

# Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Chippewa County Road Commission	County Chippewa
Fiscal Year End December 31, 2007	Opinion Date March 8, 2008	Date Audit Report Submitted to State April 29, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

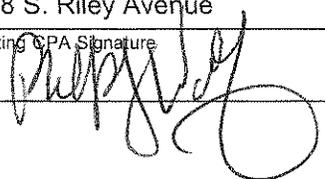
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	
Other (Describe)	<input type="checkbox"/>	
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC	Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue	City Kincheloe	State MI
		Zip 49788
Authorizing CPA Signature 	Printed Name Phillip J. Wolf, CPA	License Number 1101017275

**Chippewa County Road Commission**

BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2007

**CHIPPEWA COUNTY ROAD COMMISSION**

**BOARD OF COUNTY ROAD COMMISSIONERS**

Louis M. MacDonald  
Chairman

Donald M. Holt  
Vice Chairman

Clifford H. Carr  
Member

Dirk M. Heckman  
Engineer – Manager

Brian Decker  
Office Manager

Christine McDowell  
Executive Assistant

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

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

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

**INDEPENDENT AUDITOR'S REPORT**

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

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, 2007, 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, 2007, 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, 2008 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.

The Management's Discussion and Analysis and budgetary comparison information as listed in the table of contents are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was 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 listed as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also 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 not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



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

March 8, 2008

## **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 25 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 5.11% from \$66.11 million to \$69.49 million for the year ended December 31, 2007. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$784,224. The primary reason for the increases was an increase in federal and state support for road projects.

Net assets as of the years ended December 31, 2007 and 2006 follows:

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Current Assets	\$ 5,393,448	\$ 4,072,473
Noncurrent Assets	<u>66,396,210</u>	<u>64,107,313</u>
Total Assets	<u>\$ 71,789,658</u>	<u>\$ 68,179,786</u>
Current Liabilities	\$ 1,519,864	\$ 908,766
Noncurrent Liabilities	<u>779,031</u>	<u>1,161,408</u>
Total Liabilities	<u>2,298,895</u>	<u>2,070,174</u>
Net Assets		
Invested in Capital Assets - Net of Related Debt	65,702,701	63,105,774
Restricted	<u>3,788,062</u>	<u>3,003,838</u>
Total Net Assets	<u>\$ 69,490,763</u>	<u>\$ 66,109,612</u>

A summary of changes in net assets for the years ended December 31, 2007 and 2006 follows:

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Program Revenues		
Charges for Services	\$ 1,983,798	\$ 1,476,488
Grants and Contributions	7,652,666	7,984,156
Interest Income	90,916	69,944
General Revenues		
Property Taxes	689,027	595,498
Gain on Equipment Disposal	<u>40,000</u>	<u>135,139</u>
Total Revenues	<u>10,456,407</u>	<u>10,261,225</u>
Program Expenses		
Primary Roads	1,456,640	2,474,512
Local Roads	3,493,604	1,311,212
State Trunkline	1,713,006	1,379,565
Equipment Expense	209,574	519,040
Administrative	249,035	238,837
Interest Expense and Other	<u>(46,603)</u>	<u>238,556</u>
Total Expenses	<u>7,075,256</u>	<u>6,161,722</u>
Changes in Net Assets	3,381,151	4,099,503
Net Assets – Beginning	<u>66,109,612</u>	<u>62,010,109</u>
Net Assets – Ending	<u>\$ 69,490,763</u>	<u>\$ 66,109,612</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, 2007, the fund balance of the general operations fund increased \$558 thousand as compared to a decrease of \$273 thousand in the fund balance for the prior year. Total revenues were \$10.4 million, an increase of \$148 thousand as compared to last year. This change in revenues resulted primarily from federal and state critical bridge funding.

Total expenditures were \$9.8 million, a decrease of \$1.3 million as compared to last year. This change in expenditures is primarily the result of bridge structures and capital outlay activities in the prior year. The road commission incurred an increase to capital outlay due to significant equipment purchases 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 2007 was 59,535 higher 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 \$10.1 million while actual expenditures were \$9.8 million. This resulted in total expenditures being under budget by \$248 thousand. There were two items that account for most of the variance in the projection of the budget. Expenditures for primary and local road expenditures were under the budget by \$203 thousand.

**Capital Assets**

As of December 31, 2007 and 2006, the road commission had invested in capital assets as follows:

	<u>2007</u>	<u>2006</u>
Capital Assets Not Being Depreciated		
Construction in Progress	\$ -	\$ 154,150
Land and Improvements	36,884,273	34,023,533
Other Capital Assets		
Buildings and Improvements	4,131,767	4,087,264
Road Equipment	11,032,144	10,609,751
Other Equipment and Assets	1,396,938	1,374,229
Infrastructure	<u>43,538,834</u>	<u>42,602,051</u>
Total Capital Assets at Historic Cost	96,983,956	92,850,978
Total Accumulated Depreciation	<u>(30,587,746)</u>	<u>(28,743,665)</u>
Total Net Capital Assets	<u>\$ 66,396,210</u>	<u>\$ 64,107,313</u>

Major additions included the following:

Buildings	<u>\$ 44,503</u>	<u>\$ 12,132</u>
Land & Improvements	<u>\$ 2,860,740</u>	<u>\$ 2,946,175</u>
Various Resurfacing Projects and Bridges	<u>\$ 1,806,378</u>	<u>\$ 2,910,666</u>
Trucks/Equipment/Other	<u>\$ 551,000</u>	<u>\$ 1,349,857</u>

## **Debt**

The road commission currently has long-term debt in the amount of \$958,736 which represents land and equipment financing and compensated absences.

## **Economic Factors and Next Year's Budget**

The board of county road commissioner's considered many factors when setting the fiscal year 2008 budget. One of the factors is the economy. The road commission derives approximately 60% of its revenues from the fuel tax collected. The recent 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, 2007

### ASSETS

#### Current Assets:

Cash and Equivalents	\$ 2,055,618
Accounts Receivable:	
Sundry	982
Property Taxes	666,488
Michigan Transportation Fund	670,008
State – Trunkline Maintenance	339,891
Due from Other Units	14,759
Due on County Road Agreements	684,843
Inventories:	
Road Materials	591,320
Equipment, Parts and Materials	273,562
Prepaid Expense	95,977
Total Current Assets	<u>5,393,448</u>

#### Noncurrent Assets:

Capital Assets (Nondepreciable)	36,884,273
Capital Assets (Net of Accumulated Depreciation)	<u>29,511,937</u>
Total Noncurrent Assets	<u>66,396,210</u>

Total Assets \$ 71,789,658

### LIABILITIES

#### Current Liabilities:

Accounts Payable	\$ 157,084
Due to State of Michigan	3,892
Accrued Liabilities	73,375
Advances from State	1,100,808
Escrow	5,000
Installment Purchase Agreements Payable	<u>179,705</u>
Total Current Liabilities	<u>1,519,864</u>

#### Noncurrent Liabilities:

Vested Employee Benefits	265,227
Installment Purchase Agreements Payable	<u>513,804</u>
Total Noncurrent Liabilities	<u>779,031</u>

Total Liabilities 2,298,895

### NET ASSETS

Investment in Capital Assets - Net of Related Debt	65,702,701
Restricted for County Road	<u>3,788,062</u>
Total Net Assets	<u>\$ 69,490,763</u>

# Chippewa County Road Commission

## Statement of Activities For the Year Ended December 31, 2007

Program Expenses:	
Primary Road Maintenance and Preventive Maintenance	\$ 1,456,640
Local Road Maintenance and Preventive Maintenance	3,493,604
State Trunkline Maintenance	1,713,006
Net Equipment Expense	209,574
Net Administrative Expense	249,035
Compensated Absences	(152,063)
Interest Expense	32,985
Other	<u>72,475</u>
Total Program Expenses	<u>7,075,256</u>
Program Revenues:	
Charges for Services:	
Charges for Services	1,925,604
Other	58,194
Operating Grants and Contributions:	
Michigan Transportation Funds	2,988,848
Investment Earnings	90,916
Capital Grants and Contributions:	
Federal Grants	1,465,105
State Grants	2,044,876
Contributions from Local Units	<u>1,153,837</u>
Total Program Revenues	<u>9,727,380</u>
Net Program Revenues	<u>2,652,124</u>
General Revenue	
Property Taxes	689,027
Gain on Equipment Disposal	<u>40,000</u>
Total General Revenues	<u>729,027</u>
Changes in Net Assets	3,381,151
Net Assets	
Beginning of Year	<u>66,109,612</u>
End of Year	<u>\$ 69,490,763</u>

# Chippewa County Road Commission

## Balance Sheet December 31, 2007

	<u>Governmental Fund Type</u>
	<u>General Operating Fund</u>
<b><u>ASSETS</u></b>	
Cash and Equivalents	\$ 2,055,618
Accounts Receivable	
Sundry	982
Property Taxes	666,488
Michigan Transportation Fund	670,008
State Trunkline Maintenance	339,891
Due from Other Units	14,759
Due on County Road Agreements	684,843
Inventories	
Road Materials	591,320
Equipment, Parts, and Materials	273,562
Prepaid Expenses	<u>95,977</u>
Total Assets	<u>\$ 5,393,448</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>	
Liabilities	
Accounts Payable	\$ 157,084
Accrued Liabilities	73,375
Due to State of Michigan	3,892
Escrow	5,000
Advances from State	1,100,808
Deferred Revenue	<u>666,488</u>
Total Liabilities	<u>2,006,647</u>
Fund Equities	
Fund Balance	
Unreserved and Undesignated	<u>3,386,801</u>
Total Fund Equities	<u>3,386,801</u>
Total Liabilities and Fund Equities	<u>\$ 3,386,801</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, 2007

Total Governmental Fund Balance	\$ 3,386,801
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.	66,396,210
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	(958,736)
2007 tax levy not considered "available" in governmental funds but is recognized as revenue in the statement of activities.	<u>666,488</u>
Net Assets of Governmental Activities	<u>\$ 69,490,763</u>

# Chippewa County Road Commission

## Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended December 31, 2007

	<u>General Operating Fund</u>
Revenues	
Property Taxes	\$ 614,585
Federal Sources	1,465,105
State Sources	5,033,724
Contributions from Local Units	1,153,837
Charges for Services	1,925,604
Investment Earnings	90,916
Other Revenue	<u>98,194</u>
Total Revenues	<u>10,381,965</u>
Expenditures	
Public Works	9,768,504
Capital Outlay	(285,273)
Debt Service	<u>341,015</u>
Total Expenditures	<u>9,824,246</u>
Excess of Revenues Over (Under) Expenditures	557,719
Fund Balance – January 1, 2007	<u>2,829,082</u>
Fund Balance – December 31, 2007	<u><u>\$ 3,386,801</u></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, 2007

Net Change in Fund Balance – Total Governmental Funds	\$ 557,719
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.	2,288,897
Net increase in revenue between 2007 and 2006 tax levy.	74,442
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.	308,030
Change in compensated absences recognized as a negative expense in the statement of activities.	<u>152,063</u>
Change in Net Assets of Governmental Activities	<u>\$ 3,381,151</u>

## **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 2007 taxable valuation of \$972,602,855 for Road Millage amounted to \$923,814 less \$257,326 for cities and villages, (on which ad valorem taxes of .9906 mills were levied) for road maintenance purposes resulted in net total of \$666,488.

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 2007 ad valorem tax is levied and collectible December 1, 2007, 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 \$1,000 and 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.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Chippewa County Road Commission has capitalized the current and prior year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

**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:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 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 at the rate of pay in effect when it was earned.

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 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 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>
Public Money Market Funds	\$ 594,588	\$ 594,588
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	1,460,880	1,529,774

*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 credit risk.* Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Commission’s \$594,588 of investments, are pooled public funds in the name of the agent. Credit quality ratings of public money funds were not available from the financial institution or are unrated.

**NOTE 3 - CASH AND DEPOSITS (Continued)**

*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, \$1,357,059 of the Commission’s bank balance of \$1,529,774 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 01/01/07	Additions	Adjustments/ Deductions	Ending Balances 12/31/07
<i>Capital Assets Not Being Depreciated</i>				
Construction in Progress	\$ 154,150	\$ -	\$ 154,150	\$ -
Land and Improvements	264,269	3,300	-	267,569
Land/Improvements - Infrastructure	33,759,264	2,857,440	-	36,616,704
Subtotal	<u>34,177,683</u>	<u>2,860,740</u>	<u>154,150</u>	<u>36,884,273</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	4,087,264	44,503	-	4,131,767
Road Equipment	10,609,751	528,291	105,898	11,032,144
Shop Equipment	156,526	-	-	156,526
Office Equipment	59,638	-	-	59,638
Engineers’ Equipment	36,243	22,709	-	58,952
Depletable Assets	1,121,822	-	-	1,121,822
Infrastructure – Roads	29,707,902	1,806,378	869,595	30,644,685
Infrastructure – Bridges	12,894,149	-	-	12,894,149
Subtotal	<u>58,673,295</u>	<u>2,401,881</u>	<u>975,493</u>	<u>60,099,683</u>

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

	Beginning Balances 01/01/07	Additions	Adjustments/ Deductions	Ending Balances 12/31/07
<i>Less Accumulated Depreciation</i>				
Buildings	1,482,773	121,945	-	1,604,718
Road Equipment	8,877,036	762,045	105,898	9,533,183
Shop Equipment	101,936	9,457	-	111,393
Office Equipment	55,492	3,180	-	58,672
Engineers' Equipment	34,138	6,840	-	40,978
Depletion	95,952	6,899	-	102,851
Infrastructure – Roads	12,119,022	1,616,133	869,595	12,865,560
Infrastructure – Bridges	5,977,316	293,075	-	6,270,391
Subtotal	<u>28,743,665</u>	<u>2,819,574</u>	<u>975,493</u>	<u>30,587,746</u>
Net Capital Assets Being Depreciated	<u>29,929,630</u>	<u>(417,693)</u>	<u>-</u>	<u>29,511,937</u>
Total Net Capital Assets	<u>\$ 64,107,313</u>	<u>\$ 2,443,047</u>	<u>\$ 154,150</u>	<u>\$ 66,396,210</u>

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

Primary Road Maintenance and Preventive Maintenance	\$ 1,159,736
Local Road Maintenance and Preventive Maintenance	749,472
Equipment Expenses	762,045
Administrative	14,174
Other Allocated	<u>134,147</u>
Total Depreciation Expense	<u>\$ 2,819,574</u>

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT**

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 BENEFIT (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 16.07%.

**Annual Pension Costs** – For year ended 2007, the Chippewa County Road Commission’s annual pension cost of \$306,814 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, 2005, 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 four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, 2006 as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial Value of Assets	\$ 9,958,825	\$ 10,114,438	\$ 10,481,715
Actuarial Accrued Liability	12,719,846	13,239,985	13,793,265
Unfunded AAL	2,761,021	3,125,547	3,311,550
Funded Ratio	78%	76%	76%
Covered Payroll	2,336,689	2,192,621	2,364,544
UAAL as a Percentage of Covered Payroll	118%	143%	140%

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 309,188	100%	0
2005	292,179	100%	0
2006	331,307	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, 2007, the federal aid received and expended by the Road Commission was \$1,430,466 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 01/01/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/07</u>	<u>Due Within One Year</u>
Installment payable secured by real estate mortgage, payable in monthly installments of \$5,055 including interest of 3.90%	\$ 386,299	\$ -	\$ 51,607	\$ 334,692	\$ 48,468
Installment payable secured by equipment, payable in monthly installments of \$648 including interest of 4.5%	20,035	-	7,614	12,421	7,365
Installment payable secured by (14) Peterbilt Trucks, payable in monthly installments of \$21,368 including interest of 4.46%	86,355	-	86,355	-	-
Installment payable secured by vehicles, payable in monthly installments of \$11,239 including interest of 3.79%.	<u>508,850</u>	<u>-</u>	<u>162,454</u>	<u>346,396</u>	<u>123,872</u>
Subtotal	1,001,539	-	308,030	693,509	<u>\$ 179,705</u>
Compensated Absences (1)	<u>417,290</u>	<u>-</u>	<u>152,063</u>	<u>265,227</u>	
TOTAL LONG-TERM DEBT	<u>\$ 1,418,829</u>	<u>\$ -</u>	<u>\$ 460,093</u>	<u>\$ 958,736</u>	

(1) Net decrease.

Annual debt service requirements are as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013-2014</u>	<u>Total</u>
Principal	<u>\$ 179,705</u>	<u>\$ 184,097</u>	<u>\$ 146,268</u>	<u>\$ 54,473</u>	<u>\$ 56,637</u>	<u>\$ 72,329</u>	<u>\$ 693,509</u>
Interest	<u>\$ 23,600</u>	<u>\$ 16,572</u>	<u>\$ 9,666</u>	<u>\$ 6,187</u>	<u>\$ 4,024</u>	<u>\$ 1,847</u>	<u>\$ 61,896</u>

**NOTE 10 - 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.

Post employment insurance expenses for fiscal 2007 were \$670,705 including retiree's paid portion of \$54,693 for 57 retirees.

**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.

**NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)**

DEQ Violations – The Commission has been issued citations by the Michigan Department of Environmental Quality. The citations could result in obligations to implement improvements at various locations. The amount of any future costs is undeterminable at this time. The Commission has vigorously defended its position as to alternate remediation requested by the regulatory authorities.

**NOTE 12 - SUBSEQUENT EVENTS**

During February 2008, the Commission ordered eight trucks amounting to \$1,188,000. The vehicles are to be delivered in 2008.

## **Required Supplementary Information**

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# Chippewa County Road Commission

## Supplementary Information Budgetary Comparison Schedule Statement of Revenues – Budget and Actual For the Year Ended December 31, 2007

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Property Taxes	\$ 575,000	\$ 615,000	\$ 614,585	\$ (415)
Federal Sources	870,000	1,466,000	1,465,105	(895)
State Sources	5,000,500	5,000,500	5,033,724	33,224
Contributions from Local Units	1,600,000	1,165,000	1,153,837	(11,163)
Charges for Services	1,700,000	1,980,000	2,016,520	36,520
Other Revenue	<u>100,000</u>	<u>215,000</u>	<u>98,194</u>	<u>(116,806)</u>
Total Revenue	<u>\$ 9,845,500</u>	<u>\$ 10,441,500</u>	<u>\$ 10,381,965</u>	<u>\$ (59,535)</u>

# Chippewa County Road Commission

## Supplementary Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended December 31, 2007

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Primary Road	\$ 2,296,000	\$ 4,176,000	\$ 4,084,649	\$ 91,351
Local Road	3,427,000	3,532,000	3,466,055	65,945
State Trunkline	1,700,000	1,789,450	1,713,006	76,444
Equipment Expense – Net	(150,000)	210,000	209,574	426
Administrative Expense – Net	108,500	276,000	249,035	26,965
Capital Outlay – Net	(284,000)	(298,000)	(285,273)	(12,727)
Other	2,388,500	46,185	46,185	-
Debt Service	<u>294,076</u>	<u>341,076</u>	<u>341,015</u>	<u>61</u>
Total Expenditures	9,780,076	10,072,711	<u>\$ 9,824,246</u>	<u>\$ 248,465</u>
Fund Balance – January 1, 2007	<u>2,829,082</u>	<u>2,829,082</u>		
Total Budget	<u>\$ 12,609,158</u>	<u>\$ 12,901,793</u>		

## **Other Supplementary Information**

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# Chippewa County Road Commission

## Analysis of Changes in Fund Balances For the Year Ended December 31, 2007

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Total Revenues	\$ 4,283,324	\$ 4,000,551	\$ 2,098,090	\$ 10,381,965
Total Expenditures	<u>4,282,911</u>	<u>3,667,072</u>	<u>1,874,263</u>	<u>9,824,246</u>
Excess of Revenues Over (Under) Expenditures	413	333,479	223,827	557,719
Interfund Transfers	-	-	-	-
Fund Balance – January 1, 2007	<u>1,624,580</u>	<u>-</u>	<u>1,204,502</u>	<u>2,829,082</u>
Fund Balance – December 31, 2007	<u>\$ 1,624,993</u>	<u>\$ 333,479</u>	<u>\$ 1,428,329</u>	<u>\$ 3,386,801</u>

# Chippewa County Road Commission

## Analysis of Revenues For the Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Property Taxes	\$ -	\$ 614,585	\$ -	\$ 614,585
Federal Sources				
Surface Transportation Program	905,200	-	-	905,200
High Priority Enhancement	525,266	-	-	525,266
	-	-	34,639	34,639
State Sources				
Michigan Transportation Fund				
Engineering	5,500	4,500	-	10,000
Allocation	2,227,449	1,775,456	-	4,002,905
Urban	253,701	53,442	-	307,143
Snow Removal	-	351,996	-	351,996
Economic Development Fund				
Forest Road (E)	-	230,364	-	230,364
Jobs Today	131,316	-	-	131,316
Contributions from Local Units				
Township	91,360	970,208	-	1,061,568
Other	91,710	-	559	92,269
Charges for Services				
State Trunkline Maintenance	-	-	1,897,225	1,897,225
Nonmaintenance	-	-	6,316	6,316
Salvage Sales	-	-	22,063	22,063
Interest and Rents	51,822	-	39,094	90,916
Other Revenue				
Gain on Disposals	-	-	40,000	40,000
Other	-	-	58,194	58,194
Total Revenue	<u>\$ 4,283,324</u>	<u>\$ 4,000,551</u>	<u>\$ 2,098,090</u>	<u>\$ 10,381,965</u>

# Chippewa County Road Commission

## Analysis of Expenditures For the Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation	\$ 2,628,009	\$ -	\$ -	\$ 2,628,009
Maintenance	1,456,640	-	-	1,456,640
Local Road				
Preservation	-	2,035,809	-	2,035,809
Maintenance	-	1,430,246	-	1,430,246
State Trunkline Maintenance	-	-	1,706,690	1,706,690
State Trunkline Nonmaintenance	-	-	6,316	6,316
Equipment Expense – Net	63,543	86,701	59,330	209,574
Administrative Expense – Net	134,719	114,316	-	249,035
Capital Outlay – Net	-	-	(285,273)	(285,273)
Other	-	-	46,185	46,185
Debt Service				
Debt Principal Payments	-	-	308,030	308,030
Interest Expense	-	-	32,985	32,985
Total Expenditures	\$ 4,282,911	\$ 3,667,072	\$ 1,874,263	\$ 9,824,246

# **Report on Compliance**

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

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**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 as of and for the year ended December 31, 2007, which collectively comprise the Chippewa County Road Commission's basic financial statements and have issued our report thereon dated March 8, 2008. 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 opinion 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control over financial reporting. We consider the deficiencies described as 07-1 in the accompanying schedule of findings and response to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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

We noted certain matters that we reported to management of the Chippewa County Road Commission in separate letter dated March 8, 2008.

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 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 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, 2008

**Financial Statement Findings**

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SIGNIFICANT DEFICIENCIES

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

***Finding 07-1***

*Specific Requirement:* Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 112 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 prepares financial statements and annual report in compliance with GASB 34.

*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:* Unknown.

*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:* As a result of funding priorities, the Commission does not have resources to fund this process. We intend to re-evaluate once funding becomes available for the additional reporting and monitoring.

- Contact Person(s) Responsible for Correction:  
Dirk Heckman, Manager

**Chippewa County Road Commission**

**Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2007**

<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):				
Scenic Drive 15 mile to 13 mile	20.205	STP 0717(011)	84391	\$ 158,532
County Wide Paving	20.205	STP 0717(014)	84392	78,565
3 Mile Road Paving	20.205	STP 0717(010)	84503	349,794
3 Mile Road Guardrail	20.205	STP 0717(007)	87612	179,084
East Shore Drive	20.205	STP 0717(016)	84395	139,226
Tilson Road	20.205	HPSL 0717(015)	84397	<u>525,265</u>
Subtotal MDOT Administered				<u>1,430,466</u>
Pass-Through Programs from the State of Michigan Department of Transportation (MDOT) – Local Force Account:				
Documentation of Historic Shipwrecks	20.205	ENH-2003-00148	73855	<u>34,639</u>
Subtotal CCRC Administered				<u>34,639</u>
Total U.S. Department of Transportation				<u>1,465,105</u>
<b>Total Expenditures of Federal Awards</b>				<u>\$ 1,465,105</u>



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

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

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

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

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

We have audited the financial statements of the Chippewa County Road Commission as of and for the year ended December 31, 2007, and have issued our reports thereon dated March 8, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter dated February 25, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Chippewa County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Chippewa County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our memorandum about planning matters on February 25, 2008.

### **Significant Audit Findings**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Chippewa County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal 2007. We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the depreciation expense based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determine that it is reasonable in relation to the financial statements taken as a whole.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. A copy of any adjustments are available from management.

### **Disagreement with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated March 8, 2008.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other Audit findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Comments and Recommendations**

#### **Fraud Policy**

With the implementation of Statement of Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The Commission does not have a "fraud policy" which would address fraud or suspected fraud and related board actions. We recommend the Commission adopt a fraud policy in compliance with SAS No. 99.

#### **Purchasing Procedures**

Although the Board has adopted provisions of "state bid" procedures, a formalized bid documentation policy should be considered. Sample procedures are available in the County Road Bulletin published by the Michigan Department of Treasury.

#### **Auto Use**

Personal use of governmental automobiles is considered compensation to employees according to Internal Revenue Service Regulations. An auto lease value or daily commuting amount should be calculated in accordance with IRC provisions or mileage paid and included as compensation on the employee's Form W-2 at year end for any usage deemed personal.

#### **GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions (Prior)**

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, with the Chippewa County Road Commission required to implement the Statement for the year ended December 31, 2008. GASB Statement 45 will impact the future accounting of post-employment health insurance costs as it relates to the amount the Commission will be required to fund these benefits. Beginning in 2008, the Commission will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

Status: During fiscal 2007, the Board engaged an actuary to calculate this liability.

### **Conclusion**

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of the Chippewa County Road Commission, the cognizant audit agencies and other federal and state agencies, and pass-through entities and is not intended to be and should no be used by anyone other than these specified parties.



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

March 8, 2008