

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

ANNUAL FINANCIAL REPORT
with Supplementary Information

FOR THE YEAR ENDED DECEMBER 31, 2013

**Stewart,
Beauvais
& Whipple P.C.**



CERTIFIED PUBLIC ACCOUNTANTS

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of Cheboygan County
Indian River, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the General Fund, and the Employee Health Care Benefit Trust Fund of the Cheboygan County Road Commission (the "Road Commission"), a component unit of Cheboygan County, Michigan as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Road Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the General Fund, and the Employee Health Care Benefit Trust Fund of the Cheboygan County Road Commission as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As discussed in Note 15 to the financial statements for 2013, the Road Commission adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result, certain items that were previously reported as assets and liabilities are now classified as deferred outflows of resources or deferred inflows of resources. Also, certain items previously classified as assets, have been written off due to their new classification as expenses. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-6 and page 28 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 do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

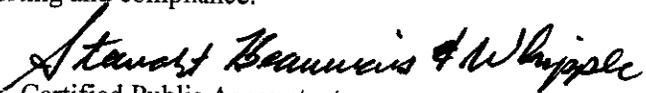
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The accompanying supplementary information as listed in the table of contents and presented on pages 29-31 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2014 on our consideration of the Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cheboygan County Road Commission's internal control over financial reporting and compliance.


Certified Public Accountants

April 7, 2014

CHEBOYGAN COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Cheboygan County Road Commission (the "Road Commission"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2013. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Road Commission's basic financial statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) governmental and fiduciary fund financial statements, and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Road Commission's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Road Commission's assets, deferred outflows of resources and liabilities, with the difference between the combined assets and deferred outflows and liabilities reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

General Fund Financial Statements

Unlike the government-wide financial statements, the General Fund (governmental) financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the General Fund financial statements are narrower than that of the government-wide financial statements, it is useful to compare the information presented for the General Fund financial statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions.

Both the balance sheet/statement of net position and the statement of revenues, expenditures, and changes in fund balance/statement of activities provide a reconciliation to facilitate this comparison between the General Fund financial statements and the government-wide financial statements.

The Road Commission adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Fiduciary Fund Financial Statements

The Employee Health Care Benefit Trust Fund (fiduciary fund) is used to account for resources held in trust for members and beneficiaries of the Road Commission's retirees health care plan. The fiduciary fund activity is not reflected in the government-wide financial statements because the resources are not available to support the Road Commission's own programs. The Road Commission's Employee Health Care Benefit Trust Fund is reported in the statements of fiduciary net position and changes in fiduciary net position. The accounting used for fiduciary funds is much like that used for the government-wide presentation. The Road Commission is responsible for ensuring that the assets reported in this fund are used for its intended purpose.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and general and fiduciary fund financial statements. The notes to the financial statements can be found on pages 10-27 of this report.

FINANCIAL HIGHLIGHTS

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets and deferred outflows of resources exceeded liabilities by \$28,413,162 at December 31, 2013.

Net position is separated into three major components, net investment in capital assets of \$27,093,463, restricted net position of \$13,381, and unrestricted net position of \$1,306,318. The net investment in capital assets of the Road Commission reflects its investment in capital assets (i.e. land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that are still outstanding. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Road Commission's net investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted net position reflects excess cash sent to escrow agent to pay issuance costs of the refunding bonds. The remaining balance of unrestricted net position may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the current year, the Road Commission is able to report positive balances in all categories (net investment in capital assets, restricted, and unrestricted) of net position. The Road Commission's combined net position increased \$567,768 from a year ago.

The following table presents a comparison of the Statement of Net Position at December 31, 2013 and 2012 in a condensed format:

Condensed Statement of Net Position	<u>2013</u>	<u>Restated 2012</u>
Assets -		
Current and other unrestricted assets	\$ 3,253,871	\$ 3,392,104
Restricted deposits – escrow	13,381	-
Capital Assets	<u>29,483,463</u>	<u>28,780,536</u>
Total Assets	<u>32,750,715</u>	<u>32,172,640</u>
Deferred Outflows of Resources -		
Deferred loss on refunding bond	<u>48,480</u>	<u>-</u>
Liabilities -		
Long-term liabilities	4,006,285	3,927,109
Other liabilities	<u>379,748</u>	<u>400,137</u>
Total Liabilities	<u>4,386,033</u>	<u>4,327,246</u>
Net Position -		
Net investment in capital assets	27,093,463	26,342,319
Restricted for debt service	13,381	-
Unrestricted	<u>1,306,318</u>	<u>1,503,075</u>
Total Net Position	<u>\$ 28,413,162</u>	<u>\$ 27,845,394</u>

The following table presents a comparison of the Statement of Activities for the year ended December 31, 2013 and 2012 in a condensed format:

Condensed Statement of Activities	<u>2013</u>	<u>2012</u>
Revenues		
Federal Sources	\$ 628,831	\$ 28,079
State Sources	3,842,189	4,800,685
Local Sources	983,974	708,799
Charges for Services and Other	<u>2,258,110</u>	<u>2,167,542</u>
	<u>7,713,104</u>	<u>7,705,105</u>
Expenses		
Maintenance	5,066,182	4,546,306
Administrative	370,661	431,583
Equipment (net)	226,482	230,955
Depreciation	1,361,482	1,314,782
Debt Service	<u>120,529</u>	<u>109,090</u>
	<u>7,145,336</u>	<u>6,632,716</u>
 Change in Net Position	 <u>\$ 567,768</u>	 <u>\$ 1,072,389</u>

General Fund Financial Analysis

As noted earlier, the focus of the General Fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$2,895,525, a decrease of \$140,223 from the prior year. Approximately 62%, or \$1,803,092, of the fund balance constitutes unassigned fund balance, which is available for spending at the Road Commission's discretion. The remainder of the fund balance in the amount of \$1,079,052 is nonspendable for prepaid items, restricted deposits, and inventory.

BUDGETARY HIGHLIGHTS

The Road Commission amended its 2013 budget mainly to reflect additional MDOT funding and the finalizing of Township projects. Actual 2013 revenues were \$309,505 greater than the final budget mainly as a result of additional MDOT funding awarded that was not budgeted for. Actual expenditures were within (4.0%) of final budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Road Commission had \$29,483,463 in capital assets at the end of the year, representing an increase of \$702,927 or 2.44% from the previous year. A summary of capital assets net of accumulated depreciation at December 31, 2013 in comparison to the previous year is as follows:

	<u>2013</u>	<u>2012</u>
Land, Land Improvements and Right-of-Ways	\$ 11,061,586	\$ 10,719,559
Land Improvements – depreciable	721,881	-
Buildings and Improvements	1,906,482	2,082,504
Equipment	568,417	372,348
Depletable Assets	11,753	11,753
Infrastructure	<u>15,213,344</u>	<u>15,594,372</u>
Total Capital Assets	<u>\$ 29,483,463</u>	<u>\$ 28,780,536</u>

Additional information on the Road Commission’s capital assets may be found in Note 7 to the financial statements.

Long-Term Liabilities - At the end of the current year, the Road Commission had total bond debt principal requirements of \$2,390,000. The balance includes \$2,285,000 of Michigan Transportation Fund (“MTF”) Refunding Bonds, Series 2013, which were issued in December 2013 to advance refund the MTF bonds, Series 2004. The bond debt is backed by the full faith and credit of Cheboygan County. A summary of the Long-Term Debt is as follows:

	<u>2013</u>	<u>2012</u>
MTF Bonds, Series 2004	\$ 105,000	\$ 2,375,000
MTF Refunding Bonds, Series 2013	<u>2,285,000</u>	<u>-</u>
	<u>\$ 2,390,000</u>	<u>\$ 2,375,000</u>

The Road Commission also had other long-term liabilities for accrued vacation and sick of \$225,707 and a net OPEB obligation of \$1,390,578 at December 31, 2013.

Additional information on the Road Commission’s long-term liabilities may be found in Note 9 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

2014 projections are that State Motor Vehicle revenues are expected to increase 1% from 2013 levels. Staffing levels continue to stay stagnant due to not replacing staff. Revenues for Federal STP are projected at \$390,000 through the Transportation Improvement Program. Activities for 2014 will again be primarily geared towards maintenance. Construction and improvements to the local road system will be completed with the help of outside contractors, typically with Township revenue sources. Capital outlay purchases continue to languish due to anticipated decreased funding levels. Anticipated activities include the purchase of two tandem axle trucks utilizing financing for the purchase. Improvements and/or construction on the primary system for 2014 are expected with Transportation Improvement Program. However, in future years due to changes in State funding allocation requirements, projects will have to be completed in small sections and over time we will see additional costs of not being able to accumulate funds to complete a large project in one year. Preventative maintenance on the primary system has been non-existent and is expected to remain so without some increase in statewide transportation funding or a successful county-wide local road millage.

CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designed to provide a general overview of the Cheboygan County Road Commission’s finances and to show accountability. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Cheboygan County Road Commission, 5302 South Straits Hwy, Indian River, Michigan, 49749.

BASIC FINANCIAL STATEMENTS

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

BALANCE SHEET /
STATEMENT OF NET POSITION
DECEMBER 31, 2013

	General Fund	Adjustments (Note 2)	Governmental Activities
Assets:			
Cash and cash equivalents	\$ 1,050,217	\$ -	\$ 1,050,217
Due from other governmental units -			
Federal	68	-	68
State	1,007,722	-	1,007,722
Local	100,243	-	100,243
Accounts receivable	16,569	-	16,569
Prepaid items	176,996	-	176,996
Deposits - health insurance	28,942	-	28,942
Restricted deposits - escrow	13,381	-	13,381
Inventory	873,114	-	873,114
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	11,061,586	11,061,586
Assets being depreciated - net	-	18,421,877	18,421,877
Total Assets	3,267,252	29,483,463	32,750,715
Deferred Outflows of Resources:			
Deferred loss on refunding bond	-	48,480	48,480
Liabilities:			
Accounts payable	71,362	-	71,362
Accrued liabilities	93,529	-	93,529
Accrued interest payable	-	8,021	8,021
Due to other governmental units	35,448	-	35,448
Advances and deposits	171,388	-	171,388
Non-Current Liabilities -			
Due within one year	-	150,000	150,000
Due in more than one year	-	2,240,000	2,240,000
Accrued vacation and sick	-	225,707	225,707
Net OPEB obligation	-	1,390,578	1,390,578
Total Liabilities	371,727	4,014,306	4,386,033
Fund Balance:			
Nonspendable -			
Prepays and deposits	205,938	(205,938)	-
Inventory	873,114	(873,114)	-
Restricted for debt service	13,381	(13,381)	-
Unassigned	1,803,092	(1,803,092)	-
Total Fund Balance	2,895,525	(2,895,525)	-
Total Liabilities and Fund Balance	\$ 3,267,252		
Net Position:			
Net investment in capital assets		27,093,463	27,093,463
Restricted for debt service		13,381	13,381
Unrestricted		1,306,318	1,306,318
Total Net Position		\$ 28,413,162	\$ 28,413,162

The accompanying notes are an integral part of these financial statements.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE / STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General Fund	Adjustments (Note 2)	Governmental Activities
Revenues:			
Permits	\$ 35,385	\$ -	\$ 35,385
Intergovernmental -			
Federal sources	628,831	-	628,831
State sources	3,842,189	-	3,842,189
Local sources	983,974	-	983,974
Charges for services	2,115,913	-	2,115,913
Interest and rents	1,047	-	1,047
Other	105,765	-	105,765
Total Revenues	7,713,104	-	7,713,104
Expenditures/Expenses:			
Current -			
Local construction - capacity improvements	759,875	(759,875)	-
Primary preservation - structural improvements	231,793	(231,793)	-
Local preservation - structural improvements	702,037	(702,037)	-
Primary maintenance	1,413,822	(39,866)	1,373,956
Local maintenance	1,712,025	(21,547)	1,690,478
State maintenance	2,001,748	-	2,001,748
Administrative	324,374	46,287	370,661
Equipment operations -	2,568,039	(249,071)	2,318,968
Less equipment rental			
charged to other activities	(2,092,486)	-	(2,092,486)
Depreciation	-	1,361,482	1,361,482
Capital Outlay	370,986	(370,986)	-
Less: depreciation credit			
and retirements	(328,655)	328,655	-
Debt Service -			
Principal	100,000	(100,000)	-
Interest, fiscal charges, and issuance costs	165,131	(44,602)	120,529
Total Expenditures/Expenses	7,928,689	(783,353)	7,145,336
Other Financing Sources (Uses):			
Refunding bond proceeds	2,285,000	(2,285,000)	-
Payment to refunded bond escrow agent	(2,218,480)	2,218,480	-
Premium on refunding bond	8,842	(8,842)	-
Total Other Financing Sources (Uses)	75,362	(75,362)	-
Change in Fund Balance/Net Position	(140,223)	707,991	567,768
Fund Balance/Net Position at January 1, 2013, restated	3,035,748	24,809,646	27,845,394
Fund Balance/Net Position at December 31, 2013	\$ 2,895,525	\$ 25,517,637	\$ 28,413,162

The accompanying notes are an integral part of these financial statements.

CHEBOYGAN COUNTY ROAD COMMISSION
STATEMENT OF FIDUCIARY NET POSITION
EMPLOYEE HEALTH CARE BENEFIT TRUST FUND
DECEMBER 31, 2013

ASSETS:

Investments, at fair value - Mutual Funds	\$ <u>174,718</u>
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NET POSITION - RESTRICTED FOR OPEB	\$ <u>174,718</u>
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STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
EMPLOYEE HEALTH CARE BENEFIT TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

Additions:

Employer contributions	\$ 50,000
Investment income - Net appreciation in fair value of investments	<u>15,182</u>
Total Additions	65,182

Deductions:

Investment advisory fees	<u>668</u>
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Net increase	64,514
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Net Position - Restricted for OPEB:

Beginning of year	<u>110,204</u>
End of year	<u>\$ 174,718</u>

The accompanying notes are an integral part of these financial statements.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Cheboygan County Road Commission (the "Road Commission"), a component unit of Cheboygan County, Michigan have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities, including the following accounting policies specific to road commissions: allocation of depreciation/depletion and equipment rental, the recording of handling and overhead credits, and the recording of equipment retirements with the related gain or loss on disposal of equipment. The more significant accounting policies are described as follows:

A. Description of Road Commission Operations -

The Road Commission is a component unit of the County of Cheboygan, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, reimbursements from the Department of State Highways for work performed by the County on State trunklines and contributions from other local units of government (township) for work performed by the Road Commission. The General Fund is the operating fund of the Road Commission.

The Road Commission, which is established pursuant to the County Road Law (MCL224.1), operates under an elected Board of five (5) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides service to nineteen (19) Townships in Cheboygan County and maintains over 1,440 miles of state, local and primary roads.

B. Government-wide and Fund Financial Statements -

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on the nonfiduciary activities of the Road Commission.

Separate financial statements are provided for the General Fund and the Employee Health Care Benefit Trust Fund, even though the latter is excluded from the government-wide financial statements.

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

The government-wide financial statement columns (i.e., statement of net position and statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The General Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when 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 year. The major revenues susceptible to accrual are motor vehicle highway funds and township contributions. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

The Road Commission reports the following fund types -

Governmental Fund Type -

The General Fund is the Road Commission's primary operating fund. It accounts for all financial resources of the Road Commission, not accounted for and reported in another fund.

Fiduciary Fund Type -

The Employee Health Care Benefit Trust Fund is used to account for the accumulation and investment of funds to provide for the funding of health care benefits for retirees of the Road Commission.

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

Cash and Cash Equivalents - The Road Commission's cash consists of cash on hand, demand deposits and savings deposits. Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase and approximate fair value.

Investments - The Road Commission's investments are in mutual funds which are stated at fair value.

Inventories - Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost, which approximates market.

Prepaid Items - Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to future accounting periods and are recorded as prepaid items in the General Fund and government-wide basic statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure, are reported in the government-wide (statement of net position) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets with estimated useful lives in excess of a year. Road equipment is capitalized as defined by the Michigan Department of Transportation ("MDOT") without consideration of minimum cost. Capital assets and infrastructure are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital asset acquisitions are recorded in the General Fund (statement of revenues, expenditures and changes in fund balances) financial statements as capital outlay expenditures at the time of purchase.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Depreciation is computed on the sum-of-the-years digits method for road equipment and the straight-line method for all other fixed assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Land Improvements	20 years
Buildings and Improvements	40 years
Equipment	5- 8 years
Roads	8-20 years
Bridges	25-50 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways and bridges, which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads has been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource.

The Uniform Accounting Procedures Manual for Michigan County Road Commissions (the "Manual") provides for recording depreciation and depletion in the General Fund financial statements as a charge to various expenditure accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity (fund balance) of the General Fund financial statements.

The Manual also provides for the net book value of road equipment that is retired to be reported as an equipment retirement in an equipment retirement credit account that is offset against capital outlay. The net of any proceeds received for the retirement (sale, abandonment, or trade-in) is reported as a gain or loss on disposal of equipment. As a result, fund balance of the General Fund is not affected.

Deferred Outflows/Inflows of Resources - In addition to assets, the balance sheet/statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The Road Commission has one item that qualifies for reporting in this category. It is a deferred loss on refunding on the government-wide statement of net position. The deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the balance sheet/statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Accrued Vacation And Sick - In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payments for unused sick leave and vacation under formulas and conditions specified in the contracts. All amounts vested are accrued in the government-wide statements (statement of net position).

Advances From The State Of Michigan - The State of Michigan advances funds on a State maintenance agreement it has with the Road Commission for specified maintenance, which the Road Commission will perform during the year, and for equipment purchases. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

Equipment Rental - The Manual provides that the cost of operating equipment, including depreciation, be charged (allocated) to the various activities. The credit of this allocation is an offset to equipment expenditures/expenses. As a result, the available fund equity is not affected.

Handling and Overhead Credits - The Manual provides that the charging of handling and overhead based on a calculation related to a specific project's cost, particularly the State Trunkline agreements, be reported as an expenditure/expense under the appropriate activity and a credit to a handling or overhead credit account that is offset against the Administrative activity. As a result, the available operating fund equity is not affected.

Long-Term Obligations - In the government-wide financial statements (statement of net position), long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, when material, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as debt service expenditures. As permitted by GASB Statement No. 34, the Road Commission has elected to not apply the provisions related to bond premiums discounts, and issuance costs on a prospective basis.

Fund Balance - In the financial statements the General Fund reported a fund balance in one or more of the following classifications:

Nonspendable fund balance - the portion of fund balance that cannot be spent because of its form or because it must be maintained intact.

Restricted fund balance - the portion of fund balance that has limitations imposed on use by external sources.

Committed fund balance - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action via board resolution (e.g., to establish, modify or rescind), of the highest level of decision-making authority (Board of County Road Commissioners).

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Assigned fund balance - the portion of fund balance that reflects the Road Commission's intended use of resources. Such intent currently must be determined by the Managing Director or designee as provided via resolution of the Board of County Road Commissioners.

Unassigned fund balance - the portion of a fund balance in the General Fund that cannot be classified into one of the four categories above.

When different classifications of fund balance are present, it is the Road Commission's policy that expenditures are to be spent from restricted fund balance first, if appropriate, followed in order by committed fund balance, then assigned and lastly unassigned.

Pension and Other Postemployment Benefits (OPEB) - The Road Commission offers both pension and retiree healthcare benefits to employees. The Road Commission receives an actuarial valuation for pension and an alternative measurement method calculation permitted by Governmental Accounting Standards Board (GASB) 45 for OPEB to compute the annual required contribution (ARC) necessary to fund the obligations over the remaining amortization period. In the General Fund, pension and OPEB cost recognition occurs as contributions are made. For the government-wide statements, the Road Commission reports the full accrual cost equal to the current year required contribution, adjusted for interest, and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

Estimates - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Upcoming Accounting Pronouncements - Recently the GASB issued the following statement that will have an impact on the Road Commission's financial statement when adopted. The Road Commission is currently evaluating the implications of the pronouncement.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* was issued in June 2012 and will become effective for the Road Commission's December 31, 2015 fiscal year. The statement requires governments providing defined benefit plans to report the net pension liability in their statement of net position. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expenses.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND GENERAL FUND FINANCIAL STATEMENTS:

- A. Explanation of differences between the Balance Sheet and the Statement of Net Position (Page 7).

Fund Balance - General Fund	\$ 2,895,525
Capital assets used in General Fund activities are not current financial resources and therefore not reported in the General Fund financial statements	
Add - capital assets	49,090,676
Deduct - accumulated depreciation	(19,607,213)
Long-term liabilities that are not due in the current period and therefore not reported in the General Fund financial statements	
Bonds Payable	(2,390,000)
Net OPEB Obligation	(1,390,578)
Accrued Compensated absences	(225,707)
Accrued interest payable on long-term liabilities not reported in the General Fund financial statements	(8,021)
Losses on refunding are reported as debt service costs in the General Fund but deferred and amortized in the Statement of Net Position	<u>48,480</u>
Net Position - Statement of Net Position	<u>\$ 28,413,162</u>

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND GENERAL FUND FINANCIAL STATEMENTS - (cont'd):

B. Explanation of differences between the Statement of Revenues, Expenditures, and Change in Fund Balance and the Statement of Activities (Page 8).

Change in fund balance - General Fund	\$(140,223)
<p>The General Fund reports capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense</p>	
Add - capital outlay and infrastructure	2,064,691
Deduct - depreciation	(1,361,482)
Deduct - retirements	(282)
<p>Interest expense adjustment for accrual reported in the Statement of Activities when the liability is incurred and reported in the General Fund only when payment is due</p>	
	35,760
<p>The issuance of long-term debt provides current financial resources to the General Fund but are deferred and amortized in the Statement of Net Position</p>	
Net refunding bond proceeds	(115,000)
<p>Principal payments on long-term liabilities are reported as an expenditure in the General Fund, but not in the Statement of Activities where it reduces the long-term liability</p>	
	100,000
<p>Losses on refunding expensed in the General Fund in the year of refunding, but deferred and amortized over the remaining life of the bond in the Statement of Activities</p>	
	48,480
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore are not reported as expenditures in the General Fund -</p>	
Decrease in accrued sick and vacation	170,596
Increase in other postemployment benefits	(234,772)
Change in Net Position - Statement of Activities	<u>\$ 567,768</u>

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Compliance -

The Road Commission Manager prepares from data submitted by the administrative staff, a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

The budget for the General Fund is adopted on the modified accrual basis, which is consistent with accounting principles generally accepted in the United States of America.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioner's resolution.

The Road Commission's approved budget was adopted at the activity level. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act since amendments to the budget at the activity level must be approved by the Board of County Road Commissioners.

The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Michigan Public Act 621 of 1978, Section 18(1) as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. The following expenditures and other financing uses for the year ending December 31, 2013 were in excess of appropriations:

	<u>Appropriations</u>	<u>Expended</u>	<u>Variance</u>
Current -			
Local construction/capacity improvements	\$ -	\$ 759,875	\$(759,875)
Local maintenance	1,700,000	1,712,025	(12,025)
State maintenance	1,830,000	2,001,748	(171,748)
Equipment – net	180,000	475,553	(295,553)
Capital outlay – net	41,881	42,331	(450)
Debt service	203,150	265,131	(61,981)
Other financing uses -			
Payment to bond escrow agent	-	2,218,480	(2,218,480)

NOTE 4 - DEPOSITS AND INVESTMENTS:

As of December 31, 2013, the carrying amount of deposits and investments is as follows:

	<u>General Fund</u>	<u>Fiduciary Fund</u>	<u>Reporting Entity</u>
Cash and Cash Equivalents -			
Petty Cash	\$ 300	\$ -	\$ 300
Maintained by County Treasurer	1,049,917	-	1,049,917
Investments -			
Mutual Funds	-	174,718	174,718
	<u>\$ 1,050,217</u>	<u>\$ 174,718</u>	<u>\$ 1,224,935</u>

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 4 - DEPOSITS AND INVESTMENTS - (cont'd):

The Manual provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Cheboygan County Treasurer's Office, and in order to make disbursements, the Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. The investing of cash is performed by the County Treasurer.

Custodial Credit Risk - Deposits - is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. Michigan Public Acts authorize Road Commissions to deposit into the accounts of federally insured banks, insured credit unions, and savings and loan associations with an office in Michigan. The Road Commission's investment policy does not have a custodial credit risk requirement.

The Road Commission's deposits consist of demand accounts and savings accounts. At December 31, 2013, the carrying amount of the Road Commission's deposits is \$1,049,917, and the bank balance is \$1,102,999. As a component unit of Cheboygan County, all Road Commission cash is part of the accounts maintained by Cheboygan County, at financial institutions insured by federal deposit insurance. However, it cannot be determined to what extent the insurance applies to the Road Commission.

Investments -

General Fund:

The Road Commission's investment policy allows it to invest in funds authorized by Michigan Public Act 20 of 1994. Michigan Public Act 20 of 1994, as amended, authorizes Road Commissions to invest surplus funds in bonds, securities and other direct obligations of the United States government or an agency or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution only if the bank, savings and loan association or credit union is eligible to be a depository of funds belonging to the state; bankers' acceptances of the United States banks; commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, which mature not more than 270 days after the date of purchase; bankers' acceptance notes, obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service; mutual funds registered under the Investment Company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation; investment pools through an interlocal agreement under the Urban Cooperation Act of 1967; and investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 3657, 129.111 to 129.118.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 4 - DEPOSITS AND INVESTMENTS - (cont'd):

Fiduciary Fund:

The Employee Health Care Benefit Trust Fund investments are made in accordance with the provisions of the State of Michigan Public Employee Retirement System Investment Act, Public Act 314 of 1965, as amended, and are held for the exclusive purpose of providing plan benefits, and defraying reasonable expenses of administration as provided for in the Act.

The Employee Health Care Benefit Trust Fund investments are made through the use of an investment advisor who serves at the leisure of the Trustee as provided by the trust agreement.

Credit Risk - Investments - As of December 31, 2013, the Employee Health Care Benefit Trust Fund has \$174,718 invested exclusively in mutual funds.

Custodial Credit Risk - Investments - is the risk that in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments that are in the possession of another party. The Road Commission's investment policy does not address custodial credit risk.

Interest Rate Risk - Investments - is the risk that the value of investments will decrease as a result of a rise in interest rates. The Road Commission's investment policy does not address interest rate risk.

Concentration of Credit Risk - Investments - is the risk of loss attributed to the magnitude of the Road Commission's investment in a single issuer. The Road Commission's investment policy does not address concentration of credit risk.

NOTE 5 - INVENTORIES:

The inventory balance of \$873,114 at December 31, 2013 consisted of \$565,329 of road materials and \$307,785 of equipment parts and materials.

NOTE 6 - FEDERAL AWARDS:

It is required by MDOT that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures are required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended December 31, 2013, the Road Commission had less than \$500,000 of force account expenditures applicable to federal awards. As a result, an audit for compliance under the Single Audit Act has not been performed.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 7 - CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Balance January 1, 2013	Additions	Removals/ Deletions	Balance December 31, 2013
Capital Assets, not being depreciated -				
Land	\$ 259,255	\$ -	\$ -	\$ 259,255
Land Improvements	10,372,996	342,027	-	10,715,023
Right-of-Ways	87,308	-	-	87,308
Total Capital Assets, not being depreciated	<u>10,719,559</u>	<u>342,027</u>	<u>-</u>	<u>11,061,586</u>
Capital Assets, being depreciated -				
Buildings and improvements	4,004,327	-	-	4,004,327
Road Equipment	7,491,438	369,068	440,647	7,419,859
Shop Equipment	243,364	-	-	243,364
Office Equipment	103,271	1,918	33,006	72,183
Engineering Equipment	59,605	-	-	59,605
Yard and Storage	291,957	-	-	291,957
Infrastructure -				
Land improvements	-	759,875	-	759,875
Roads	15,591,323	506,015	533,474	15,563,864
Bridges	9,501,183	85,788	-	9,586,971
Depletable Assets -				
Gravel Pits	27,085	-	-	27,085
	<u>37,313,553</u>	<u>1,722,664</u>	<u>1,007,127</u>	<u>38,029,090</u>
Less – accumulated depreciation for -				
Buildings	1,921,823	176,022	-	2,097,845
Road Equipment	7,258,624	134,297	440,365	6,952,556
Shop Equipment	212,218	15,291	-	227,509
Office Equipment	85,139	5,404	33,006	57,537
Engineering Equipment	58,465	559	-	59,024
Yard and Storage	202,841	19,084	-	221,925
Infrastructure -				
Land improvements	-	37,994	-	37,994
Roads	6,944,323	776,265	533,474	7,187,114
Bridges	2,553,811	196,566	-	2,750,377
Depletable Assets	15,332	-	-	15,332
	<u>19,252,576</u>	<u>1,361,482</u>	<u>1,006,845</u>	<u>19,607,213</u>
Total Capital Assets, being depreciated, net	<u>18,060,977</u>	<u>361,182</u>	<u>282</u>	<u>18,421,877</u>
Governmental activities capital assets, net	<u>\$ 28,780,536</u>	<u>\$ 703,209</u>	<u>\$ 282</u>	<u>\$ 29,483,463</u>

Total depreciation for the year ended December 31, 2013 was \$1,361,482.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 8 - LETTER OF CREDIT:

The Road Commission has a letter of credit as a surety bond issued to the Michigan Department of Natural Resources for \$10,000. The next maturity date is set for April 4, 2014 with interest at an interest rate of Wall Street Prime Rate plus 4.0%. As of December 31, 2013, there have been no claims on the letter of credit.

NOTE 9 - LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2013:

	Balance Jan. 1, 2013	Additions	Deletions	Balance Dec. 31, 2013	Due Within One Year
2004 MTF Bond	\$ 2,375,000	\$ -	\$ 2,270,000	\$ 105,000	\$ 105,000
2013 MTF Refunding	-	2,285,000	-	2,285,000	45,000
Accrued Vacation and Sick	396,303	-	170,596	225,707	-
Net Other Postemployment Benefits	<u>1,155,806</u>	<u>724,100</u>	<u>489,328</u>	<u>1,390,578</u>	<u>-</u>
	<u>\$ 3,927,109</u>	<u>\$ 3,009,100</u>	<u>\$ 2,929,924</u>	<u>\$ 4,006,285</u>	<u>\$ 150,000</u>

Significant details regarding outstanding long-term liabilities are presented below:

MTF Bonds -

The County of Cheboygan, Michigan issued \$3,060,000 of the Michigan Transportation Fund Bonds, Series 2004, dated May 1, 2004, pursuant to the provision of Act 51, Public Acts of Michigan of 1951, as amended. The bonds are issued in anticipation of and are payable from monies derived from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction, reconstruction, and work incidental thereto pursuant to Act 51. The final principal payment of \$105,000 is due on February 1, 2014.

\$ 105,000

During 2013, the Road Commission refunded \$2,170,000 of the MTF Bonds, Series 2004. MTF Refunding Bonds, Series 2013, dated December 17, 2013, were issued in the amount of \$2,285,000, due in annual installments of \$45,000 to \$180,000 through May 1, 2019, with interest of 2.00-3.75% payable semi-annually. The proceeds of the refunding bonds were placed in escrow for the purpose of generating resources for all future debt service payments of the refunded debt. The bonds are issued in anticipation of and are payable from monies derived from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction, reconstruction, and work incidental thereto pursuant to Act 51. This refunding was undertaken to reduce the debt service payments over the next 16 years by \$224,728 and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$179,465.

2,285,000
\$ 2,390,000

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 9 - LONG-TERM LIABILITIES - (cont'd):

The annual requirements to amortize the MTF bond obligations outstanding at December 31, 2013 are as follows:

	Principal	Interest	Total
2014	\$ 150,000	\$ 40,286	\$ 190,286
2015	125,000	60,070	185,070
2016	130,000	57,520	187,520
2017	135,000	54,870	189,870
2018	135,000	52,170	187,170
2019-2023	720,000	215,856	935,856
2024-2028	815,000	106,241	921,241
2029	180,000	3,375	183,375
	\$ 2,390,000	\$ 590,388	\$ 2,980,388

Accrued Vacation and Sick -

The accrued vacation and sick represents vested vacation and sick benefits due to Road Commission employees upon termination of employment with the Road Commission. The balance at December 31, 2013 is \$225,707. All amounts vested have been accrued on the government-wide statements.

Other Postemployment Benefits -

In addition to pension benefits, the Road Commission provides postemployment health care benefits to eligible retirees and their families, as described in Note 11.

NOTE 10 - EMPLOYEE PENSION PLAN:

Defined Benefit Plan:

Plan Description -

The Road Commission participates in the Michigan Municipal Employees Retirement System ("MERS"); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 10 - EMPLOYEE PENSION PLAN - (cont'd):

Funding Policy -

The plan adopted by the Board of County Road Commissioners requires no employee contribution. The Road Commission was required to contribute at an actuarially determined rate; the weighted average rate for the first quarter of 2013 was 31.94% for general employees and 52.48% for salaried employees. Effective April 1, 2013, the division for general and salaried employees was closed to new hires, transfers, and rehires. Contributions on behalf of these participants after April 1, 2013 were based on an actuarially determined flat rate. At December 31, 2013, the rate was \$37,687 per month. A new division for new hires, transfers, and rehires was established on April 1, 2013, requiring contributions of 10.14% of wages. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

Annual Pension Costs -

For the year ended December 31, 2013, the Road Commission's annual pension cost of \$518,386 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 8.40% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. The standard amortization period to fund the unfunded liability is 27 years for positive unfunded liabilities in the 2011 valuation. This period will be reduced by one year in each of the next eight annual valuations. Beginning with the 2019 valuation the 20-year period will be reestablished with each annual valuation. The standard amortization period for negative unfunded liabilities is 10 years, with the 10-year period reestablished with each annual actuarial valuation. The level percentage of payroll is used to amortize the unfunded actuarial accrued liability.

Three-Year Trend Information

Schedule of Employer Contributions -

Fiscal Year Ending December 31,	Annual Pension Costs (APC)	Percentage of APC Contribution	Net Pension Obligation
2011	\$ 564,963	100 %	\$ -
2012	542,596	100	-
2013	518,386	100	-

Schedule of Funding Progress -

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
2010	\$ 9,795,044	\$ 16,590,612	\$ 6,795,568	59 %	\$ 1,688,622	402 %
2011	9,829,050	17,245,637	7,416,587	57	1,648,619	450
2012	9,781,802	17,398,006	7,616,204	56	1,570,586	485

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 10 - EMPLOYEE PENSION PLAN - (cont'd):

Deferred Compensation Plan:

Effective July 18, 2013, the Road Commission now offers a MERS 457 Supplemental Retirement Program Plan, created in accordance with the Internal Revenue Code Section 457, which covers all full time employees and commissioners, as well as the managing director. The assets of the deferred compensation plan are held in trust for the exclusive benefit of the participants and their beneficiaries. MERS as the custodian 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 Road Commission for purposes of providing direction to MERS from time to time for the investment of 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 Road Commission's financial statements.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS:

Plan Description -

In addition to the pension benefits described in Note 10, the Road Commission provides postemployment benefits through a single-employer defined benefit healthcare plan (the "Retiree Health Plan") to eligible employees who retire from the Road Commission on or after attaining retirement age with at least ten years of service. Benefits provided by the plan consist of healthcare, dental, and prescription drug coverage. Benefit provisions are established through negotiations between the Road Commission's management and Board of Commissioners and the employees' unions.

The retiree health plan does not issue a publically available financial report.

Funding Policy -

The Road Commission recognizes the cost of providing these benefits on a pay-as-you-go method for current retirees. The plan requires no member contributions for Road Commission employees. The Road Commission can periodically make contributions to an irrevocable trust to provide advance funds for these benefits which are counted towards the ARC contribution.

Annual Benefit Costs -

During the year ended December 31, 2013, employer contributions of \$489,328, which included \$50,000 contributed to the OPEB trust fund, were made by the Road Commission. The alternative measurement method dated December 31, 2011 determined an annual contribution of \$716,675.

The 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. The benefit costs were developed using the entry age cost method. The assumptions included (a) 7.0% investment rate of return, (b) 4.8% discount rate, (c) projected health care premium increases of 6.8% to 7.0% per year, (d) life expectancies for males and females of 77 and 81 years, respectively, (e) assumed retirement age of 58, or at the first subsequent year in which the member would qualify for benefits. The plan unfunded actuarial accrued liability is being amortized by level percent of payroll contributions over 30 years on an open period.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Annual OPEB Cost and Net OPEB Obligation -

The Road Commission's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount calculated in accordance with the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents the level of funding necessary to cover the normal cost each year and the amortization of any unfunded actuarial liabilities (or funding excess) amortized over a period not to exceed thirty years. The Road Commission's annual OPEB cost for the year, the amount actually contributed, and changes in the net OPEB obligation are as follows:

Annual required contribution	\$ 716,675
Interest on net OPEB obligation	80,906
Adjustment to annual required contribution	(73,481)
Annual OPEB cost (expense)	724,100
Contributions made	(489,328)
Increase in net OPEB obligation	234,772
Net OPEB obligation - beginning of year	<u>1,155,806</u>
Net OPEB obligation - end of year	<u>\$ 1,390,578</u>

Schedule of Employer Contributions -

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2011	\$ 722,270	82.19 %	\$ 999,623
December 31, 2012	723,097	78.40	1,155,806
December 31, 2013	724,100	67.58	1,390,578

Funded Status and Funding Progress -

The projection of future benefit payments for an ongoing plan involves estimates for the value of reported amounts and assumptions about the probability or occurrence of events far into the future. 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 is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)</u>	<u>Funded Ratio (AAL) (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll (b-a)/c</u>
2008	\$ -	\$ 8,259,076	\$ 8,259,076	0 %	\$ 1,876,594	440 %
2011	51,667	7,968,733	7,917,066	0.65	1,688,622	469

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 12 - ADVANCES:

Advances of \$171,388 at December 31, 2013, were provided by the State of Michigan for working capital of \$129,159 and equipment purchases of \$42,229 under a road maintenance contract the Road Commission has with MDOT.

Both advances are adjusted annually by the State and must be repaid if the maintenance contract is cancelled.

NOTE 13 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

In the normal course of its operations, the Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

As part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

NOTE 14 - RISK MANAGEMENT:

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (the "Pool") established pursuant to the laws of the State of Michigan, which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also a member of the County Road Association Self-Insurance Fund (the "Fund") for workers' compensation self-insurance. The Fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The Fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Fund.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 14 - RISK MANAGEMENT - (cont'd):

The Road Commission is self-insured for health care benefits with the administrative services of the program being performed by a health insurance provider. The Road Commission makes monthly payments, based on estimated claims and a stop-loss provision, which are adjusted quarterly. The Road Commission pays claims up to \$40,000 per contract per contract year. Stop-loss insurance has been purchased to insure the Road Commission against losses in excess of these limits. Based on past history, the Road Commission has estimated the accrued health care claims, including an estimate for claims incurred but not reported (IBNR), of \$40,000 at December 31, 2013, which is recorded as current liabilities in the fund financial statements. Changes in the balance of claims liability are as follows:

	2013	2012
Unpaid claims, beginning of year	\$ 40,000	\$ 40,000
Incurred claims (including IBNR's)	547,779	628,090
Claims Paid	(547,779)	(628,090)
Unpaid claims, end of year	40,000	40,000
Less current portion	40,000	40,000
Long-Term Liabilities	\$ -	\$ -

NOTE 15 - CHANGE IN ACCOUNTING PRINCIPLE:

During the year the Road Commission adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement is a follow-up to GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* which established new components on the Statement of Net Position, as defined in GASB Concept Statement No. 4. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities and recognized as outflows or inflows of resources, certain items that were previously reported as assets and liabilities.

The effect of implementing this statement decreased beginning net position in the Governmental Activities by \$63,217 as a result of writing off (expensing) unamortized bond issuance costs, which had previously been reported as an asset and amortized over the life of the bond issue.

REQUIRED SUPPLEMENTARY INFORMATION

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GENERAL FUND
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Permits	\$ 25,000	\$ 35,400	\$ 35,385	\$(15)
Intergovernmental -				
Federal sources	181,910	506,106	628,831	122,725
State sources	3,688,685	3,836,093	3,842,189	6,096
Local sources	102,925	949,900	983,974	34,074
Charges for services	1,611,669	1,936,000	2,115,913	179,913
Interest and rents	1,600	1,100	1,047	(53)
Other	92,650	139,000	105,765	(33,235)
Total Revenues	5,704,439	7,403,599	7,713,104	309,505
Expenditures:				
Current -				
Local Construction/ capacity improvements	-	-	759,875	(759,875)
Primary preservation - structural improvements	130,020	986,971	231,793	755,178
Local preservation - structural improvements	190,275	704,880	702,037	2,843
Primary maintenance	1,991,693	1,600,000	1,413,822	186,178
Local maintenance	1,564,901	1,700,000	1,712,025	(12,025)
State maintenance	1,400,000	1,830,000	2,001,748	(171,748)
Administrative	410,000	377,000	324,374	52,626
Equipment - net	-	180,000	475,553	(295,553)
Capital Outlay - net	170,000	41,881	42,331	(450)
Debt Service	247,550	203,150	265,131	(61,981)
Total Expenditures	6,104,439	7,623,882	7,928,689	(304,807)
Revenues under expenditures	(400,000)	(220,283)	(215,585)	4,698
Other Financing Sources (Uses):				
Refunding bond proceeds	400,000	-	2,285,000	2,285,000
Payment to refunded bond escrow agent	-	-	(2,218,480)	(2,218,480)
Premium on refunding bond	-	-	8,842	8,842
	400,000	-	75,362	75,362
Net change in fund balance	-	(220,283)	(140,223)	80,060
Fund Balance at January 1, 2013	3,035,748	3,035,748	3,035,748	-
Fund Balance at December 31, 2013	\$ 3,035,748	\$ 2,815,465	\$ 2,895,525	\$ 80,060

SUPPLEMENTARY INFORMATION

CHEBOYGAN COUNTY ROAD COMMISSION

A Component Unit of Cheboygan County

DETAIL SCHEDULE OF REVENUES

GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2013

Revenues:

Permits	\$ 35,385
Federal Sources -	
Surface Transportation Program (STP)	529,552
Bridge	(1,088)
Other	100,367
	<u>628,831</u>
State Sources -	
Motor Vehicle Highway Funds - Act 51 -	
Engineering	10,000
Primary Allocation roads	1,870,487
Local Allocation roads	1,666,813
Snow Removal	131,949
Critical Bridge	43,305
Forest Road Money	119,635
	<u>3,842,189</u>
Local Sources -	
Township contributions	971,781
Other contributions	12,193
	<u>983,974</u>
Charges for Services -	
Trunkline maintenance	1,800,421
Trunkline nonmaintenance	305,546
Salvage and other	9,946
	<u>2,115,913</u>
Interest and Rents	<u>1,047</u>
Other -	
Sundry refunds	228
Proceeds/gain on equipment disposal	95,073
Other	10,464
	<u>105,765</u>
Total Revenues	<u>7,713,104</u>
Other Financing Sources:	
Refunding bond proceeds	2,285,000
Premium on refunding bond	8,842
	<u>2,293,842</u>
Total Revenues and Other Sources	<u>\$ 10,006,946</u>

CHEBOYGAN COUNTY ROAD COMMISSION
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BY FUND BALANCE SUB-ACCOUNTS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	Primary	Local	County	Total
Revenues:				
Permits	\$ -	\$ 300	\$ 35,085	\$ 35,385
Intergovernmental -				
Federal Sources	617,934	(1,088)	11,985	628,831
State Sources	2,024,240	1,817,949	-	3,842,189
Local Sources	251,216	732,758	-	983,974
Charges for services	-	-	2,115,913	2,115,913
Interest	-	-	1,047	1,047
Other	4,007	1,516	100,242	105,765
Total Revenues	2,897,397	2,551,435	2,264,272	7,713,104
Expenditures:				
Local construction/ capacity improvements	759,875	-	-	759,875
Preservation/ structural improvements	231,793	702,037	-	933,830
Maintenance	1,413,822	1,712,025	-	3,125,847
State maintenance	-	-	2,001,748	2,001,748
Administrative - net	161,898	162,476	-	324,374
Equipment - net	119,973	203,146	152,434	475,553
Capital outlay - net	-	-	42,331	42,331
Debt Service -				
Principal	-	-	100,000	100,000
Interest and issuance costs	-	-	165,131	165,131
Total Expenditures	2,687,361	2,779,684	2,461,644	7,928,689
Revenues over (under) expenditures				
before other financing sources and optional transfers	210,036	(228,249)	(197,372)	(215,585)
Other Financing Sources (Uses):				
Refunding bond proceeds	-	-	2,285,000	2,285,000
Payment to refunded bond escrow agent	-	-	(2,218,480)	(2,218,480)
Premium on refunding bond	-	-	8,842	8,842
	-	-	75,362	75,362
Revenues over (under) expenditures before optional transfer	210,036	(228,249)	(122,010)	(140,223)
Optional transfers	(230,000)	230,000	-	-
Net Changes in Fund Balance	(19,964)	1,751	(122,010)	(140,223)
Fund Balance at January 1, 2013	600,634	473,788	1,961,326	3,035,748
Fund Balance at December 31, 2013	\$ 580,670	\$ 475,539	\$ 1,839,316	\$ 2,895,525