



IONIA COUNTY ROAD COMMISSION

(A Component Unit of Ionia County, Michigan)

Financial Statements

For the Year Ended December 31, 2013



SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

Ionia County Road Commission
(A Component Unit of Ionia County)

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SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

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A VETERAN OWNED BUSINESS

Independent Auditor's Report

Members of the Board of County Road Commissioners
County of Ionia, Michigan
Ionia, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the *Ionia County Road Commission*, a component unit of Ionia County, Michigan, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, the major fund and the aggregate remaining fund information of the *Ionia 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 (pages 3 through 7), budgetary comparison information (page 29) and schedules of funding progress (page 30) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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 ***Ionia County Road Commission's*** basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2014 on our consideration of the ***Ionia County Road Commission's*** 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 ***Ionia County Road Commission's*** internal control over financial reporting and compliance.

Smith + Klauszewicz PC

Saginaw, Michigan

April 28, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Ionia County Road Commission

Management's Discussion and Analysis

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

Governmental Fund Financial Statements

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

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

Ionia County Road Commission

Management's Discussion and Analysis

The Ionia County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and governmental fund financial statements. The notes to financial statements can be found on pages 12-28 of this report.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets and deferred outflows exceeded liabilities and deferred inflows by \$45,921,763 at the end of the fiscal year.

Net position is separated into two major components, net investment in capital assets of \$44,617,434 or 97% of net position and unrestricted net position of \$1,304,329 or 3% of net position. The investment in capital assets of the Road Commission reflects its investment in capital assets (i.e., land, infrastructure, buildings, vehicles and equipment), less any related debt used to acquire those assets that are still outstanding. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Road Commission's investment in capital assets is reported net of related debt, it should be noted that the resources need to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net position may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the current year, the Road Commission is able to report positive balances in all categories (net investment in capital assets; restricted net position and unrestricted net position).

The following shows the comparison of the net position at December 31, 2012 and 2013 in a condensed format (there were no deferred outflows or deferred inflows at year-end):

	<u>2012</u>	<u>2013</u>
Assets –		
Current and other unrestricted assets	\$ 2,285,698	\$ 2,304,412
Capital and other long-term assets	<u>41,957,826</u>	<u>45,618,790</u>
Total assets	<u>44,243,524</u>	<u>47,923,202</u>
Liabilities –		
Current liabilities	435,107	625,303
Long-term liabilities	<u>1,255,487</u>	<u>1,376,136</u>
Total liabilities	<u>1,690,594</u>	<u>2,001,439</u>

Ionia County Road Commission

Management's Discussion and Analysis

	<u>2012</u>	<u>2013</u>
Net position –		
Net investment in capital assets	\$ 41,331,072	\$ 44,617,434
Unrestricted	<u>1,221,858</u>	<u>1,304,329</u>
Total net position	<u>\$ 42,552,930</u>	<u>\$ 45,921,763</u>

The following presents a comparison of revenues, expenses and changes in net position for the year ended December 31, 2012 and 2013 in a condensed format:

	<u>2012</u>	<u>2013</u>
Revenues –		
Charges for services	\$ 3,091,086	\$ 3,062,724
Operating grants and contributions	4,511,114	4,622,249
Capital grants and contributions	1,931,256	3,836,354
General revenue	<u>108,747</u>	<u>19,954</u>
Total	<u>9,642,203</u>	<u>11,541,281</u>
Expenses –		
Public works	8,072,492	8,168,910
Debt service	<u>1,856</u>	<u>3,538</u>
Total	<u>8,074,348</u>	<u>8,172,448</u>
Change in net position	<u>\$ 1,567,855</u>	<u>\$ 3,368,833</u>

Financial Analysis of Governmental Fund Financial Statements

As noted earlier, the focus of the governmental fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information can be useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of government's net resources available to finance routine and emergency spending in succeeding years.

For the year ended December 31, 2013, the fund balance of the Road Commission decreased by \$171,482 to \$1,679,109. Of this amount, \$726,318 is not spendable (prepaid items and inventory), \$606,675 is restricted because it may only be used to finance future maintenance projects on the road and bridge system, \$135,000 is committed for capital improvements and the remaining amount of \$211,116 was assigned for the subsequent years' budget.

Total revenues were \$11,541,281, an increase of \$1,899,078, as compared to the prior year. This was primarily the result of increases in Federal, State and local contributions for projects. Total expenditures of \$11,847,763 increased \$2,316,297 over the prior year, again mainly as a result of increased activity for road and bridge projects.

Ionia County Road Commission

Management's Discussion and Analysis

BUDGETARY HIGHLIGHTS

The Road Commission amended its 2013 budget several times to reflect status changes in preservation-structural improvements and maintenance projects. The final revenue budget was \$497,904 less than the original budget; the final expenditure budget was \$267,709 less than the original budget for those reasons. The actual 2013 revenues were \$105,224 less than the amended budget or 0.91% under budget. The actual expenditures were \$527,366 less than the amended budget, or 4.45% under budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The Road Commission had \$44,800,481 in net capital assets at the end of the year. The reason for the increase from the previous year is the result of capital outlay and the capitalization of road and bridge projects funded by Federal, State and local revenues exceeding depreciation expense for the year. A summary of capital assets net of accumulated depreciation at December 31, 2013 in comparison to the previous year is as follows:

	<u>2012</u>	<u>2013</u>
Nondepreciable capital assets	\$ 14,917,344	\$ 15,546,812
Buildings and improvements	1,272,716	1,210,413
Equipment	655,238	668,102
Infrastructure	<u>24,580,974</u>	<u>27,375,154</u>
Total	<u>\$ 41,426,272</u>	<u>\$ 44,800,481</u>

Additional information about the Road Commission's capital assets activity may be found in Note 4 on page 21 of the financial statements.

Long-Term Liabilities – At the beginning of the year the Road Commission had one installment loan outstanding of \$95,200. The Road Commission paid the scheduled principal and interest payments on that installment debt during the year and entered into another installment loan for the purchase of a capital asset in the amount of \$135,000, resulting in an overall increase in the outstanding principal balance of \$87,847 and an outstanding balance of \$183,047.

Additional information on the Road Commission's long-term liabilities may be found in Note 4 on page 22 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

While the Road Commission's revenue increased from last year; our routine maintenance revenue stream was relatively flat and the long term outlook for MTF funding is still uncertain. State and local economic recovery is beginning to increase, but has yet to positively impact our ability to provide ever increasing levels of maintenance. We continue to be aggressive in competing for available Federal and State project revenues in 2013 through 2015; but in the longer term, Federal and State revenue shortfalls will impact available project revenues too. These same revenue shortfalls are affecting cost sharing programs with our township

Ionia County Road Commission

Management's Discussion and Analysis

transportation partners. Potential legislative relief in terms of a tax increase is being discussed in Washington and Lansing, but has yet to transpire.

Our 2014 budget is programmed for slightly lower revenues and expenditures. Three Federal/State bridge replacement projects along with Federally funded preventive maintenance work will begin in 2014. We anticipate using over \$211,000 in fund balance to match Federal/State grants and balance the 2014 budget. The continued uncertainty in state transportation funding, which accounts for over 50% of our annual funding, will continue to make it more difficult to maintain our roads and bridges.

The Board realizes, and the reader should understand that there are not sufficient funds available to repair and/or rebuilt every road and bridge in Ionia County's transportation system; therefore, the Board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Ionia County.

CONTACTING THE ROAD COMMISSION'S 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 accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Ionia County administrative office at 170 E. Riverside Drive, Ionia, MI 48846; or at info@ioniacountyroads.org.



BASIC FINANCIAL STATEMENTS

Ionia County Road Commission
Governmental Fund Balance Sheet / Statement of Net Position
December 31, 2013

	<u>General Operating / Road Fund</u>	<u>Adjustments (Note 2)</u>	<u>Statement of Net Position</u>
Assets			
Cash and cash equivalents	\$ 339,386	\$ -	\$ 339,386
Due from other governmental units			
State	1,021,791	-	1,021,791
Local	211,912	-	211,912
Accounts receivable	5,005	-	5,005
Prepaid items	116,936	-	116,936
Inventory	609,382	-	609,382
Non-current assets:			
Net pension asset	-	818,309	818,309
Capital assets			
Assets not being depreciated	-	15,546,812	15,546,812
Assets being depreciated, net	-	29,253,669	29,253,669
Total assets	<u>\$ 2,304,412</u>	<u>45,618,790</u>	<u>47,923,202</u>
Liabilities			
Accounts payable	\$ 228,392	-	228,392
Contractor's retention payable	2,529	-	2,529
Accrued liabilities	177,227	-	177,227
Accrued interest	-	2,233	2,233
Deferred expense - federal aid projects	7,071	-	7,071
Advances and deposits	210,084	-	210,084
Non-current liabilities:			
Net OPEB obligation	-	1,002,821	1,002,821
Due within one year	-	115,547	115,547
Due in more than one year	-	255,535	255,535
Total liabilities	<u>625,303</u>	<u>1,376,136</u>	<u>2,001,439</u>
Fund balance			
Nonspendable:			
Prepaid items	116,936	(116,936)	-
Inventory	609,382	(609,382)	-
Restricted	606,675	(606,675)	-
Committed for physical plant improvements	135,000	(135,000)	-
Assigned for subsequent year budget	211,116	(211,116)	-
Total fund balance	<u>1,679,109</u>	<u>(1,679,109)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 2,304,412</u>		
Net position			
Net investment in capital assets		44,617,434	44,617,434
Unrestricted		1,304,329	1,304,329
Total net position		<u>\$ 45,921,763</u>	<u>\$ 45,921,763</u>

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

Ionia County Road Commission
Statement of Governmental Revenues, Expenditures and
Changes in Fund Balance / Statement of Activities
For the Year Ended December 31, 2013

	General Operating / Road Fund	Adjustments (Note 2)	Statement of Activities
Expenditures/expenses			
Public works	\$ 5,715,792	\$ 2,453,118	\$ 8,168,910
Debt service	54,958	(51,420)	3,538
Capital outlay	6,077,013	(6,077,013)	-
Total expenditures/expenses	<u>11,847,763</u>	<u>(3,675,315)</u>	<u>8,172,448</u>
Program revenue			
Charges for services	<u>3,062,724</u>	-	<u>3,062,724</u>
Operating grants and contributions			
State transportation funds	<u>4,622,249</u>	-	<u>4,622,249</u>
Capital grants and contributions			
County appropriation	35,000	-	35,000
Federal and state sources	3,801,354	-	3,801,354
Total capital grants and contributions	<u>3,836,354</u>	-	<u>3,836,354</u>
Total program revenue	<u>11,521,327</u>	-	<u>11,521,327</u>
Net program revenue			<u>3,348,879</u>
General revenue			
Interest and rents	12,866	-	12,866
Proceeds from sale of capital assets	7,088	-	7,088
Total general revenue	<u>19,954</u>	-	<u>19,954</u>
Total revenue	<u>11,541,281</u>		
Other financing sources			
Note proceeds	<u>135,000</u>	<u>(135,000)</u>	-
Revenue and other financing sources over (under) expenditures / expenses	(171,482)	171,482	-
Change in net position	-	3,503,833	3,368,833
Fund balance / net position			
Beginning of the year	<u>1,850,591</u>	<u>40,702,339</u>	<u>42,552,930</u>
End of the year	<u>\$ 1,679,109</u>	<u>\$ 44,377,654</u>	<u>\$ 45,921,763</u>

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

Ionia County Road Commission
Statement of Fiduciary Net Position
Employee Healthcare Benefit Trust Fund
December 31, 2013

Assets

Investments

\$ 135,378

Net position - restricted for OPEB

\$ 135,378

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

Ionia County Road Commission

Statement of Changes in Fiduciary Net Position Employee Healthcare Benefit Trust Fund

For the Year Ended December 31, 2013

Additions

Employer contributions	\$ -
Unrealized gain (loss) on investments	20,315
	<hr/>
Total additions	20,315

Deductions

Administrative - investment advisory fees	610
Participant benefits	-
	<hr/>
Total deductions	610

Change in net position 19,705

Net position - Beginning of the year

115,673

Net position - End of the year

\$ 135,378

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

Ionia County Road Commission

Notes to Financial Statements

NOTE 1 – Summary of Significant Accounting Policies

The accounting policies adopted by the *Ionia County Road Commission* (the “Road Commission”) conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The following is a summary of the significant policies.

Reporting Entity

The *Ionia County Road Commission* is a discrete component unit of the County of Ionia, Michigan. The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable. The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Michigan Department of Transportation for work done by the County on State trunklines, Federal Transportation funds and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is established pursuant to the County Road Law (MCL224.1) and operates under a five-member Board of County Road Commissioners that is appointed by the County Board of Commissioners. The Board of County Road Commissioners establishes policies and reviews operations of the Road Commission. The Road Commission provides services to sixteen (16) Townships in Ionia County and maintains 1,221 miles of State, local and primary roads.

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 Road Commission, excluding fiduciary activity (employee healthcare benefit trust fund). *Governmental activities* are supported by charges for services and intergovernmental grants and contributions.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Interest and other items not properly included among program revenues are reported as general revenues.

A combined financial statement is provided for the General Operating / Road Fund Balance Sheet, Statement of Net Position, Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities. The General Operating / Road Fund is considered to be a major fund for financial reporting purposes.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and the Statement of Activities) and the fiduciary fund statements (Employee Healthcare Benefit Trust Fund) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related

Ionia County Road Commission

Notes to Financial Statements

cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (General Operating / Road Fund) financial statements (Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments are recorded only when payment is due.

State and Federal revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Road Commission.

The Road Commission reports the following major *governmental* fund:

The *General Operating / Road Fund* is the Road Commission's primary operating fund. It accounts for all financial resources of the Road Commission, except those required to be accounted for in another fund.

In addition, the Road Commission reports the following fund type:

The *Employee Healthcare Benefit Trust Fund* accounts for the financial activity of assets held to fund postemployment health benefits.

Assets, Liabilities, and Net position or Equity

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and deposits in demand and time deposit accounts.

Investments

Investments are comprised of mutual funds and are reported at fair value.

Receivables and payables

All receivables and payables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid Items

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

Ionia County Road Commission

Notes to Financial Statements

Inventory

Inventory, consisting of various operating parts, supplies and road material is stated cost, as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as they are used.

Capital Assets

Land, buildings, equipment and infrastructure assets (roads, bridges and other similar items) are reported as capital assets in the government-wide financial statements (Statement of Net Position). Capital assets are defined by the Road Commission as land, buildings, improvements and equipment (except road equipment), with an estimated useful life in excess of two (2) years. No minimum cost is used to record road equipment capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital outlay expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (General Operating / Road Fund) column. Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges and traffic signals, which are required to be reported despite the date of purchase.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating / Road Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating / Road Fund.

Depreciation is recorded over the estimated useful lives of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

Buildings and improvements	10 to 50 years
Road equipment	5 to 8 years
Shop equipment	5 years
Office equipment	5 to 10 years
Engineering equipment	3 to 10 years
Infrastructure – bridges	12 to 50 years
Infrastructure – roads	5 to 30 years

Advances from the State of Michigan

The State of Michigan advances funds on a State maintenance agreement it has with the Road Commission for specific maintenance performed by the Road Commission during the year and for equipment purchases. These advances are considered current liabilities because they are subject to repayment annually, upon results of audit procedures performed by the State of Michigan.

State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. The amount of the adjustments, if any,

Ionia County Road Commission

Notes to Financial Statements

for the current year ended cannot be reasonably determined. Based on past experience, the Road Commission does not believe the adjustment will be a material amount.

Compensated Absences

In accordance with the union contract and policies adopted by the Board of County Road Commissioners, employees have a vested right upon termination of employment to receive compensation for accumulated sick leave and vacation under formulas and conditions specified in the contract / policies.

Employees are compensated for 100% of their vested vacation upon termination for any reason. Beginning November 1, 1994, unused sick leave has no limit on accumulation and has no provision for payoff at retirement, layoff, death or termination. Accumulated sick leave earned prior to November 1, 1994 was placed into a "sick leave bank" at the hourly wage rate as of that date. Employees are compensated for 50% of their unused sick leave bank upon resignation or termination and 100% of their unused sick leave bank upon death or retirement.

Vacation and sick leave payable is reported in the General Operating / Road Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

Long-term Obligations

In the government-wide financial statements (Statement of Net Position), long-term debt and other long-term obligations are reported as liabilities.

Equipment Rental

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated (charged) to the various activities. The effect of this allocation is offset to equipment expenditures / expenses.

Fund Equity

In the financial statements, the General Operating / Road Fund reports the following components of fund balance:

Nonspendable

Amounts that are not in spendable form or are legally or contractually required to be maintained intact are reported as nonspendable fund balance.

Restricted

Amounts that are legally restricted by externally imposed constraints that are placed on the use of resources by grantors, contributors, or laws or regulations of other governments are reported as restricted fund balance.

Committed

Amounts that have been formally set aside by the Board of County Road Commissioners for use for specific purposes are reported as committed fund balance. Commitments are made, and can only be rescinded by resolution of the Board of County Road Commissioners.

Ionia County Road Commission

Notes to Financial Statements

Assigned

Amounts that are constrained by the Road Commission’s *intent* to be used for specific purposes, but are neither restricted nor committed are reported as assigned fund balance. The Board of County Road Commissioners has authorized the Managing Director or her designee the authority to assign fund balance on behalf of the Road Commission.

Unassigned

Amounts that have not been restricted, committed or assigned to specific purposes are reported as unassigned fund balance.

When the Road Commission incurs expenditures for purposes for which various fund balance classifications can be used, it is the Road Commission’s policy to use restricted fund balance first, then committed fund balance, assigned fund balance and finally unassigned fund balance.

Estimates

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

NOTE 2 – Reconciliation of Government-Wide and Fund Financial Statements

Explanation of differences between the governmental fund statements and the government-wide statement of net position (page 8):

Fund balance – General Operating / Road Fund	\$	1,679,109
Amounts reported for <i>governmental activities</i> in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and are therefore not reported in the fund financial statements.		
Capital assets not being depreciated		15,546,812
Capital assets being depreciated		56,442,295
Accumulated depreciation		(27,188,626)
The net pension asset is not a current financial resource and is therefore not reported in the fund financial statements.		818,309
Long-term liabilities are not due and payable in the current period and are therefore not reported in the fund financial statements.		(371,082)
The net OPEB obligation is a long-term liability and is therefore not reported in the fund financial statements.		(1,002,821)
Accrued interest payable on long-term liabilities is not reported in the fund financial statements.		(2,233)
Net position of governmental activities	\$	45,921,763

Ionia County Road Commission

Notes to Financial Statements

Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide Statement of Activities (page 9):

Change in fund balance – General Operating / Road Fund \$ (171,482)

Amounts reported for *governmental activities* in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	324,733
Infrastructure purchases	5,752,280
Depreciation expense	(2,702,658)

The loss on disposal of capital assets is reported as an expenditure in the government-wide Statement of Activities but does not represent an outlay of a current financial resource and is therefore not reported as an expenditure in the fund financial statements. (146)

Principal payments on long-term liabilities are reported as an expenditure in the fund statements, but not in the government-wide Statement of Activities, where the payment reduces the long-term liability. 53,153

Note proceeds are reported as other financing sources in the fund statements, but increase long-term liabilities in the government-wide Statement of Activities (135,000)

Interest expense adjustment for accrual reported in the government-wide Statement of Activities when the liability is incurred and reported in the fund statements only when the payment is due. (1,733)

The net difference between the actuarially determined Annual Required Contribution to fund pension *and* other postemployment benefits and actual contributions made during the year is reported as revenues and expenses in the government-wide Statement of Activities, but does not impact current financial resources and is therefore not reported in the fund financial statements. 251,876

The change in accrued compensated absences is reported as an expense in the Statement of Activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the fund statements. (2,190)

Change in net position of governmental activities \$ 3,368,833

Ionia County Road Commission

Notes to Financial Statements

NOTE 3 – Stewardship, Compliance and Accountability

Auditing and Reporting

The audit was performed 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 as described in the Independent Auditors' Report and with the standards provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws. The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report and also with applicable rules of the Michigan State Department of Transportation.

Budgetary Data

The Road Commission's procedures for establishing budgetary data are as follows:

The Managing Director prepares a proposed operating budget for the calendar year commencing January 1st, using data offered by the administrative staff. The proposed operating budget includes identification of expenditures and resources to finance them.

Prior to December 31st, the proposed budget is presented to the Board of County Road Commissioners. The budget is reviewed and may be amended by the Board and a public hearing is held regarding the proposed budget. The budget is then legally enacted through passage of a resolution adopted by the Board of County Road Commissioners and is placed in the Board minutes.

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

The budget for the General Operating / Road Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

The Road Commission adopts a budget for the General Operating / Road Fund by means of an appropriations resolution, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the State-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrual basis of accounting.

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. Variances at the legal level of control are as disclosed on the Budgetary Comparison Schedule.

Ionia County Road Commission

Notes to Financial Statements

NOTE 4 – Detailed Notes on All Funds

Deposits and Investments

At year-end, the carrying amounts of the Road Commission’s deposits and investments were as follows:

	General Operating / Road Fund	Trust Fund
Cash on hand	\$ 500	\$ -
Deposits with financial institutions		
Imprest checking	5,000	-
Checking maintained by County Treasurer	333,886	-
Investments – mutual funds	-	135,378
Total	\$ 339,386	\$ 135,378

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain cash of the Road Commission. All Road Commission receipts are deposited with the Ionia County Treasurer’s Office. To make disbursements, the Road Commission requests the County Treasurer to transfer funds to an imprest vendor or payroll checking account.

Deposit and investment risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997

Interest Rate Risk

The Road Commission’s investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Ionia County Road Commission

Notes to Financial Statements

Credit Risk

The Road Commission's investment policy does not have specific limits in excess of State law on investment credit risk.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. At year-end, the carrying amount of the Road Commission's deposits was \$333,886 and the bank balance was \$548,935. As of year-end, approximately \$145,000 of the Road Commission's bank balance was exposed to custodial credit risk because it was uninsured (FDIC) and uncollateralized.

The Road Commission has determined that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk associated with each financial institution. The County's policy is to conduct business only with financial institutions that have an acceptable estimated level of risk as a depository.

Custodial Credit Risk – Investments

For an 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 collateral securities that are in the possession of an outside party. State law does not require a policy for investment custodial credit risk. The Road Commission's investment policy does not address custodial credit risk for investments. However, while uninsured and unregistered, the Road Commission's funds are not exposed to custodial credit risk since the securities are held in the counterparty's trust department in the Road Commission's name.

Concentration of Credit Risk

State law limits allowable investments but does not limit concentration of credit risk. The Road Commission's investment policy does not have specific limits in excess of State law on concentration of credit risk. At year-end, the Road Commission's investments are comprised of a single investment account; the MERS Total Market Fund.

Inventory

The year-end inventory balance of \$609,382 was comprised of \$327,940 in road materials and \$281,442 in parts and material for equipment.

Ionia County Road Commission

Notes to Financial Statements

Capital Assets

Capital asset activity for the year was as follows:

	Balance January 1, 2013	Additions	Disposals	Balance December 31, 2013
Capital assets not being depreciated				
Land	\$ 79,821	\$ -	\$ -	\$ 79,821
Land improvements	14,747,443	556,316	-	15,303,759
Right of ways	80,000	-	-	80,000
Construction in progress	-	73,152	-	73,152
Depletable assets – gravel pits	10,080	-	-	10,080
Total capital assets not being depreciated	14,917,344	629,468	-	15,546,812
Capital assets being depreciated				
Buildings	2,355,638	-	-	2,355,638
Building improvements	142,563	2,450	-	145,013
Road equipment	6,221,258	260,228	(137,761)	6,343,725
Shop equipment	185,446	49,560	-	235,006
Office equipment	186,730	9,946	-	196,676
Engineer equipment	146,932	2,549	-	149,481
Infrastructure - roads	30,386,055	2,469,215	(916,963)	31,938,307
Infrastructure – bridges	12,424,852	2,653,597	-	15,078,449
Total capital assets being depreciated	52,049,474	5,447,545	(1,054,724)	56,442,295
Less accumulated depreciation				
Buildings	(1,097,641)	(59,116)	-	(1,156,757)
Building improvements	(127,844)	(5,637)	-	(133,481)
Road equipment	(5,656,616)	(270,984)	137,615	(5,789,985)
Shop equipment	(147,036)	(17,405)	-	(164,441)
Office equipment	(159,566)	(9,226)	-	(168,792)
Engineer equipment	(121,910)	(11,658)	-	(133,568)
Infrastructure – roads	(14,448,061)	(2,017,737)	916,963	(15,548,835)
Infrastructure – bridges	(3,781,872)	(310,895)	-	(4,092,767)
Total accumulated depreciation	(25,540,546)	(2,702,658)	1,054,578	(27,188,626)
Net capital assets being depreciated	26,508,928	2,744,887	(146)	29,253,669
Total net capital assets	\$ 41,426,272	\$ 3,374,355	\$ (146)	\$ 44,800,481

Ionia County Road Commission

Notes to Financial Statements

Long-term Debt

Long-term liability activity for the year was as follows:

	Balance January 1, 2013	Increases	(Decreases)	Balance December 31, 2013	Due Within One Year
2012 Installment loan	\$ 95,200	\$ -	\$ (47,153)	\$ 48,047	\$ 48,047
2013 Installment loan	-	135,000	-	135,000	67,500
Accrued sick and vacation	175,845	2,190	-	178,035	-
Retiree life insurance liability	<u>16,000</u>	<u>-</u>	<u>(6,000)</u>	<u>10,000</u>	<u>-</u>
Total	<u>\$ 287,045</u>	<u>\$ 137,190</u>	<u>\$ (53,153)</u>	<u>\$ 371,082</u>	<u>\$ 115,547</u>

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

2012 Installment Loan

The Road Commission is obligated for an installment loan dated September 20, 2012, in the original amount of \$95,200. The debt is required to be paid in 2 annual installments, including interest of 1.87%.

2013 Installment Loan

The Road Commission is obligated for an installment loan dated March 13, 2013, in the original amount of \$135,000. The debt is required to be paid in 2 annual installments, including interest of 1.97%.

The annual requirements to amortize the outstanding balance, including interest at year-end are as follows:

Year Ending December 31	Principal	Interest	Total
2014	\$ 115,547	\$ 2,925	\$ 118,472
2015	<u>67,500</u>	<u>2,009</u>	<u>69,509</u>
	<u>\$ 183,047</u>	<u>\$ 4,934</u>	<u>\$ 187,981</u>

Accrued Sick and Vacation

In accordance with Board policy and the labor agreement with the Road Commission, individual employees have a vested right upon termination of employment to receive compensation for accumulated sick leave and vacation under formulas and conditions specified in the contracts. The dollar amounts of these vested rights, which have been accrued, on the government-wide statements amounted to approximately \$25,475 for sick leave and \$152,560 for vacation at year-end.

Retiree Life Insurance Liability

In 1995, the Road Commission elected to become self-insured with respect to retiree life insurance benefits for existing retirees at that time. Employees that retire from the Road Commission after 1995 are no longer granted life insurance at retirement, in accordance with labor contracts. However, employees who retired prior to the effective date of current employee contracts were granted life insurance coverage upon retirement. The Road Commission decided to discontinue paying the premiums on the existing policies and to pay the death benefits from future resources. Accordingly, a liability for retirees' life insurance benefits was recorded in the government-wide statements in the amount of \$10,000, which represents the maximum remaining amount of death benefits to be paid to beneficiaries.

Ionia County Road Commission

Notes to Financial Statements

NOTE 5 – Other Information

Postemployment Benefits Other than Pensions (OPEB)

Plan Description

The Road Commission provides postemployment health care to eligible employees and / or their spouses who retire from the Road Commission on or after attaining retirement age with at least ten (10) or twenty (20) years of service, depending on position. This is a single employer defined benefit plan that is administered by the Road Commission. The benefits are provided under the collective bargaining agreement for union employees and by resolution of the Board of County Road Commissioners for nonunion employees.

Funding Policy

The collective bargaining agreements require the Road Commission to pay the insurance premium / claim costs of the retiree and spouse until death of the retiree. The Road Commission obtains healthcare coverage for retirees through private insurers. Upon eligibility for Medicare, the Road Commission pays for group Medicare supplemental coverage. The Road Commission has no obligation to make contributions in advance of when the insurance premiums or claims are due for payment (in other words, this may be financed on a “pay-as-you-go” basis).

Annual OPEB Cost and Net OPEB Obligation

The Road Commission’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*. The Road Commission has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than 100 (one hundred) total plan members. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

For the year ended December 31, 2013, the Road Commission estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2011. The valuation computes an annual required contribution, which 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. This valuation’s computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 399,191
Interest on the prior year’s net OPEB obligation	67,756
Adjustment to the annual required contribution	<u>(222,775)</u>
Annual OPEB cost	244,172
Amounts contributed:	
Payment of current premiums	(209,293)
Advance funding	<u>-</u>
Increase in net OPEB obligation	34,879
OPEB obligation – beginning of year	<u>967,942</u>
OPEB obligation – end of year	<u><u>\$ 1,002,821</u></u>

Ionia County Road Commission

Notes to Financial Statements

Three-Year Trend Information

Fiscal Year Ended	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
12/31/2011	\$ 383,824	42	\$ 882,643
12/31/2012	257,833	67	967,942
12/31/2013	244,172	85	1,002,821

The funding progress of the plan as of December 31, 2011 (the most recent valuation date) is as follows:

Actuarial value of assets	\$ 105,731
Actuarial accrued liability (AAL)	4,888,349
Unfunded actuarial accrued liability (UAAL)	4,782,618
Funded ratio	2.2%
Annual covered payroll – 12/31/11	1,700,070
Ratio of UAAL to covered payroll	281%

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

Methods and Assumptions

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

Retirement age for active employees

Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62, or at the first subsequent year in which the member would qualify for benefits.

Marital status

Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality

Life expectancies were based on mortality tables from the United States Social Security Administration. The 2004 Period Life Table for males and females was used.

Ionia County Road Commission

Notes to Financial Statements

Turnover

Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate

The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 6.6% initially, with gradual increases to 6.7% through 2013, leveling to an ultimate rate of 6.65% after six (6) years was used.

Healthcare premiums

2011 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate

The expected long-term inflation assumption of 3.0% was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in The 2007 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds for an intermediate growth scenario.

Payroll growth rate

The expected long-term payroll growth rate was assumed to equal the rate of inflation.

In the December 31, 2011 actuarial valuation, the entry age cost method was used. The actuarial assumptions included a 7.0% 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 and the valuation date. As the Road Commission commences funding of the plan, the actuarial value of assets will be determined using techniques that spread the effects of short-term volatility in the market value of investments over a multiple-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed 30-year basis. The remaining amortization period at December 31, 2011 was 29 years.

Defined Benefit Pension Plan

Pension Plan

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the rate during 2013 was 32.19% for all employees. In addition, Road Commission employees are required to contribute 5.00% of their annual covered payroll. The contribution requirements of the Road Commission are

Ionia County Road Commission

Notes to Financial Statements

established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Board of County Road Commissioners.

Annual Pension Cost and Net Pension Obligation (Asset)

The Road Commission's annual pension costs and net pension obligation to MERS for the current year were as follows:

Annual required contribution	\$	577,647
Interest on the prior year's net pension asset		(42,524)
Adjustment to the annual required contribution		31,106
Annual pension cost		566,229
Amounts contributed:		
Payment of current premiums		(577,647)
Advance funding		(275,336)
Increase in net pension asset		(286,755)
Net pension (asset) – beginning of year		(531,554)
Net pension (asset) – end of year	\$	(818,309)

For the year ended December 31, 2013, the Road Commission's annual pension cost of \$566,229 for MERS was \$11,418 less than the required contribution and \$286,754 less than actual contributions. The required contribution was determined as part of the December 31, 2011, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2012, the date of the latest actuarial valuation, was 26 years.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
12/31/2011	\$ 552,250	130%	\$ (357,630)
12/31/2012	543,425	132	(531,554)
12/31/2013	566,229	150	(818,309)

Funding Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the plan was 39.3% funded. The actuarial accrued liability for benefits was \$14,141,681, and the actuarial value of assets was \$5,562,792, resulting in a UAAL of \$8,578,889. The covered payroll (annual payroll of active employees covered by the plan) was \$1,708,942, and the ratio of the UAAL to the covered payroll was 502%.

Ionia County Road Commission

Notes to Financial Statements

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Advances and Deposits

The balance reported as advances consists of monies advanced by the State of Michigan and contractor escrow deposits. Under provisions of the State trunkline maintenance contract, the state advances funds to the Road Commission for maintenance costs and equipment purchases. The advances are adjusted annually by the State and must be repaid if the maintenance contract is canceled. The Road Commission requires escrow deposits from contractors for various projects. The following is a summary of the balance, by source and use:

State –		
Trunkline maintenance	\$	90,411
Equipment		106,847
Local – Escrow deposits		<u>12,826</u>
Total	\$	<u>210,084</u>

Equipment Expenditure Net Balance

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as expenditures in the various maintenance activities. An expenditure credit is reported as an offset against the equipment expenditure activities. Accordingly, the equipment rental does not affect total expenditures or the available operating equity of the Road Commission's General Operating Fund. The net amount reported as equipment expenditures for the year was comprised of the following:

Equipment –		
Direct	\$	948,398
Indirect		498,736
Operating		408,543
Less equipment rental		<u>(1,866,886)</u>
Total	\$	<u>(11,209)</u>

Capital Outlay Expenditure Balance

On the governmental financial statements, the Road Commission reports a depreciation credit to offset capital outlay as a result of charging depreciation to various expenditure accounts. The net book value of capital asset retirements are also reported as a credit against capital outlay. The net amount reported as capital outlay expenditures for the year was comprised of the following:

Capital outlay –		
Road equipment	\$	260,228
Other equipment		64,505
Less equipment retirements		(146)
Less depreciation / depletion		<u>(374,026)</u>
Total	\$	<u>(49,439)</u>

Ionia County Road Commission

Notes to Financial Statements

Risk Management

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for healthcare claims.

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The Michigan County Road Commission Self-insurance Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. The pool provides loss coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, trunkline liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. The Road Commission's exposure is limited to \$1,000 per claim; all other risk is transferred to the Pool. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three (3) fiscal years.

The Road Commission is a member of the County Road Association Self-Insurance Fund for workers' compensation claims. As a member of the fund, the Road Commission is fully insured for workers' compensation claims incurred.

Contingencies

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

Federal Award Expenditure / Single Audit

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 \$1,058,216 for contracted projects and \$32,230 for negotiated 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 it expended \$500,000 or more for negotiated projects.

Subsequent Event

In February 2014, the Road Commission entered into a five-year installment purchase agreement in the amount of \$226,000, bearing interest at 2.5% for the purpose of acquiring a motor grader. The purchase price of the motor grader was \$283,000; existing funds were used to pay the amount not financed with the installment purchase agreement.

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REQUIRED SUPPLEMENTARY INFORMATION

Ionia County Road Commission

Required Supplementary Information Budgetary Comparison Schedule - General Operating / Road Fund

For the Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenue				
Licenses and permits	\$ 61,200	\$ 54,000	\$ 55,080	\$ 1,080
Intergovernmental				
Federal sources	4,738,606	1,117,910	1,090,447	(27,463)
State sources	4,629,141	7,376,233	7,333,156	(43,077)
Local sources	1,145,000	1,520,000	1,622,372	102,372
Charges for services	1,367,462	1,530,518	1,420,272	(110,246)
Interest and rents	8,000	2,700	12,866	10,166
Other	175,000	45,144	7,088	(38,056)
Total revenue	12,124,409	11,646,505	11,541,281	(105,224)
Expenditures				
Current				
Primary preservation - structural improvements	6,035,998	5,138,015	5,053,064	(84,951)
Local preservation - structural improvements	667,626	695,000	699,216	4,216
Primary maintenance	1,433,378	1,829,967	1,709,053	(120,914)
Local maintenance	2,350,656	2,794,315	2,720,254	(74,061)
State maintenance	1,067,462	1,294,131	1,246,869	(47,262)
State nonmaintenance	-	-	20,518	20,518
Administrative	363,266	385,743	305,993	(79,750)
Equipment - net	319,642	110,000	(11,209)	(121,209)
Other	-	42,000	104,486	62,486
Capital outlay - net	284,300	37,000	(49,439)	(86,439)
Debt service	120,510	48,958	48,958	-
Total expenditures	12,642,838	12,375,129	11,847,763	(527,366)
Excess of revenue over (under) expenditures	(518,429)	(728,624)	(306,482)	422,142
Other financing sources				
Note proceeds	290,000	135,000	135,000	-
Net change in fund balance	(228,429)	(593,624)	(171,482)	422,142
Fund balance				
Beginning of the year	1,502,228	1,850,591	1,850,591	-
End of the year	\$ 1,273,799	\$ 1,256,967	\$ 1,679,109	\$ 422,142

Ionia County Road Commission
Required Supplementary Information
Schedules of Funding Progress

Postemployment Healthcare (OPEB)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Simplified Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2008*	\$ 100,000	\$ 5,188,545	\$ 5,088,545	1.9%	\$ 1,898,074	268%
12/31/2011**	105,731	4,888,349	4,782,618	2.2%	1,700,070	281%

* information for preceding years is not available

** the most current actuarial valuation date

Defined Benefit Pension Plan (MERS)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Simplified Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2010	\$ 4,988,708	\$ 13,463,634	\$ 8,474,926	37%	\$ 1,700,070	499%
12/31/2011	5,278,435	13,773,777	8,495,342	38%	1,712,771	496%
12/31/2012	5,562,792	14,141,681	8,578,889	39%	1,708,942	502%

OTHER SUPPLEMENTARY INFORMATION

Ionia County Road Commission

Other Supplementary Information Schedule of Road Fund Revenue

For the Year Ended December 31, 2013

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
Licenses and permits	\$ -	\$ -	\$ 55,080	\$ 55,080
Federal aid				
D Funds	484,665	-	-	484,665
Other - Safety / HRRR grant	605,782	-	-	605,782
State aid				
Michigan Transportation Fund				
Engineering	6,638	3,362	-	10,000
Urban road	128,205	33,509	-	161,714
Allocation	2,954,384	1,496,151	-	4,450,535
Critical bridge	2,368,827	-	-	2,368,827
Economic development fund				
Rural primary (D)	80,404	-	-	80,404
Urban area (F)	261,668	-	-	261,668
Other	8	-	-	8
Contributions from local units				
City and Village	80,000	-	-	80,000
Townships	274,681	1,189,842	-	1,464,523
County appropriation	-	-	35,000	35,000
Other	-	42,849	-	42,849
Charges for services				
State trunkline maintenance	1,363,931	-	-	1,363,931
State trunkline nonmaintenance	20,518	-	-	20,518
Other	-	-	35,823	35,823
Interest and rents	-	-	12,866	12,866
Other				
Gain on equipment disposals	7,088	-	-	7,088
Total revenue	<u>\$ 8,636,799</u>	<u>\$ 2,765,713</u>	<u>\$ 138,769</u>	<u>\$ 11,541,281</u>

Ionia County Road Commission

Other Supplementary Information Schedule of Road Fund Expenditures

For the Year Ended December 31, 2013

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
Primary road				
Preservation / structural improvements	\$ 2,350,759	\$ -	\$ -	\$ 2,350,759
Maintenance	1,248,651	-	-	1,248,651
Winter maintenance	451,603	-	-	451,603
Local road				
Preservation / structural improvements	-	674,772	-	674,772
Maintenance	-	2,289,459	-	2,289,459
Winter maintenance	-	398,189	-	398,189
Primary road structure				
Preservation / structural improvements	2,702,305	-	-	2,702,305
Maintenance	8,799	-	-	8,799
Local road structure				
Preservation / structural improvements	-	24,444	-	24,444
Maintenance	-	32,606	-	32,606
State trunkline				
Maintenance	1,246,869	-	-	1,246,869
Nonmaintenance	20,518	-	-	20,518
Administrative - net	203,226	102,767	-	305,993
Equipment - net	(5,420)	(5,789)	-	(11,209)
Capital outlay - net	(49,439)	-	-	(49,439)
Debt service				
Principal payments	47,153	-	-	47,153
Interest / fees	1,805	-	-	1,805
Other				
Other maintenance	-	-	40,416	40,416
Engineering	-	-	64,070	64,070
Total expenditures	<u>\$ 8,226,829</u>	<u>\$ 3,516,448</u>	<u>\$ 104,486</u>	<u>\$ 11,847,763</u>

Ionia County Road Commission
Other Supplementary Information
Schedule of Changes in Road Fund Balances
For the Year Ended December 31, 2013

	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road</u>	<u>Total</u>
Total revenue	\$ 8,636,799	\$ 2,765,713	\$ 138,769	\$ 11,541,281
Total expenditures	<u>8,226,829</u>	<u>3,516,448</u>	<u>104,486</u>	<u>11,847,763</u>
Excess of revenue over (under) expenditures	409,970	(750,735)	34,283	(306,482)
Other financing sources (uses)				
Optional transfers	(544,970)	750,735	(205,765)	-
Installment purchase proceeds	<u>135,000</u>	<u>-</u>	<u>-</u>	<u>135,000</u>
Total other financing sources (uses)	<u>(409,970)</u>	<u>750,735</u>	<u>(205,765)</u>	<u>135,000</u>
Excess of revenue and other financing sources over (under) expenditures	-	-	(171,482)	(171,482)
Fund balance				
Beginning of the year	<u>-</u>	<u>-</u>	<u>1,850,591</u>	<u>1,850,591</u>
End of the year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,679,109</u></u>	<u><u>\$ 1,679,109</u></u>



SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

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A VETERAN OWNED BUSINESS

**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***

Members of the Board of County Road Commissioners
County of Ionia, Michigan
Ionia, Michigan

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, the major fund and the aggregate remaining fund information of the ***Ionia County Road Commission***, a component unit of Ionia County, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the ***Ionia County Road Commission's*** basic financial statements and have issued our report thereon dated April 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ***Ionia County Road Commission's*** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ***Ionia County Road Commission's*** internal control. Accordingly, we do not express an opinion on the effectiveness of the ***Ionia 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 *Ionia County Road Commission's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Road Commission'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 Road Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith + Klayheinz PC

Saginaw, Michigan

April 28, 2014