

**Alger County Road Commission  
Component Unit Financial Statements  
For the Year Ended December 31, 2013**

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## INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners  
Alger County Road Commission  
E 9264 M-28  
Munising, MI 49862

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Alger County Road Commission, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Alger County Road Commission, as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedule of funding progress as listed on the table of contents 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.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Alger County Road Commission's basic financial statements. The Analysis of Equity, Analysis of Revenues and Other Financing Sources and Analysis of Expenditure and Other Financing Uses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Board of County Road Commissioners  
Alger County Road Commission

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2014, on our consideration of the Alger County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Alger County Road Commission's internal control over financial reporting and compliance.

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

June 17, 2014

## Alger County Road Commission

### MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

#### Using this Annual Report

The Alger 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.

#### Overview of the Financial Statements

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net position and how they have changed. "Net position" is the difference between the assets and liabilities--this is one way to ensure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

#### Reporting the Road Commission as a Whole

The Statement of Net Position and the Statement of Activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

#### Reporting the Road Commission's Major Funds

The Road Commission currently has two funds, the general operations fund and a debt service fund. All of the Road Commission's activities are accounted for in the general operations fund, except for the bond payments which are accounted for in the debt service fund. The general operations fund and debt service fund are governmental type funds. Our analysis of the Road Commission's major funds is as listed on the table of contents.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)**

- Governmental Funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net position increased approximately 1%, or \$138,426 from \$26,280,950 to \$26,419,376 for the year ended December 31, 2013. The net position and change in net position are summarized below.

Restricted net position for operations, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements increased by \$41,580. Restricted net position, those restricted mainly for debt service purposes, decreased by \$86. The investment in capital assets increased by \$96,932.

The net income of \$138,426 was due to the following:

Net change in fund balance – total governmental funds	\$106,940
Net change in capital assets	(62,631)
Repayment of debt principal – reclass to liability	159,564
Change in compensated absences	(7,123)
Change in other post-employment benefits	(58,324)
TOTAL	<u><u>\$138,426</u></u>

Net position as of December 31, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>	Variance Increase (Decrease)
Current and Other Assets	\$ 1,647,817	\$ 1,812,234	\$ (164,417)
Capital Assets	<u>28,247,053</u>	<u>28,309,686</u>	<u>(62,633)</u>
Total Assets	<u>29,894,870</u>	<u>30,121,920</u>	<u>(227,050)</u>
Long-Term Debt Outstanding	2,796,410	2,893,396	(96,986)
Other Liabilities	<u>679,084</u>	<u>947,574</u>	<u>(268,490)</u>
Total Liabilities	<u>3,475,494</u>	<u>3,840,970</u>	<u>(365,476)</u>
Net position			
Net Investment in Capital Assets			
Net of Debt	25,819,718	25,722,786	96,932
Restricted – Debt Service	437,708	437,794	(86)
Restricted – Operations	<u>161,950</u>	<u>120,370</u>	<u>41,580</u>
Total Net Position	<u><u>\$ 26,419,376</u></u>	<u><u>\$ 26,280,950</u></u>	<u><u>\$138,426</u></u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)**

Changes in Net Position

A summary of changes in net position for the years ended December 31, 2013 and 2012 is as follows:

	Governmental Activities – 2013	Governmental Activities – 2012	Increase (Decrease)
<b>Program Revenue</b>			
License and Permits	\$ 2,670	\$ 5,115	\$(2,445)
Federal Grants	1,831,184	1,553,112	278,072
State Grants	74,943	92,682	(17,739)
Michigan Transportation Funds	2,066,246	2,033,032	33,214
Contributions From Local Units	2,198	3,410	(1,212)
Charges for Services	866,910	301,551	565,359
Investment Earnings	288,616	175,303	113,313
Reimbursements	251,404	97,499	153,905
<b>General Revenue</b>			
Gain on Equipment Disposal	-	11,007	(11,007)
<b>Total Revenue</b>	<b>5,384,171</b>	<b>4,272,711</b>	<b>1,111,460</b>
<b>Expenses</b>			
Primary Road—Routine and Preventive Maintenance	663,424	586,465	76,959
Local Road—Routine and Preventive Maintenance	1,146,637	961,704	184,933
State Trunkline Maintenance	1,522,434	1,140,051	382,383
Net Equipment Expense	(124,219)	114,127	(238,346)
Net Administrative Expense	234,466	260,020	(25,554)
Non-Road Project	(1)	1	(2)
Infrastructure Depreciation	1,638,879	1,562,208	76,671
Compensated Absences	7,123	35,789	(28,666)
Other post-employment benefits	58,324	41,419	16,905
Interest Expense	98,678	107,145	(8,467)
<b>Total Expenses</b>	<b>5,245,745</b>	<b>4,808,929</b>	<b>436,816</b>
<b>Change in Net position</b>	<b>\$ 138,426</b>	<b>\$ (536,218)</b>	<b>\$674,644</b>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2013, the fund balance of the General Operations Fund increase of \$94,327 as compared to a decrease of \$205,005 in the fund balance for the year ended December 31, 2012. Total operating revenues were \$5,383,825, an increase of \$1,111,564 as compared to last year. This change in revenues resulted primarily from funds received in connection with the Forest Lake Road Project and Sundell Road Project.

Total expenditures were \$5,097,498, an increase of \$731,867 as compared to last year. This change in expenditures resulted primarily from expenses related to the Forest Lake Road Project and Sundell Road Project.



**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)**

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.

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2013, the Road Commission had \$28,247,053 invested in capital assets, compared to \$28,309,686 in the prior year, as follows:

	<u>2013</u>	<u>2012</u>	<u>Total Percentage Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 139,913	\$ 139,913	-%
Land/Right-of-Way	-	-	-
Construction in Progress	-	-	-
Subtotal	<u>139,913</u>	<u>139,913</u>	<u>-</u>
Capital Assets Being Depreciated			
Buildings	3,729,482	3,729,482	-
Equipment	6,267,409	6,063,463	3
Yard and Storage	-	-	-
Infrastructure	32,329,245	30,632,269	6
Subtotal	<u>42,326,136</u>	<u>40,425,214</u>	<u>9</u>
Total Capital Assets	<u>42,466,049</u>	<u>40,565,127</u>	<u>5</u>
Total Accumulated Depreciation	<u>(14,218,996)</u>	<u>(12,255,441)</u>	<u>16</u>
Total Net Capital Assets	<u>\$ 28,247,053</u>	<u>\$ 28,309,686</u>	<u>&gt;(1)%</u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$42,466,049, an increase of \$1,900,922. The infrastructure recorded, during 2013, will be depreciated in the following year. The infrastructure is financed through federal, state and local contributions.

This year's major capital asset additions included the following:

Road Preservation/Structural Improvements	\$1,696,978
Road Equipment	203,944
Total Additions	<u>\$ 1,900,922</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

### Debt

At the year end, the Road Commission had \$2,427,335 in bonds and installment purchase agreements versus \$2,586,900 last year, a decrease of 6% as shown below:

	2013	2012	Variance	Total Percentage Change 2013/2012
Bonds Payable	\$ 2,280,000	\$ 2,370,000	\$ (90,000)	(4)%
Installment Purchase Agreements	147,335	216,900	(69,565)	(32)%
Total	<u>\$ 2,427,335</u>	<u>\$ 2,586,900</u>	<u>\$ (159,565)</u>	<u>(6)%</u>

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in the footnotes to the financial statements.

### Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2014 budget. One of the factors is the economy. The Road Commission derives approximately 45% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive an increase of .5% in the amount of Michigan Transportation Fund revenues in 2014. The Road Commission received approximately 10% of its revenues from township contributions during 2013, this amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. During 2014, we expect to receive at least \$651,000 in federal, state, and township aid for road projects.

The above items were considered when adopting the budget for 2014.

### 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 Alger County Road Commission's administrative offices at E 9264 M-28, Munising, Michigan 49862.

Alger County Road Commission

Statement of Net Position

December 31, 2013

<b>ASSETS</b>	
Cash	\$ 829,462
Accounts Receivable	
Michigan Transportation Funds	285,673
Trunkline Maintenance	-
State Highway - Other	244,500
Due on County Road Agreements	-
Sundry Accounts	356
Inventories:	
Road Materials	179,577
Equipment Parts and Materials	84,071
Prepaid Items	24,178
Capital Assets - Net of Accumulated Depreciation	<u>28,247,053</u>
Total Assets	<u><u>\$ 29,894,870</u></u>

**LIABILITIES AND NET POSITION**

Current Liabilities:	
Accounts Payable	\$ 77,727
Accrued Payroll Liabilities	41,032
Advances - Trunkline Maintenance	227,425
Unearned Revenue - Forest Road (E) Funds	170,488
Bonds and Notes Payable - Due Within One Year	162,412
Non-Current Liabilities:	
Accrued Post-employment Benefits	212,143
Bonds and Notes Payable - Due in More Than One Year	2,264,923
Vested Employees Benefits Payable	<u>319,344</u>
Total Liabilities	<u>3,475,494</u>

**NET POSITION**

Investment in Capital Assets	25,819,718
Restricted for Debt Service	437,708
Restricted for County Roads	<u>161,950</u>
Total Net Position	<u><u>\$ 26,419,376</u></u>

See accompanying notes to the financial statements.

Alger County Road Commission

Statement of Activities

For the Year Ended December 31, 2013

Program Expenses:	
Primary Road Routine and Preventive Maintenance	\$ 663,424
Local Road Routine and Preventive Maintenance	1,146,637
State Trunkline Maintenance	1,522,434
Net Equipment Expense	(124,219)
Net Administrative	234,466
Non-Road Projects	(1)
Infrastructure Depreciation	1,638,879
Compensated Absences	7,123
Other Post-employment Benefits	58,324
Interest Expense	98,678
	<hr/>
Total Program Expenses	5,245,745
	<hr/>
Program Revenue:	
Charges for Services:	
License and Permits	2,670
Charges for Services	1,831,184
Reimbursements	74,943
Operating Grants and Contributions:	
Michigan Transportation Funds	2,066,246
Investment Earnings	2,198
Capital Grants and Contributions:	
Federal Grants	866,910
State Grants	288,616
Contributions from Local Units	251,404
	<hr/>
Total Program Revenues	5,384,171
	<hr/>
Net Program Revenue	138,426
	<hr/>
Change in Net Position	138,426
Net Position:	
Beginning of Year	26,280,950
	<hr/>
End of Year	\$ 26,419,376
	<hr/> <hr/>

See accompanying notes to the financial statements.

Alger County Road Commission

Balance Sheet

December 31, 2013

	General Fund	Debt Service Fund	Total
<b>ASSETS</b>	<u>          </u>	<u>          </u>	<u>          </u>
Cash	\$ 679,580	\$ 149,882	\$ 829,462
Accounts Receivable:			
Michigan Transportation Funds	285,673	-	285,673
Trunkline Maintenance	-	-	-
State - Other	244,500	-	244,500
Due on County Road Agreements	-	-	-
Sundry Accounts	356	-	356
Inventories:			
Road Materials	179,577	-	179,577
Equipment Parts and Materials	84,071	-	84,071
Prepaid Items	24,178	-	24,178
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	<u>\$ 1,497,935</u>	<u>\$ 149,882</u>	<u>\$ 1,647,817</u>
<b>LIABILITIES AND FUND EQUITY</b>			
Liabilities:			
Accounts Payable	\$ 77,727	\$ -	\$ 77,727
Accrued Payroll Liabilities	41,032	-	41,032
Advances - Trunkline Maintenance	227,425	-	227,425
Unearned Revenue - Forest Road (E) Funds	170,488	-	170,488
	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	<u>516,672</u>	<u>-</u>	<u>516,672</u>
Fund Equity:			
Non-Spendable	287,826	-	287,826
Restricted	-	149,882	149,882
Committed	-	-	-
Assigned	531,487	-	531,487
Unassigned	161,950	-	161,950
	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Equity	<u>981,263</u>	<u>149,882</u>	<u>1,131,145</u>
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,497,935</u>	<u>\$ 149,882</u>	<u>\$ 1,647,817</u>

See accompanying notes to the financial statements.

Alger County Road Commission

Reconciliation of the Balance Sheet of Governmental Funds  
To the Statement of Net Position

December 31, 2013

<b>Total Fund Balances for Governmental Funds</b>		<b>\$ 1,131,145</b>
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		28,247,053
Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of:		
Bond & Notes Payable - Current	\$ (162,412)	
Bond & Notes Payable - Non-Current	(2,264,923)	
Compensated Absences	<u>(319,344)</u>	(2,746,679)
Accrued post-employment benefits		<u>(212,143)</u>
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>		<b><u><u>\$ 26,419,376</u></u></b>

See accompanying notes to the financial statements.

Alger County Road Commission

Statement of Revenue, Expenditures and Changes in Fund Balance

For the Year Ended December 31, 2013

	General Operating Fund	Debt Service Fund	Total
Revenues:			
License and Permits	\$ 2,670	\$ -	\$ 2,670
Federal Sources	866,910	-	866,910
State Sources	2,354,862	-	2,354,862
Contributions from Local Units	251,404	-	251,404
Charges for Services	1,831,184	-	1,831,184
Interest and Rents	1,852	346	2,198
Other Revenue	74,943	-	74,943
Total Revenues	<u>5,383,825</u>	<u>346</u>	<u>5,384,171</u>
Expenditures:			
Public Works	5,139,721	-	5,139,721
Capital Outlay (net)	(120,732)	-	(120,732)
Debt Service	78,509	179,733	258,242
Total Expenditures	<u>5,097,498</u>	<u>179,733</u>	<u>5,277,231</u>
Excess of Revenues Over (Under) Expenditures	<u>286,327</u>	<u>(179,387)</u>	<u>106,940</u>
Other Financing Sources (Uses):			
Note Proceeds	-	-	-
Transfers In (Out)	(192,000)	192,000	-
Total Other Financing Sources (Uses)	<u>(192,000)</u>	<u>192,000</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources and Other Uses Over (Under) Expenditures	94,327	12,613	106,940
Fund Balance - January 1	<u>886,936</u>	<u>137,269</u>	<u>1,024,205</u>
Fund Balance - December 31	<u>\$ 981,263</u>	<u>\$ 149,882</u>	<u>\$ 1,131,145</u>

See accompanying notes to the financial statements.

Alger County Road Commission

Reconciliation of the Statement of Revenues, Expenses, and Changes In  
Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended December 31, 2013

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 106,940</b>
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
<p>Governmental funds report capital outlays and infrastructure 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 depreciation exceeded capital outlays in the current period.</p>	
Depreciation expense - building and equipment	\$ (324,676)
Depreciation expense - infrastructure	(1,638,879)
Capital outlays - building and equipment	203,945
Capital outlays - infrastructure - primary	1,157,352
Capital outlays - infrastructure - local	539,627
Gain (loss) on disposal	<u>-</u>
	(62,631)
<p>Repayment of bond/note principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net position.</p>	
	159,564
<p>Proceeds from debt issuance are an other financing source in the governmental funds, but a debt issuance increases long-term liabilities in the statement of net position.</p>	
	-
<p>Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>	
	(7,123)
<p>Some expenses reported in the statement of activities, such as other post-employment benefits, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>	
	<u>(58,324)</u>
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<u><u>\$ 138,426</u></u>

See accompanying notes to the financial statements.



Alger County Road Commission

Notes to Financial Statements

December 31, 2013

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of Alger 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 Alger County Road Commission.

(1) **Reporting Entity**

The Alger County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a three member Board of County Road Commissioners appointed by the County Board of 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. 61, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Alger County Road Commission, a discretely presented component unit of Alger County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Debt Service Fund is used to control the activity regarding their bond payments. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund and Debt Service Fund.

(2) **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the Alger County Road Commission. There are two funds reported in the government-wide financial statements.

The Statement of Net Position presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, or restricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are 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 A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

Separate financial statements are provided for the Operating Fund (governmental fund) and Debt Service Fund. These Funds are 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 and debt service funds are reported as major funds.

### **(3) 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. Property taxes are recognized as revenue in the year for which they are levied. 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 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.

### **(4) Assets, Liabilities, Deferred Outflow/Inflow of Resources and Net Position 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. Investments are stated at fair value.

#### Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

#### Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

#### Deferred Outflow of Resources

In addition to assets, the statement of financial 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 future periods(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The government does not have any items that qualify for reporting in this category.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

### Capital Assets

Capital assets, which include property, plant, equipment, and 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 Alger County Road Commission as assets with an initial individual cost of more than \$5,000 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 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34, and has reported the infrastructure in the Statement of Net Position.

### 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 Position.

### Deferred Inflow of Resources

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

### 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 A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

Compensated Absences (Vacation and Sick Leave)

It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds.

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through June 17, 2014, which is the date of the accompanying independent auditor's report, and which is the date the financial statements were available to be issued.

**NOTE B – 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. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public hearing. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

**NOTE C – CASH DEPOSITS AND INVESTMENTS:**

The cash and investments are classified into the following categories:

Petty Cash	\$150
Cash – Held with Road Commission – Bank Deposits	829,312
Total Cash	<u>\$829,462</u>

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 Governmental 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 purchase; obligations of the State of Michigan or its political subdivision which are treated 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 20 of 1943 as amended*.

*Interest Rate Risk*

The Road Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to Fair Value losses arising from increasing interest rates.

**NOTE C – CASH DEPOSITS AND INVESTMENTS (Continued):**

*Credit Risk*

State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Road Commission has no investment policy that would further limit its investment choices.

*Custodial Investment Credit Risk*

Investment custodial credit risk 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 or securities that are in the possession of an outside party. The Road Commission invests with the County of Alger and would receive its proportional share of holdings.

*Custodial Deposit Credit Risk*

Custodial deposit credit risk is the risk that in the event of a bank failure, the Road Commission deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. The carrying amounts of the Road Commission's deposits with financial institutions were \$829,462 and the bank balance was \$845,583. The bank balance is categorized as follows:

Amount insured by FDIC	\$ 250,000
Amount uninsured and uncollateralized	595,583
	<u>\$ 845,583</u>

**NOTE D – DEFERRED COMPENSATION PLAN:**

The Alger County Road Commission offers all its employees a deferred compensation plan created accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are 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 (Alger 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 Alger County Road Commission's financial statements.

**NOTE E – CAPITAL ASSETS:**

Capital asset activity of the Alger County Road Commission for the current year was as follows:

	Beginning Balances 1/1/13	Additions	Deletions	Ending Balances 12/31/13
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 139,913	\$ -	\$ -	\$ 139,913
Land/Right-of-Way	-	-	-	-
Construction in Progress	-	-	-	-
Subtotal	<u>139,913</u>	<u>-</u>	<u>-</u>	<u>139,913</u>

**NOTE E – CAPITAL ASSETS (Continued):**

	Beginning Balances 1/1/13	Additions	Deletions	Ending Balances 12/31/13
Capital Assets Being Depreciated:				
Buildings	\$ 3,729,482	\$ -	\$ -	\$3,729,482
Road Equipment	5,847,036	203,944	-	6,050,980
Shop Equipment	96,625	-	-	96,625
Office Equipment	103,812	-	-	103,812
Engineers' Equipment	15,991	-	-	15,991
Yard and Storage	-	-	-	-
Vehicles	-	-	-	-
Infrastructure—Bridges	-	-	-	-
Infrastructure—Roads	30,632,268	1,696,978	-	32,329,246
Subtotal	<u>40,425,214</u>	<u>1,900,922</u>	<u>-</u>	<u>42,326,136</u>
Less Accumulated Depreciation:				
Buildings	(1,245,977)	(66,578)	-	(1,312,555)
Road Equipment	(5,385,711)	(255,692)	-	(5,641,403)
Shop Equipment	(92,802)	(709)	-	(93,511)
Office Equipment	(90,901)	(1,476)	-	(92,377)
Engineers' Equipment	(15,438)	(221)	-	(15,659)
Yard and Storage	-	-	-	-
Vehicles	-	-	-	-
Infrastructure—Bridges	-	-	-	-
Infrastructure—Roads	(5,424,612)	(1,638,879)	-	(7,063,491)
Subtotal	<u>(12,255,441)</u>	<u>(1,963,555)</u>	<u>-</u>	<u>(14,218,996)</u>
Net Capital Assets Being Depreciated	<u>28,169,773</u>	<u>(62,633)</u>	<u>-</u>	<u>28,107,140</u>
Total Net Capital Assets	<u>\$ 28,309,686</u>	<u>\$ (62,633)</u>	<u>\$ -</u>	<u>\$ 28,247,053</u>

Depreciation expense was charged to programs of the Alger County Road Commission as follows:

Equipment Expense:	
Direct	\$ 255,692
Indirect	67,287
Administrative Expense	1,697
Infrastructure	<u>1,638,879</u>
Total Depreciation Expense	<u>\$ 1,963,555</u>

**NOTE F – EMPLOYEE RETIREMENT AND BENEFIT:**

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

**Plan Description** – The Alger County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all full-time 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: Municipal Employee's Retirement System of Michigan, 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Alger County Road Commission's competitive bargaining units and requires a contribution from the employees of 4.7% of gross wages for the County Road Commission.

**NOTE F – EMPLOYEE RETIREMENT AND BENEFIT (Continued):**

**Annual Pension Costs** – For year ended 2013, Alger County Road Commission’s annual pension cost of \$213,096 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2011, using the entry age normal funding method. Significant actuarial assumptions used include: (1) an 8% investment rate of return; (2) projected salary increases of 4.5% per year; and (3) 4.5% per year cost of living adjustments. 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 26 years.

Three -Year Trend Information

	Analysis of Funding Progress		
	December 31		
	2010	2011	2012
Actuarial Value of Assets	\$6,551,143	\$6,504,654	\$6,365,746
Actuarial Accrued Liability	8,318,925	8,789,836	8,725,205
Unfunded AAL	1,767,782	2,285,182	2,359,459
Funded Ratio	79%	74%	73%
Covered Payroll	1,212,042	1,208,046	1,211,974
UAAL as a Percentage of Covered Payroll	146%	189%	195%

Schedule of Employer Contributions

Fiscal Year Ending December 31,	Valuation Date December 31,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	2009	\$179,421	100%	\$-
2012	2010	180,584	100%	-
2013	2011	213,096	100%	-

**NOTE G – FEDERAL GRANTS:**

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2013, the Federal aid received and expended by the Road Commission was \$866,910 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). Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000. As the Road Commission did not exceed \$500,000 in negotiated projects, they are not subject to a single audit.

**NOTE H – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION:**

In addition to the pension benefits, the Alger County Road Commission agrees to provide 100% of BC/BS and prescription drug coverage benefits to eligible retirees and/or their spouses. Alger County Road Commission will pay premiums of a retiree and/or their spouse beginning at a minimum of age 60 and extending to age 65. The maximum benefit coverage shall not exceed five years. 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, the Alger County Road Commission agrees to pay 100% of the premium for BC/BS and prescription drug coverage benefits but only until attainment of Medicare eligibility, at which time, 100% of premium shall be paid for by the retiree and or spouse if they elect to remain in the group.

**Plan Description** – The Road Commission administers a single-employer healthcare plan (“the Retiree Health Plan”). The plan provides healthcare insurance for eligible retirees through the Road Commission’s group health insurance plan, which covers both active and retired members as well as administrative employees. Benefit provisions are established through negotiations between the road Commission and employees. The Retiree Health Plan does not issue a publicly available financial report.

**Funding Policy** – Contribution requirements also are negotiated between the Road Commission and employees. The Road Commission contributes 100% of the cost of current-year premiums for eligible retired plan members. For fiscal year 2013, the Road Commission contributed \$55,468 to the plan. Total member contributions were \$0.

**Annual OPEB Cost and Net OPEB Obligation** – The Road Commission’s annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is project to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Road Commission’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Road Commission’s net OPEB obligation to the Retiree Health Plan:

Annual Required Contribution	\$ 113,792
Amounts Contributed:	
Payments of Current Premiums	<u>55,468</u>
Increase (Decrease) in Net OPEB Obligation	58,324
OPEB Obligation – Beginning of Year	<u>153,819</u>
OPEB Obligation – End of Year	<u><u>\$ 212,143</u></u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the fiscal year ended December 31, 2013 were as follows:

Annual OPEB Costs	\$ 113,792
Percentage Contributed	<u>51%</u>
Increase in OPEB Obligation	<u><u>\$ 58,324</u></u>



**NOTE H – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (Continued):**

The Road Commission’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2011, 2012 and 2013 is as follows:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$109,003	58%	\$112,401
2012	\$88,468	47%	153,819
2013	113,792	51%	212,143

**Funded Status and Funding Progress** – As of December 31, 2013, the actuarial liability for benefits was \$2,261,082, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,462,353, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 64.67%.

Actuarial variations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following this note, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions** – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2013 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 3% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer’s own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 3% initially, reduced by decrements to an ultimate rate of 3% after ten years. Both rates included a percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis.

**NOTE I – GENERAL LONG-TERM DEBT:**

The changes in long-term debt of the Road Commission may be summarized as follows:

Loans Payable	Balances January 1, 2013	Additions	Reductions	Balances December 31, 2013	Due Within One Year
<b>Peoples State Bank:</b>					
January 2010 Loan	\$ 124,873	\$ -	\$ 40,047	\$ 84,826	\$ 41,686
April 2010 Loan	92,027	-	29,518	62,509	30,726
<b>Michigan Transportation Fund:</b>					
Notes Payable 2011 Series	2,370,000	-	90,000	2,280,000	90,000
<b>Vested Employee Benefits Payable:</b>					
Vacation Benefits	108,582	3,127	-	111,709	-
Sick leave Benefits	203,640	3,995	-	207,635	-
TOTAL	<u>\$ 2,899,122</u>	<u>\$ 7,122</u>	<u>\$ 159,565</u>	<u>\$ 2,746,679</u>	<u>\$ 162,412</u>

Notes Payable – Equipment Purchases

The Road Commission borrowed various amounts from local banks to finance the purchase of various items of road equipment, which are pledged as security for the loans. The lenders, terms and annual principal and interest requirements are as follows:

**Peoples State Bank – January 2010 – Note  
2 Tandem Trucks**

**Terms: Purchase price of \$200,500 at 4.125% interest from December  
2009 to December 2015**

Maturity Year	Principal	Interest	Total
2014	\$ 41,686	\$ 3,510	\$45,196
2015	43,140	2,055	45,195
	<u>\$ 84,826</u>	<u>\$ 5,565</u>	<u>\$90,391</u>

**Peoples State Bank – April 2010 – Note  
2 Tandem Trucks**

**Terms: Purchase price of \$149,000 at 4.125% interest from January 2011 to  
January 2015**

Maturity Year	Principal	Interest	Total
2014	\$ 30,726	\$ 2,587	\$ 33,313
2015	31,783	1,531	33,314
	<u>\$ 62,509</u>	<u>\$ 4,118</u>	<u>\$ 66,627</u>

During 2011, the Alger County Road Commission entered into Act 143, Michigan transportation Fund Revenue Bonds payable for the purpose of refinancing existing bonds related to their garage and office facility in Munising in the amount of \$2,485,000 with interest from 2% to 4.75%.

**NOTE I – GENERAL LONG-TERM DEBT (Continued):**

<b>Michigan Transportation Fund Bonds Payable – Series 2011</b>		
Maturity Year	Principal	Interest
2014	\$ 90,000	\$ 87,932
2015	95,000	86,083
2016	100,000	83,882
2017	100,000	81,133
2018	105,000	78,057
2019	110,000	74,640
2020	110,000	70,955
2021	115,000	66,812
2022	120,000	62,113
2023	125,000	57,134
2024	125,000	51,978
2025	135,000	46,531
2026	140,000	40,688
2027	150,000	34,338
2028	155,000	27,475
2029	160,000	20,188
2030	170,000	12,350
2031	175,000	4,156
	<b>\$ 2,280,000</b>	<b>\$ 986,445</b>

Annual Maturities on the Long-Term Debt are as follows:

<b>Bonds and Notes Payable – All Series</b>		
Maturity Year	Principal	Interest
2014	\$ 162,412	\$ 94,029
2015	169,923	89,669
2016	100,000	83,882
2017	100,000	81,133
2018	105,000	78,057
2019-2022	580,000	331,654
2023-2028	705,000	201,010
2029-2031	505,000	36,694
	<b>\$ 2,427,335</b>	<b>\$ 996,128</b>

Vested Employee Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year.

Sick Leave Benefit Policies

Road Commission employment policies provide that each regular employee shall earn sick leave with pay at the rate of 1 day, or 8 hours, for each completed month of employment. Sick leave may be accumulated with a 960 hour maximum accumulation.

Upon retirement, death or discontinuance of employment for any reason, except for dismissal for disciplinary reasons, the employee shall be paid for 480 hours accumulated sick leave at the employee's prevailing rate of pay at the time of the termination of employment.

**NOTE J – INTERFUNDS TRANSFERS IN/OUT:**

The transfers between funds for the year ended December 31, 2013 are as follows:

		Transfers Out to Other Funds	
		General Fund	Total Transfers In
Transfers In From Other Funds	General Fund	\$-	\$-
	Debt Service Fund	192,000	192,000
	Total Due From Other Funds	\$192,000	\$192,000

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE K – FUND BALANCES – GOVERNMENTAL FUNDS:**

As of December 31, 2013, fund balances of the governmental funds are classified as follows:

*Non-spendable* — amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

*Restricted* — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Committed* — amounts that can be used only for specific purposes determined by a formal action of the Board of County Road Commissioners. The Board of County Road Commissioners is the highest level of decision-making authority for the Road Commission. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board of County Road Commissioners.

*Assigned* — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Commission’s adopted policy, only the Engineer Manager or the Board of County Road Commissioners may assign amounts for specific purposes.

*Unassigned* — all other spendable amounts.

**NOTE K – FUND BALANCES – GOVERNMENTAL FUNDS (Continued):**

As of December 31, 2013, fund balances are composed of the following:

	General Fund	Debt Service Funds	Total Governmental Funds
Non-spendable:			
Inventories	\$ 263,648	\$ -	\$ 263,648
Prepays	24,178	-	24,178
Restricted:			
Debt Service	-	149,882	149,882
Committed:	-	-	-
Assigned:			
Post-Employment Benefits	531,487	-	531,487
Unassigned	161,950	-	161,950
Total fund balances	<u>\$ 981,263</u>	<u>\$ 149,882</u>	<u>\$ 1,131,145</u>

The Board of County Road Commissioners establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the Engineer Manager through amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Commission considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Commission considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of County Road Commissioners has provided otherwise in its commitment or assignment actions.

**NOTE L – CONTINGENCIES:**

The Road Commission has determined that, as a potentially responsible party, it is likely that it has incurred a liability for environmental remediation costs resulting from ground contamination at their old facility. Although, no claim against the Road Commission has yet been asserted, it is expected that such a claim will be brought against the Road Commission in the future.

Grants – The Alger County Road Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Alger County Road Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Alger County Road Commission at December 31, 2013.

## **NOTE L – CONTINGENCIES (Continued):**

Risk Management – The Alger County 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 Alger County Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Alger County Road Commission joined together with other Michigan Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Alger County 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 Alger County Road Commission is unable to provide an estimate of the amounts of additional assessments.

## **NOTE M – UPCOMING CHANGES IN ACCOUNTING STANDARDS:**

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the Road Commission in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the Road Commission.

### GASB 66: 2012 Technical Corrections (an Amendment to GASB 10 and GASB 62)

*Effective for fiscal years beginning after 12/15/2013 (Road Commission's fiscal year 2013)*

This standard was issued to eliminate conflicting guidance that resulted from the issuance of GASB 54 and GASB 62, which are both already effective. GASB 10 was amended to allow for risk financing activities to be accounted for in whichever fund type is most applicable (no longer limited to the general fund or an internal service fund). GASB 62 was amended to modify specific guidance related to (1) operating leases with scheduled rent increases, (2) purchase of loans at an amount other than the principal amount, and (3) service fees related to mortgages that are sold when the service rate varies significantly from the current (normal) service fees.

We do not expect GASB 66 to have any significant impact on the Road Commission at this time.

### GASB 67: Financial Reporting for Pension Plans

*Effective for fiscal years beginning after 06/15/2013 (Road Commission's fiscal year FY 2014)*

This standard establishes the requirements for pension plans administered by trusts to report on their operations, including setting new uniform requirements for actuarial valuations of the total pension liability, and reporting various 10-year trend data as required supplementary information. The financial statements of pension plans will not change substantially as a result of GASB 67, though the additional note disclosures and required supplementary information will be significant. Additionally, actuarial valuations conducted in accordance with GASB 67 will have to match the government's fiscal year, or be rolled forward to that date by the actuary.

### GASB 68: Accounting and Financial Reporting for Pensions

*Effective for fiscal years beginning after 06/15/2014 (Road Commission's fiscal year FY 2015)*

This standard establishes new requirements for governments to report a "net pension liability" for the unfunded portion of its pension plan. Governments that maintain their own pension plans (either single employer or agent multiple-employer) will report a liability for the difference between the total pension liability calculated in accordance with GASB 67 and the amount held in the pension trust fund. Governments that participate in a cost sharing plan will report a liability for their "proportionate share" of the net pension liability of the entire system.

## **NOTE M – UPCOMING CHANGES IN ACCOUNTING STANDARDS (Continued):**

Historically, governments have only been required to report a net pension obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, governments will be required to report a net pension liability based on the current funded status of their pension plans. This liability would be limited to the government-wide financial statements and proprietary funds. Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts will be deferred and amortized over varying periods.

GASB 68 also requires more extensive note disclosures and required supplementary information, including 10 years of historical information. The methods used to determine the discount rate (the assumed rate of return on plan assets held in trust) are mandated and must be disclosed, along with what the impact would be on the net pension liability if that rate changed by 1% in either direction. Other new disclosure requirements include details of the changes in the components of the net pension liability, comparisons of actual employer contributions to actuarially determined contributions, and ratios to put the net pension liability in context. For single-employer and agent multiple-employer plans, the information for these statements will come from the annual actuarial valuation. For cost sharing plans, this information will be derived from the financial reports of the plan itself, multiplied by the government's proportionate share of plan.

GASB 67 and 68 are only applicable to pension plans. However, the GASB has announced its intent to issue similar standards for other postemployment benefits (e.g., retiree healthcare) on a two year delay from these standards.

### **GASB 69: Government Combinations and Disposals of Government Operations**

*Effective for fiscal years beginning after 12/15/2013 (Road Commission's fiscal year FY 2014)*

This standard provides detailed requirements for the accounting and disclosure of various types of government combinations, such as mergers, acquisitions, and transfers of operations. The guidance available previously was limited to nongovernmental entities, and therefore did not provide practical examples for situations common in government-specific combinations and disposals. The accounting and disclosure requirements for these events vary based on whether a significant payment is made, the continuation or termination of services, and the legal structure of the new or continuing entity.

## REQUIRED SUPPLEMENTARY INFORMATION



**Alger County Road Commission**

ALGER COUNTY ROAD COMMISSION EMPLOYEES RETIREMENT SYSTEM  
DEFINED BENEFIT CONTRIBUTION  
ANALYSIS OF FUNDING INFORMATION

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date December 31	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability	(b - a) Unfunded Accrued Liability	(a / b) Funded Ratio	( c ) Annual Covered Payroll	[ (b - a) / c ] UAAL as a Percentage of Covered Payroll
2003	\$6,012,900	\$6,680,552	\$667,652	90%	\$1,155,218	58%
2004	6,159,964	7,074,410	914,446	87%	1,143,224	80%
2005	6,294,415	7,188,451	894,036	88%	1,131,732	88%
2006	6,550,192	7,361,158	810,966	89%	1,110,254	73%
2007	6,791,529	7,784,843	993,314	87%	1,071,208	93%
2008	6,709,182	8,024,319	1,315,137	84%	1,138,478	116%
2009	6,596,110	8,129,525	1,533,415	81%	1,260,448	122%
2010	6,551,143	8,318,925	1,767,782	79%	1,212,042	146%
2011	6,504,654	8,789,836	2,285,182	74%	1,208,046	189%
2012	6,365,746	8,725,205	2,359,459	73%	1,211,974	195%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Fiscal Year Ending December 31	Valuation Date December 31	Annual Required Contribution	Percentage of ARC Contributed	Net Pension Obligation
2004	2002	\$93,005	100%	\$-
2005	2003	100,475	100%	-
2006	2004	120,018	100%	-
2007	2005	123,591	100%	-
2008	2006	119,406	100%	-
2009	2007	142,145	100%	-
2010	2008	148,279	100%	-
2011	2009	179,421	100%	-
2012	2010	180,584	100%	-
2013	2011	213,096	100%	-

**Notes to the Required Schedules**

The required contribution has been calculated to increase at the same rate as the projected increase in active member payroll (4.5% per year). The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll over a period of 15 years. A 26-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with GASB requirements.

**Alger County Road Commission**

ALGER COUNTY ROAD COMMISSION EMPLOYEES RETIREMENT SYSTEM  
POST-RETIREMENT BENEFITS OTHER THAN PENSION

**SCHEDULE OF FUNDING PROGRESS**

Valuation Date December 31,	Annual Required Contribution (ARC)	Annual OPEB Cost	Contributions	Increase (Decrease) in Net OPEB Obligation	OPEB Obligation - Beginning of Year	OPEB Obligation - End of Year
2011	\$109,003	\$109,003	\$62,822	\$46,181	\$66,220	\$112,401
2012	88,468	88,468	47,050	41,418	112,401	153,819
2013	113,792	113,792	55,468	58,324	153,819	212,143

Valuation Date December 31,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2011	\$109,003	58%	\$112,401
2012	88,468	47%	153,819
2013	113,792	51%	212,143

**Notes to the Required Schedules**

The Road Commission's annual other post-employment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

Alger County Road Commission

Budgetary Comparison Schedule Statement of Revenues  
Budget to Actual

For the Year Ended December 31, 2013

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits:				
Permits	\$ 4,000	\$ 2,670	\$ 2,670	\$ -
Total Licenses and Permits	<u>4,000</u>	<u>2,670</u>	<u>2,670</u>	<u>-</u>
Federal Sources:				
Surface Transportation Program	-	-	-	-
D Funds	-	-	-	-
High Priority	-	-	-	-
Other	378,000	866,910	866,910	-
Total Federal Sources	<u>378,000</u>	<u>866,910</u>	<u>866,910</u>	<u>-</u>
State Sources:				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Snow removal	266,000	269,510	269,510	-
Allocation	1,755,265	1,786,736	1,786,736	-
Total Michigan Transportation Fund	<u>2,031,265</u>	<u>2,066,246</u>	<u>2,066,246</u>	<u>-</u>
Critical Bridge Fund				
Total Critical Bridge Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Economic Development Fund:				
TED Funds (D)	108,350	106,755	106,755	-
Forest Road (E)	652,000	181,861	181,861	-
Local Jobs Today	-	-	-	-
Total Economic Development Fund	<u>760,350</u>	<u>288,616</u>	<u>288,616</u>	<u>-</u>
Total State Sources	<u>2,791,615</u>	<u>2,354,862</u>	<u>2,354,862</u>	<u>-</u>
Contributions from Local Units:				
Township contribution	248,900	251,404	251,404	-
Private contribution	-	-	-	-
Total Contributions from Local Units	<u>248,900</u>	<u>251,404</u>	<u>251,404</u>	<u>-</u>
Charges for Services:				
Trunkline maintenance	1,075,000	1,640,269	1,640,269	-
Trunkline non-maintenance	100,000	89,156	89,156	-
Salvage sales	9,000	6,181	6,181	-
Other	176,000	95,578	95,578	-
Total Charges for Services	<u>1,360,000</u>	<u>1,831,184</u>	<u>1,831,184</u>	<u>-</u>

Alger County Road Commission

Budgetary Comparison Schedule Statement of Revenues  
Budget to Actual

For the Year Ended December 31, 2013

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Interest and Rents:				
Interest earned	\$ 3,000	\$ 1,852	\$ 1,852	\$ -
Total Interest and Rents	<u>3,000</u>	<u>1,852</u>	<u>1,852</u>	<u>-</u>
Other:				
Land and building sales	-	-	-	-
Sundry refunds	-	74,943	74,943	-
Gain (loss) equipment disposal	-	-	-	-
Total Other	<u>-</u>	<u>74,943</u>	<u>74,943</u>	<u>-</u>
Total Operating Revenue	<u>4,785,515</u>	<u>5,383,825</u>	<u>5,383,825</u>	<u>-</u>
Other Financing Sources:				
Note proceeds	-	-	-	-
Transfers from debt service	-	-	-	-
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND OTHER FINANCING SOURCES	<u>\$ 4,785,515</u>	<u>\$ 5,383,825</u>	<u>\$ 5,383,825</u>	<u>\$ -</u>

Alger County Road Commission

Budgetary Comparison Schedule Statement of Expenditures  
Budget to Actual

For the Year Ended December 31, 2013

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Preservation - Structural Improvements:				
Roads	\$ 1,512,000	\$ 1,696,979	\$ 1,696,979	\$ -
Structures	-	-	-	-
Safety projects	-	-	-	-
Total Preservation - Structural Improvements	<u>1,512,000</u>	<u>1,696,979</u>	<u>1,696,979</u>	<u>-</u>
Maintenance:				
Roads	1,061,046	846,096	846,096	-
Winter maintenance	-	954,541	954,541	-
Traffic control	-	9,424	9,424	-
Total Maintenance	<u>1,061,046</u>	<u>1,810,061</u>	<u>1,810,061</u>	<u>-</u>
Total Preservation - Structural Improvements and Maintenance	<u>2,573,046</u>	<u>3,507,040</u>	<u>3,507,040</u>	<u>-</u>
Other:				
Trunkline maintenance	1,015,000	1,433,278	1,433,278	-
Trunkline non-maintenance	100,000	89,156	89,156	-
Administrative expense	107,000	234,466	234,466	-
Equipment expense - net	(92,000)	(124,219)	(124,219)	-
Capital outlay - net	(25,780)	(120,732)	(120,732)	-
Other	-	-	-	-
Debt principal payment	157,078	69,564	69,564	-
Interest expense	101,171	8,945	8,945	-
Distributive expense	850,000	-	-	-
Total Other	<u>2,212,469</u>	<u>1,590,458</u>	<u>1,590,458</u>	<u>-</u>
Total Expenditures	<u>4,785,515</u>	<u>5,097,498</u>	<u>5,097,498</u>	<u>-</u>
Other Financing Uses:				
Transfers to debt service	-	192,000	192,000	-
Total Other Financing Uses	<u>-</u>	<u>192,000</u>	<u>192,000</u>	<u>-</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 4,785,515</u>	<u>\$ 5,289,498</u>	<u>\$ 5,289,498</u>	<u>\$ -</u>

## ADDITIONAL SUPPLEMENTARY INFORMATION

Alger County Road Commission

Analysis of Equity

For the Year Ended December 31, 2013

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Total Revenues and Other Financing Sources	\$ 2,375,930	\$ 1,193,615	\$ 1,814,280	\$ 5,383,825
Total Expenditures and Other Financing Uses	<u>2,042,560</u>	<u>1,746,835</u>	<u>1,500,103</u>	<u>5,289,498</u>
Excess of Revenues Over (Under) Expenditures	<u>333,370</u>	<u>(553,220)</u>	<u>314,177</u>	<u>94,327</u>
Optional Transfers	<u>(553,220)</u>	<u>553,220</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(219,850)</u>	<u>-</u>	<u>314,177</u>	<u>94,327</u>
Fund Balance - Beginning	372,291	-	514,645	886,936
Interfund Adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 152,441</u>	<u>\$ -</u>	<u>\$ 828,822</u>	<u>\$ 981,263</u>

Alger County Road Commission  
 Analysis of Revenues and Other Financing Sources  
 For the Year Ended December 31, 2013

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
<b>Licenses and Permits:</b>				
Permits	\$ -	\$ -	\$ 2,670	\$ 2,670
Total Licenses and Permits	<u>-</u>	<u>-</u>	<u>2,670</u>	<u>2,670</u>
<b>Federal Sources:</b>				
Surface Transportation Program	-	-	-	-
D Funds	-	-	-	-
High Priority	-	-	-	-
Other	866,910	-	-	866,910
Total Federal Sources	<u>866,910</u>	<u>-</u>	<u>-</u>	<u>866,910</u>
<b>State Sources:</b>				
Michigan Transportation Fund				
Engineering	6,953	3,047	-	10,000
Snow removal	-	269,510	-	269,510
Allocation	1,242,303	544,433	-	1,786,736
Total Michigan Transportation Fund	<u>1,249,256</u>	<u>816,990</u>	<u>-</u>	<u>2,066,246</u>
Critical Bridge Fund	-	-	-	-
Total Critical Bridge Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Economic Development Fund:</b>				
TED Funds (D)	106,755	-	-	106,755
Forest Road (E)	132,218	49,643	-	181,861
Local Jobs Today	-	-	-	-
Total Economic Development Fund	<u>238,973</u>	<u>49,643</u>	<u>-</u>	<u>288,616</u>
Total State Sources	<u>1,488,229</u>	<u>866,633</u>	<u>-</u>	<u>2,354,862</u>
<b>Contributions from Local Units:</b>				
Township contribution	20,000	231,404	-	251,404
Private contribution	-	-	-	-
Total Contributions from Local Units	<u>20,000</u>	<u>231,404</u>	<u>-</u>	<u>251,404</u>
<b>Charges for Services:</b>				
Trunkline maintenance	-	-	1,640,269	1,640,269
Trunkline non-maintenance	-	-	89,156	89,156
Salvage sales	-	-	6,181	6,181
Other	-	95,578	-	95,578
Total Charges for Services	<u>-</u>	<u>95,578</u>	<u>1,735,606</u>	<u>1,831,184</u>



Alger County Road Commission  
 Analysis of Revenues and Other Financing Sources  
 For the Year Ended December 31, 2013

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Interest and Rents:				
Interest earned	\$ 791	\$ -	\$ 1,061	\$ 1,852
Total Interest and Rents	791	-	1,061	1,852
Other:				
Land and building sales	-	-	-	-
Sundry refunds	-	-	74,943	74,943
Gain (loss) equipment disposal	-	-	-	-
Total Other	-	-	74,943	74,943
Total Operating Revenue	2,375,930	1,193,615	1,814,280	5,383,825
Other Financing Sources:				
Note proceeds	-	-	-	-
Transfers from debt service	-	-	-	-
Total Other Financing Sources	-	-	-	-
TOTAL REVENUE AND OTHER FINANCING SOURCES	\$ 2,375,930	\$ 1,193,615	\$ 1,814,280	\$ 5,383,825

Alger County Road Commission

Analysis of Expenditures and Other Financing Uses

For the Year Ended December 31, 2013

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Preservation - Structural Improvements:				
Roads	\$ 1,157,352	\$ 539,627	\$ -	\$ 1,696,979
Structures	-	-	-	-
Safety projects	-	-	-	-
Total Preservation - Structural Improvements	<u>1,157,352</u>	<u>539,627</u>	<u>-</u>	<u>1,696,979</u>
Maintenance:				
Roads	294,906	551,190	-	846,096
Winter maintenance	365,813	588,728	-	954,541
Traffic control	2,705	6,719	-	9,424
Total Maintenance	<u>663,424</u>	<u>1,146,637</u>	<u>-</u>	<u>1,810,061</u>
Total Preservation - Structural Improvements and Maintenance	<u>1,820,776</u>	<u>1,686,264</u>	<u>-</u>	<u>3,507,040</u>
Other:				
Trunkline maintenance	-	-	1,433,278	1,433,278
Trunkline non-maintenance	-	-	89,156	89,156
Administrative expense	121,730	112,736	-	234,466
Equipment expense - net	(25,368)	(52,165)	(46,686)	(124,219)
Capital outlay - net	(66,578)	-	(54,154)	(120,732)
Other	-	-	-	-
Debt principal payment	-	-	69,564	69,564
Interest expense	-	-	8,945	8,945
Total Other	<u>29,784</u>	<u>60,571</u>	<u>1,500,103</u>	<u>1,590,458</u>
Total Expenditures	<u>1,850,560</u>	<u>1,746,835</u>	<u>1,500,103</u>	<u>5,097,498</u>
Other Financing Uses:				
Transfers to debt service	192,000	-	-	192,000
Total Other Financing Uses	<u>192,000</u>	<u>-</u>	<u>-</u>	<u>192,000</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 2,042,560</u>	<u>\$ 1,746,835</u>	<u>\$ 1,500,103</u>	<u>\$ 5,289,498</u>

**COMPLIANCE SECTION**



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

Board of County Road Commissioners  
Alger County Road Commission  
E 9264 M-28  
Munising, MI 49862

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Alger County Road Commission, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Alger County Road Commission's basic financial statements, and have issued our report thereon dated June 17, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Alger County Road Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Alger County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Alger County Road Commission's internal control.

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Alger County Road Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,

Board of County Road Commissioners  
Alger County Road Commission

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*.

**Purpose of this Report**

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

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

June 17, 2014

## COMMUNICATION SECTION



**ANDERSON, TACKMAN & COMPANY, PLC**

**Certified Public Accountants**

*"A Regional Firm With Offices In Michigan And Wisconsin"*

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***Alger County Road Commission***  
*Report to Management Letter*  
*For the Year Ended December 31, 2013*

To Board of County Road Commissioners  
and Mr. Robert Lindbeck of  
Alger County Road Commission  
E 9264 M-28  
Munising, Michigan 49862

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Alger County Road Commission as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered Alger County Road Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alger County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Alger County Road Commission's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, the Board of County Road Commissioners, others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Anderson, Tackman & Company, PLLC*

Certified Public Accountants

June 17, 2014



***Alger County Road Commission***  
*Communication with Those Charged with Governance*  
*For the Year Ended December 31, 2013*

June 17, 2014

To the Board of County Road Commissioners  
Alger County Road Commission  
E 9264 M-28  
Munising, Michigan 49862

We have audited the financial statements of the governmental activities and each major fund of Alger County Road Commission for the year ended December 31, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 31, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Alger County Road Commission are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 Alger County Road Commission's financial statements were:

Management's estimate of the accumulated depreciation and depreciation expense is based on historical costs and useful lives of the assets. Depreciation is calculated using the straight-line method. We evaluated the key factors and assumptions used to develop the accumulated the current years depreciation expense and accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the accrued sick and vacation is based on employee pay rates and the various subsidiary ledgers maintained for hour balances. We evaluated the key factors and assumptions used to develop the accrued employee benefit balances in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

The disclosure of Defined Benefit Retirement Plan in Note F to the financial statements includes significant actuarial assumptions used in calculating the valuation. MERS was the actuarial



Board of County Road Commissioners  
Alger County Road Commission  
Munising, Michigan

company hired for preparation of the annual actuarial valuation. The disclosures made in Note F were based on information included their report.

The disclosure of Other Post-employment Benefits in Note H to the financial statements includes significant actuarial assumptions. Alger County Road Commission prepares their actuarial report internally. The disclosures in Note H are based off of these assumptions.

The financial statement disclosures are neutral, consistent, and clear.

#### *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 clearly 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 each opinion unit's financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is 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 June 17, 2014.

#### *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 to determine that 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.

#### Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Board of County Road Commissioners  
Alger County Road Commission  
Munising, Michigan

This information is intended solely for the use of the Board of County Road Commissioners and management of Alger County Road Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

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