Chippewa County Road Commission

BASIC FINANCIAL STATEMENTS

December 31, 2009

CHIPPEWA COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

Louis M. MacDonald
Chairman

Clifford H. Carr
Vice Chairman

Bernard P. LaJoie
Member

Robert Laitinen
Manager

Brian Decker
Office Manager

Christine McDowell
Executive Assistant

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and major fund of the Chippewa County Road Commission (a component unit of the County of Chippewa, Michigan) as of and for the year ended December 31, 2009, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Chippewa County Road Commission as of December 31, 2009, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2010 on our consideration of the Chippewa County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chippewa County Road Commission's basic financial statements. The schedules listed as other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson Tackman & Co. PLC

Anderson, Tackman & Company, PLC
Certified Public Accountants

March 12, 2010

Management's Discussion and Analysis

Using This Annual Report

The Chippewa County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

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

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

Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 10. The fund financial statements begin on page 28 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

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

The Road Commission as a Whole

The Road Commission's net assets increased approximately 1.8% from $71.1 million to $72.4 million for the year ended December 31, 2009. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, decreased $328 thousand. The primary reason for the decreases was an increase in spending for road projects.

Net assets as of the years ended December 31, 2009 and 2008 follows:

	Governmental Activities	
	2009	2008
Current Assets	$ 5,338,687	$ 5,643,165
Capital Assets	71,538,026	70,958,722
Total Assets	$ 76,876,713	$ 76,601,887
Current Liabilities	$ 2,250,141	$ 3,057,259
Noncurrent Liabilities	2,221,390	2,423,063
Total Liabilities	4,471,531	5,480,322
Net Assets		
Invested in Capital Assets - Net of Related Debt	70,774,678	69,163,393
Restricted	1,630,504	1,958,172
Total Net Assets	$ 72,405,182	$ 71,121,565

A summary of changes in net assets for the years ended December 31, 2009 and 2008 follows:

	Governmental Activities	
	2009	2008
Program Revenues		
Charges for Services	$ 2,017,511	$ 1,781,568
Grants and Contributions	7,011,676	8,099,978
Interest Income	13,176	42,083
General Revenues		
Property Taxes	702,575	675,458
Gain on Equipment Disposal	400	291,551
Total Revenues	9,745,338	10,890,638
Program Expenses		
Primary Roads	2,752,884	3,392,278
Local Roads	2,617,427	2,371,269
State Trunkline	1,867,249	2,197,698
Equipment Expense	126,306	138,927
Administrative	356,156	346,093
Interest Expense and Other	741,699	813,571
Total Expenses	8,461,721	9,259,836
Changes in Net Assets	1,283,617	1,630,802
Net Assets – Beginning	71,121,565	69,490,763
Net Assets – Ending	$ 72,405,182	$ 71,121,565

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, 2009, the fund balance of the general operations fund increased $367 thousand as compared to a decrease of $460 thousand in the fund balance for the prior year. Total revenues were $9.7 million, a decrease of $3.2 million as compared to last year. This change in revenues resulted primarily from federal sources and state project funding.

Total expenditures were $9.4 million, a decrease of $4 million as compared to last year. This change in expenditures is primarily the result of bridge structures, road improvements, and capital outlay activities in the current year.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The revenue budget for 2009 was $16 thousand less than the actual receipts. This was due, in part, to the projection of state funding. The Road Commission budgets for the receipt of funds from the state for projects on primary and local roads.

Road Commission expenditures were projected at $9.7 million while actual expenditures were $9.4 million. This resulted in total expenditures being under budget by $371 thousand. There were several items that account for the variance in the projection of the budget.

Capital Assets

As of December 31, 2009 and 2008, the Road Commission had invested in capital assets as follows:

	2009	2008
Capital Assets Not Being Depreciated		
Land and Improvements	$ 41,070,217	$ 39,522,312
Other Capital Assets		
Buildings and Improvements	4,304,185	4,215,525
Road Equipment	11,442,025	11,152,246
Other Equipment and Assets	1,507,001	1,486,649
Infrastructure	46,004,608	45,290,222
Total Capital Assets at Historic Cost	104,328,036	101,666,954
Total Accumulated Depreciation	(32,790,010)	(30,708,232)
Total Net Capital Assets	$ 71,538,026	$ 70,958,722

Major additions included the following:

	2009	2008
Buildings	$ 88,660	$ 83,758
Land & Improvements	$ 1,547,905	$ 2,635,735
Various Resurfacing Projects and Bridges	$ 1,741,968	$ 3,308,052
Trucks/Equipment/Other	$ 339,484	$ 1,384,021

Debt

The Road Commission currently has long-term debt in the amount of $1,057,362 which represents road loans, equipment financing, and compensated absences. Additionally, due to provisions of GASB Statement 45, the Commission recorded a $1,368,988 obligation for post employment benefits.

Economic Factors and Next Year's Budget

The Board of County Road Commissioner's considered many factors when setting the fiscal year 2010 budget. One of the factors is the economy. The Road Commission derives approximately 60% of its revenues from the fuel tax collected. The continuing economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed. If a decrease in funding occurs, road projects may be reduced. Additionally, management may consider reducing labor costs through attrition and adjusting health care benefits.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Chippewa County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of the County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Chippewa County Road Commission administrative offices at 3949 S. Mackinac Trail, Sault Ste. Marie, MI 49783.

Basic Financial Statements

Statement of Net Assets
December 31, 2009

ASSETS		
Current Assets:		
Cash and Equivalents	$	1,858,328
Accounts Receivable:		
State – Other		168,830
Property Taxes		720,889
Michigan Transportation Fund		647,084
State – Trunkline Maintenance		373,435
Due on County Road Agreements		388,068
Inventories:		
Road Materials		789,516
Equipment, Parts and Materials		286,526
Prepaid Expense		106,011
Total Current Assets		5,338,687
Noncurrent Assets:		
Capital Assets (Nondepreciable)		41,070,217
Capital Assets (Net of Accumulated Depreciation)		30,467,809
Total Noncurrent Assets		71,538,026
Total Assets	$	76,876,713
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	149,711
Due to State of Michigan		5,289
Accrued Liabilities		116,096
Advances		879,366
Escrow		5,000
Contingent Loan Commitment		168,830
Deferred Tax Revenue		720,889
Installment Purchase Agreements Payable		204,960
Total Current Liabilities		2,250,141
Noncurrent Liabilities:		
Compensated Absences Payable		294,014
OPEB Obligation		1,368,988
Installment Purchase Agreements Payable		558,388
Total Noncurrent Liabilities		2,221,390
Total Liabilities		4,471,531
NET ASSETS		
Invested in Capital Assets - Net of Related Debt		70,774,678
Restricted for County Road		1,630,504
Total Net Assets	$	72,405,182

See accompanying notes to financial statements.

Statement of Activities
For the Year Ended December 31, 2009

Program Expenses:	
Primary Road Maintenance	
and Preventive Maintenance	$ 2,752,884
Local Road Maintenance	
and Preventive Maintenance	2,617,427
State Trunkline	1,867,249
Net Equipment Expense	126,306
Net Administrative Expense	356,156
Compensated Absences and Benefits	694,846
Interest Expense	46,853
Total Program Expenses	8,461,721
Program Revenues:	
Charges for Services:	
Charges for Services	2,008,392
Other	9,119
Operating Grants and Contributions:	
State Grants	3,723,636
Interest Income	13,176
Capital Grants and Contributions:	
Federal Grants	565,950
State Grants	985,294
Contributions from Local Units	1,736,796
Total Program Revenues	9,042,363
Net Program Revenues	580,642
General Revenue	
Property Taxes	702,575
Gain on Equipment Disposal	400
Total General Revenues	702,975
Changes in Net Assets	1,283,617
Net Assets	
Beginning of Year	71,121,565
End of Year	$ 72,405,182

See accompanying notes to financial statements.

Balance Sheet
December 31, 2009

		Governmental Fund Type General Operating Fund
ASSETS		
Cash and Equivalents	$	1,858,328
Accounts Receivable:		
Property Taxes		720,889
Michigan Transportation Fund		647,084
State Trunkline Maintenance		373,435
Due on County Road Agreements		388,068
Inventories:		
Road Materials		789,516
Equipment, Parts, and Materials		286,526
Prepaid Expenses		106,011
Total Assets	$	5,169,857
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts Payable	$	149,711
Accrued Liabilities		116,096
Due to State of Michigan		5,289
Escrow		5,000
Advances		879,366
Deferred Revenue		720,889
Total Liabilities		1,876,351
FUND EQUITY		
Fund Balance:		
Unreserved and Undesignated		3,293,506
Total Fund Equity		3,293,506
Total Liabilities and Fund Equity	$	5,169,857

See accompanying notes to financial statements.

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended December 31, 2009

Total Governmental Fund Balance	$ 3,293,506
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	71,538,026
Other long-term liabilities are not available to pay for current period expenditures and therefore are not reported in the funds.	(2,426,350)
Net Assets of Governmental Activities	$ 72,405,182

See accompanying notes to financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended December 31, 2009

	General Operating Fund
Revenues	
Property Taxes	$ 702,575
Federal Sources	565,950
State Sources	4,708,930
Contributions from Local Units	1,736,796
Charges for Services	2,008,792
Investment Earnings	13,176
Other Revenue	9,119
Total Revenues	9,745,338
Expenditures	
Public Works	8,970,930
Capital Outlay	(671,604)
Debt Service	1,078,834
Total Expenditures	9,378,160
Excess of Revenues Over (Under) Expenditures	367,178
Fund Balance – January 1, 2009	2,926,328
Fund Balance – December 31, 2009	$ 3,293,506

See accompanying notes to financial statements.

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2009

Net Change in Fund Balance – Total Governmental Funds	$	367,178
Amounts reported for governmental activities in the statements are different because:		
Governmental funds report capital outlays and infrastructure improvements as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation and equipment retirements in the current period.		579,304
Note/lease proceeds provide current financial resources in governmental funds and increases liabilities in the statement of net assets. Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets.		1,023,026
Change in compensated absences, interest on debt, and OPEB obligation recognized as an expense in the statement of activities.		(685,891)
Change in Net Assets of Governmental Activities	$	1,283,617

See accompanying notes to financial statements.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Chippewa County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Chippewa County Road Commission.

A. Reporting Entity

The Chippewa County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member Board of County Road Commissioners appointed by the Chippewa County Board of County Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14 and as amended by GASB No. 39, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Chippewa County Road Commission, a discretely presented component unit of Chippewa County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Chippewa County Road Commission. There is only one fund reported in the government-wide financial statements.

The statement of net assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements. The operating fund is the only major fund of the Commission.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government. Under the terms of grant agreements, the Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Commission’s policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Assets, Liabilities, and Net Assets or Equity

<u>Cash, Cash Equivalents and Investments</u>

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. All deposits are recorded at cost.

<u>Inventories</u>

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Expenses

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

Property Taxes Receivable

The property tax is levied each December 1st. on the taxable valuation of property located in the County as of the preceding December 31st. The 2009 taxable valuation of $1,050,130,190 for Road Millage amounted to $1,021,224 less $300,335 for cities and villages, (on which ad valorem taxes of 0.989 mills were levied) for road maintenance purposes resulted in net total of $720,889.

In the government-wide financial statements, the tax is recorded as revenue when the tax is levied in the current year. Although the County's 2009 ad valorem tax is levied and collectible December 1, 2009, it is the Road Commission's policy to recognize revenues from the current tax levy in the subsequent year. When the proceeds of this levy are budgeted and made available for the financing of the Road Commission's operations in the governmental fund financial statements. The tax receivable is offset to deferred revenue.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Chippewa County Road Commission as assets with an initial individual cost of more than $1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Subsequent Events

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Compensated Absences (Vacation and Sick Leave)

Vacation – Prior to February 1, 1981, employees with vacation time will be credited to the employee and it may be used at the employee's discretion. Beginning February 1, 1985, employees may carry forward 40 hours of vacation per year, which must be used by the end of the next calendar year. Vacation pay is calculated at the rate of pay in effect when it was earned.

Sick Leave – Employees hired before February 1, 1993, may accumulate a maximum of 168 days of sick leave. Upon death or retirement, employees are paid for a maximum of 132 days at their current rate of pay. Employees hired on or after February 1, 1993, may accumulate a maximum of 480 hours of sick leave. Upon death or retirement, after 20 years of service employees are paid for 50% of their accumulated sick hours to a maximum of 240 hours at their current rate of pay.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Office Manager prepares a budget in accordance with the Act which is adopted by the Board at a public hearing each December. All budgets lapse at fiscal year end.

NOTE 3 - CASH AND DEPOSITS

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

	Carrying Amount	Financial Institution Balance
Public Money Market Funds	$ 607,527	$ 607,527
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	1,250,551	1,253,054

Interest rate risk. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

Custodial credit risk. Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Commission's $607,527 of investments, are pooled public funds in the name of the agent. Credit quality ratings of public money funds were not available from the financial institution or are unrated.

NOTE 3 - CASH AND DEPOSITS (Continued)

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end, $1,003,054 of the Commission's bank balance of $1,253,054 was exposed to credit risk because it was uninsured and uncollateralized.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Chippewa County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Chippewa County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Chippewa County Road Commission's financial statements.

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balances 01/01/09	Additions	Adjustments/ Deductions	Ending Balances 12/31/09
Capital Assets Not Being Depreciated				
Land and Improvements	$ 267,569	$ 1,833	$ -	$ 269,402
Land/Improvements - Infrastructure	39,254,743	1,546,072	-	40,800,815
Subtotal	39,522,312	1,547,905	-	41,070,217
Capital Assets Being Depreciated				
Buildings	4,215,525	88,660	-	4,304,185
Road Equipment	11,152,246	315,847	26,068	11,442,025
Shop Equipment	243,369	18,897	-	262,266
Office Equipment	62,506	1,934	3,285	61,155
Engineers' Equipment	58,952	2,806	-	61,758
Depletable Assets	1,121,822	-	-	1,121,822
Infrastructure – Roads	32,095,088	1,731,660	1,027,282	32,799,466
Infrastructure – Bridges	13,195,134	10,308	300	13,205,142
Subtotal	62,144,642	2,170,112	1,056,935	63,257,819

NOTE 5 - CAPITAL ASSETS (Continued)

	Beginning Balances 01/01/09	Additions	Adjustments/ Deductions	Ending Balances 12/31/09
Less Accumulated Depreciation				
Buildings	1,726,076	121,094	-	1,847,170
Road Equipment	9,080,076	842,652	26,068	9,896,660
Shop Equipment	126,072	17,157	-	143,229
Office Equipment	60,131	1,266	3,285	58,112
Engineers' Equipment	48,860	7,982	-	56,842
Depletion	124,369	111,430	-	235,799
Infrastructure – Roads	13,125,649	1,739,791	1,027,282	13,838,158
Infrastructure – Bridges	6,416,999	297,041	-	6,714,040
Subtotal	30,708,232	3,138,413	1,056,635	32,790,010
Net Capital Assets Being Depreciated	31,436,410	(968,301)	300	30,467,809
Total Net Capital Assets	$ 70,958,722	$ 579,604	$ 300	$ 71,538,026

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

Primary Road Maintenance and Preventive Maintenance	$ 1,222,656
Local Road Maintenance and Preventive Maintenance	814,176
Equipment Expenses	842,652
Administrative	13,402
Other Allocated	245,527
Total Depreciation Expense	$ 3,138,413

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS SYSTEMS

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

Plan Description – The Chippewa County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 1134 Municipal Way, Lansing, Michigan.

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS SYSTEMS (Continued)

Funding Policy – The obligation to contribute and maintain the system for these employees was established by negotiation with the Chippewa County Road Commission's competitive bargaining units and requires an employer contribution of 0% to 10% of wages. The commission contributed an additional 19.35% and 7.61% for employees after February 2004.

Annual Pension Costs – For year ended 2009, the Chippewa County Road Commission's annual pension cost of $335,377 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2007, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a ten year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2006	$ 331,307	100%	0
2007	363,080	100%	0
2008	354,107	100%	0

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2009, the federal aid received and expended by the Road Commission was $565,950 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended $500,000 or more.

NOTE 8 - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE 9 - LONG-TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

	Balance 01/01/09	Additions	Reductions	Balance 12/31/09	Due Within One Year
State Infrastructure Bank loan, principal due in single installment of $597,000, interest payments at rate of 3%, due 2010.	$ 597,000	$ -	$ 597,000	$ -	$ -
Installment payable secured by real estate mortgage, payable in monthly installments of $5,055 including interest of 3.90%.	286,206	-	50,408	235,798	52,394
Installment payable secured by equipment, payable in monthly installments of $648 including interest of 4.5%.	5,074	-	5,074	-	-
Installment payable secured by Trucks, payable in monthly installments of $14,029 including interest of 3.45%, due 2013.	675,700	-	148,150	527,550	152,566
Installment payable secured by vehicles, payable in monthly installments of $11,239 including interest of 3.79%.	222,394	-	222,394	-	-
Subtotal	1,786,374	-	1,023,026	763,348	$ 204,960
Compensated Absences (1)	283,662	10,352	-	294,014	
TOTAL LONG-TERM DEBT	$ 2,070,036	$ 10,352	$ 1,023,026	$ 1,057,362	

(1) Net increase.

Annual debt service requirements are as follows:

	Principal	Interest	Total
2010	$ 204,960	$ 24,048	$ 229,008
2011	212,366	16,642	229,008
2012	220,063	8,945	229,008
2013	112,551	2,117	114,668
2014	13,408	71	13,479
Total	$ 763,348	$ 51,823	$ 815,171

NOTE 10 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

In addition to the pension benefits, the Chippewa County Road Commission agrees to provide 100% of BC/BS and prescription drug coverage benefits to eligible retirees and/or their spouses who retire after February 1, 1985 and who were hired prior to February 1, 2005 until retiree's death. If a retiree dies, the current spouse shall be provided the same coverage until attainment of Medicare eligibility. Upon attainment of Medicare eligibility the retiree's spouse will be responsible for 100% of the cost of any medical coverage if they elect to stay in the group.

For eligible retirees who were hired after February 1, 2005, the Chippewa County Road Commission agrees to pay a fixed percent of the premium for BC/BS and prescription drug coverage benefits based on years of service, but only until attainment of Medicare eligibility, at which time, 100% of premium shall be paid for by the retiree and or spouse if they elect to remain in the group.

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

Funding Policy. Contribution requirements also are negotiated between the Commission and employees. The Commission contributes 100% of the cost of current-year premiums for eligible retired plan members. For fiscal year 2009, the Commission contributed $458,641 to the plan. Total member contributions were $30,122.

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

Annual required contribution	$ 1,143,135
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	1,143,135
Contributions made	(458,641)
Increase in net OPEB obligation	684,494
Net OPEB obligation – beginning of year	684,494
Net OPEB obligation – end of year	$ 1,368,988

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

The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2008 and 2009 is as follows:

Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	$ 1,093,909	37.43%	$ 684,494
2009	1,143,135	40.12%	1,368,988

Funded Status and Funding Progress. As of December 31, 2008, (2009 unavailable), the actuarial accrued liability for benefits was $16,347,444, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was unavailable, and the ratio of the unfunded actuarial accrued liability to the covered payroll was unavailable.

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

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

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

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

In the December 31, 2008, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 6.0% 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 at the valuation date, and an annual healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 4.5% after ten years. Both rates included a percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants – The Road Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission.

Risk Management – The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of $1,000 ($2,000 for errors and omissions) for each insured event. The maximum limit of liability for each occurrence is $10,500,000.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

Environmental Remediation – The Commission has implemented environmental impact evaluation procedures at its Trout Lake and Strongs, Michigan locations. The cost estimated of any environmental remediation is not determinable at this time. Ongoing monitoring of any continuing contamination has been implemented at the both Michigan locations. Future potential liabilities, if any, are undeterminable as of the opinion date.

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

NOTE 12 - SUBSEQUENT EVENTS

During January 2010, the Commission executed a purchase agreement for six vehicles amounting to approximately $955,000. Two vehicles were destroyed in November 2009 and February 2010, resulting in an insurance recovery of approximately $145,000 and bid procedures for two vehicles were executed in 2010.

NOTE 13 - CONTINGENT LOAN COMMITMENT

During fiscal 2008, the Commission executed a loan contract with the Michigan Department of Transportation to assist the Commission in financing transportation infrastructure improvements. The contract terms stipulate a loan amount not to exceed $1,362,484 at a rate of 4% per annum. The loan funds are restricted to use on specific projects only. Additionally, the agreement grants permission to the Michigan Department of Transportation to convert federal advanced construction funds, when available, to repay the loan principal amounts, with final payment required by September 30, 2010. If repayment is not paid by that date, the Michigan Department of Treasury is allowed to withhold monies from Michigan Transportation Funds in lieu of repayment.

Required Supplementary Information

Required Supplementary Information
Employee Retirement and Benefit Systems
Schedule of Funding Progress

December 31, 2009

Pension:

Three year trend information as of December 31, 2008 as follows:

	2006	2007	2008
Actuarial Value of Assets	$ 10,481,715	$ 10,856,676	$ 10,703,532
Actuarial Accrued Liability	13,793,265	14,655,311	15,102,480
Unfunded AAL	3,311,550	3,798,635	4,398,948
Funded Ratio	76%	74%	71%
Covered Payroll	2,364,544	2,214,216	2,363,722
UAAL as a Percentage of Covered Payroll	140%	172%	186%

Health Benefits:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b – a) / c)
2008	$ -	$16,347,444	$16,347,444	0.0%	Not Available	-

Required Supplementary Information
Budgetary Comparison Schedule
Statement of Revenues – Budget and Actual
For the Year Ended December 31, 2009

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Property Taxes	$ 675,000	$ 703,000	$ 702,575	$ (425)
Federal Sources	575,000	566,000	565,950	(50)
State Sources	4,825,250	4,697,000	4,708,930	11,930
Contributions from Local Units	630,000	1,737,000	1,736,796	(204)
Charges for Services	1,720,819	2,008,000	2,008,792	792
Other Revenue	810,000	50,000	22,295	(27,705)
Total Revenue	$ 9,236,069	$ 9,761,000	$ 9,745,338	$ (15,662)

Supplementary Information
Budgetary Comparison Schedule
Statement of Expenditures – Budget and Actual
For the Year Ended December 31, 2009

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road	$ 1,977,000	$ 2,800,000	$ 2,750,662	$ 49,338
Local Road	2,622,000	4,000,000	3,870,556	129,444
State Trunkline	1,720,819	1,900,000	1,867,249	32,751
Equipment Expense – Net	(100,000)	321,000	126,306	194,694
Administrative Expense – Net	149,450	374,000	356,157	17,843
Capital Outlay – Net	(404,500)	(725,000)	(671,604)	(53,396)
Distributive	2,283,500	-	-	-
Debt Service	987,078	1,079,000	1,078,834	166
Total Expenditures	9,235,347	9,749,000	$ 9,378,160	$ 370,840
Fund Balance – January 1, 2009	2,926,328	2,926,328		
Total Budget	$ 12,161,675	$ 12,675,328		

Other Supplementary Information

Other Supplementary Information
Analysis of Changes in Fund Balances
For the Year Ended December 31, 2009

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	$ 3,559,489	$ 4,159,365	$ 2,026,484	$ 9,745,338
Total Expenditures	2,926,509	4,136,817	2,314,834	9,378,160
Excess of Revenues Over (Under) Expenditures	632,980	22,548	(288,350)	367,178
Interfund Transfers	-	-	-	-
Fund Balance – January 1, 2009	1,119,711	-	1,806,617	2,926,328
Fund Balance – December 31, 2009	$ 1,752,691	$ 22,548	$ 1,518,267	$ 3,293,506

Other Supplementary Information
Analysis of Revenues
For the Year Ended December 31, 2009

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Property Taxes	$ -	$ 702,575	$ -	$ 702,575
Federal Sources				
Surface Transportation Program	491,520	-	-	491,520
High Priority	44,752	-	-	44,752
D Funds	29,678	-	-	29,678
State Sources				
Michigan Transportation Fund				
Engineering	5,600	4,400	-	10,000
Allocation	2,135,755	1,666,427	-	3,802,182
Urban	235,660	50,236	-	285,896
Snow Removal	-	339,610	-	339,610
State Critical Bridge	-	1,270	-	1,270
Economic Development Fund				
Rural Primary	39,449	-	-	39,449
Forest Road (E)	230,374	-	-	230,374
Jobs Today	149	-	-	149
Contributions from Local Units				
Township	341,545	797,333	-	1,138,878
Other	-	597,514	404	597,918
Charges for Services				
State Trunkline Maintenance	-	-	1,986,517	1,986,517
Nonmaintenance	-	-	4,205	4,205
Salvage Sales	-	-	18,070	18,070
Interest and Rents	5,007	-	8,169	13,176
Other Revenue				
Gain on Disposals	-	-	400	400
Other	-	-	8,719	8,719
Total Revenue	$ 3,559,489	$ 4,159,365	$ 2,026,484	$ 9,745,338

Other Supplementary Information
Analysis of Expenditures
For the Year Ended December 31, 2009

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation	$ 1,220,734	$ -	$ -	$ 1,220,734
Maintenance	1,529,928	-	-	1,529,928
Local Road				
Preservation	-	2,067,306	-	2,067,306
Maintenance	-	1,803,250	-	1,803,250
State Trunkline Maintenance	-	-	1,863,044	1,863,044
State Trunkline Nonmaintenance	-	-	4,205	4,205
Equipment Expense – Net	27,888	58,063	40,355	126,306
Administrative Expense – Net	147,959	208,198	-	356,157
Capital Outlay – Net	-	-	(671,604)	(671,604)
Debt Service				
Debt Principal Payments	-	-	1,023,026	1,023,026
Interest Expense	-	-	55,808	55,808
Total Expenditures	$ 2,926,509	$ 4,136,817	$ 2,314,834	$ 9,378,160

Report on Compliance

ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE
PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
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MEMBER AICPA
DIVISION FOR CPA FIRMS
MEMBER MACPA
OFFICES IN
MICHIGAN & WISCONSIN

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

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

We have audited the financial statements of the governmental activities and major fund of the Chippewa County Road Commission, (a component unit of Chippewa County, Michigan), as of and for the year ended December 31, 2009, which collectively comprise the Chippewa County Road Commission's basic financial statements and have issued our report thereon dated March 12, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting, listed as 09-1. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Chippewa County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contacts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Chippewa County Road Commission in separate letter dated March 12, 2010.

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

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

Anderson Tackman & Co. PLC

Anderson, Tackman & Company, PLC
Certified Public Accountants

March 12, 2010

SIGNIFICANT DEFICIENCIES

Preparation of the Financial Statements in Accordance with Generally Accepted Accounting Principles ***Finding 09-1***

Specific Requirement: Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 115 requires management to prepare annual audit statements in accordance with GASB Statement Number 34. (Audit report format)

Criteria: Internal controls should be in place to provide reasonable assurance to the Commission that management reports financial statements (with GASB Statement number 34 formats) necessary to monitor and report annual financial activity without auditor intervention.

Condition: Auditor modifies financial statements and footnotes to comply with governmental generally accepted accounting principles.

Effect: The effect of this condition places a reliance on the independent auditor as part of the Commission's internal controls over financial reporting.

Cause: Change in application of auditing standard.

Recommendation: The Commission should consider subcontracting financial statement preparation activities to monitor and report annual financial activity in accordance with GASB Statement Number 34 or train staff to accomplish this element.

Planned Corrective Action: In the past, the Board has relied on the auditors for this type of reporting for cost effectiveness. Due to limited resources, management does not wish to allocate additional funds to change this process.

- Contact Person(s) Responsible for Correction:
  Robert Laitinen, Manager

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2009

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Project Number	Federal Expenditures
U.S. Department of Transportation:				
Pass-Through Programs from the State of Michigan Department of Transportation (MDOT):				
Mackinac Trail	20.205	STP 0917(212)	89568	$ 314,166
North Shore Road	20.205	STP 0917(213)	89910	155,477
Tilson Road	20.205	HPSL 0717(015)	84397	96,307
Subtotal MDOT Administered				565,950
Total U.S. Department of Transportation				565,950
Total Expenditures of Federal Awards				$ 565,950