840,050	1,840,050
State Trunkline Nonmaintenance	-	-	35,209	35,209
Equipment Expense – Net	119,437	178,398	118,222	416,057
Administrative Expense – Net	145,193	221,016	-	366,209
Capital Outlay – Net	-	-	(878,590)	(878,590)
Debt Service				
Debt Principal Payments	-	-	336,353	336,353
Interest Expense	<u>-</u>	<u>-</u>	<u>30,316</u>	<u>30,316</u>
Total Expenditures	<u>\$ 4,436,817</u>	<u>\$ 6,750,410</u>	<u>\$ 1,481,560</u>	<u>\$ 12,668,787</u>



## **Report on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

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**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**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 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, 2011, which collectively comprise the Chippewa County Road Commission's basic financial statements and have issued our report thereon dated March 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Chippewa County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures 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 Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting, listed as 11-1 and 11-2. 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Chippewa County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 11-2.

We noted certain matters that we reported to management of the Chippewa County Road Commission in separate letter dated March 8, 2012.

The Chippewa County Road Commission's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Road Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of County Road Commissioners, others within the Commission, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



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

March 8, 2012

**SIGNIFICANT DEFICIENCIES**

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

**Finding 11-1**

*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

NONCOMPLIANCE WITH STATE STATUTES

**Expenditures in Excess of Appropriations—Budgetary Funds**

***Finding 11-2***

*Criteria:* The expenditures of funds in excess of appropriations is contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

*Condition:* Our examination of procedures used by the county road to adopt and maintain operating budgets for the county road's budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The Commission's General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual expenditures exceeded the board's approved budget allocations for some general fund activities.

During the fiscal year ended, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 29 of the financial statements

*Effect:* The Road Commission is violating State law.

*Cause:* Unknown.

*Recommendation:* We recommend that the county road's chief administrative officer (manager) and personnel responsible for administering the activities of the various funds of the county road, develop budgetary control procedures for the General Fund which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

*Planned Corrective Action:* Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

- 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, 2011**

<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>
<b>U.S. Department of Transportation:</b>				
Pass-Through Programs from the State of Michigan Department of Transportation (MDOT):				
North Caribou Lake Road	20.205	STP 1017(030)	89918	\$ 344,748
North Caribou Lake Road Intersection	20.205	STP 1017(028)	108589	56,229
Mackinac Trail 9 Mile to 12 Mile	20.205	STP 1117(011)	89915	362,193
Country Club Drive	20.205	STP 1117(012)	109177	120,925
H-40 from H-63	20.205	ARRA 1017(013)	89927	<u>(8,872)</u>
Subtotal MDOT Administered				<u>875,223</u>
Total U.S. Department of Transportation				<u>875,223</u>
<b>Total Expenditures of Federal Awards</b>				<u><u>\$ 875,223</u></u>