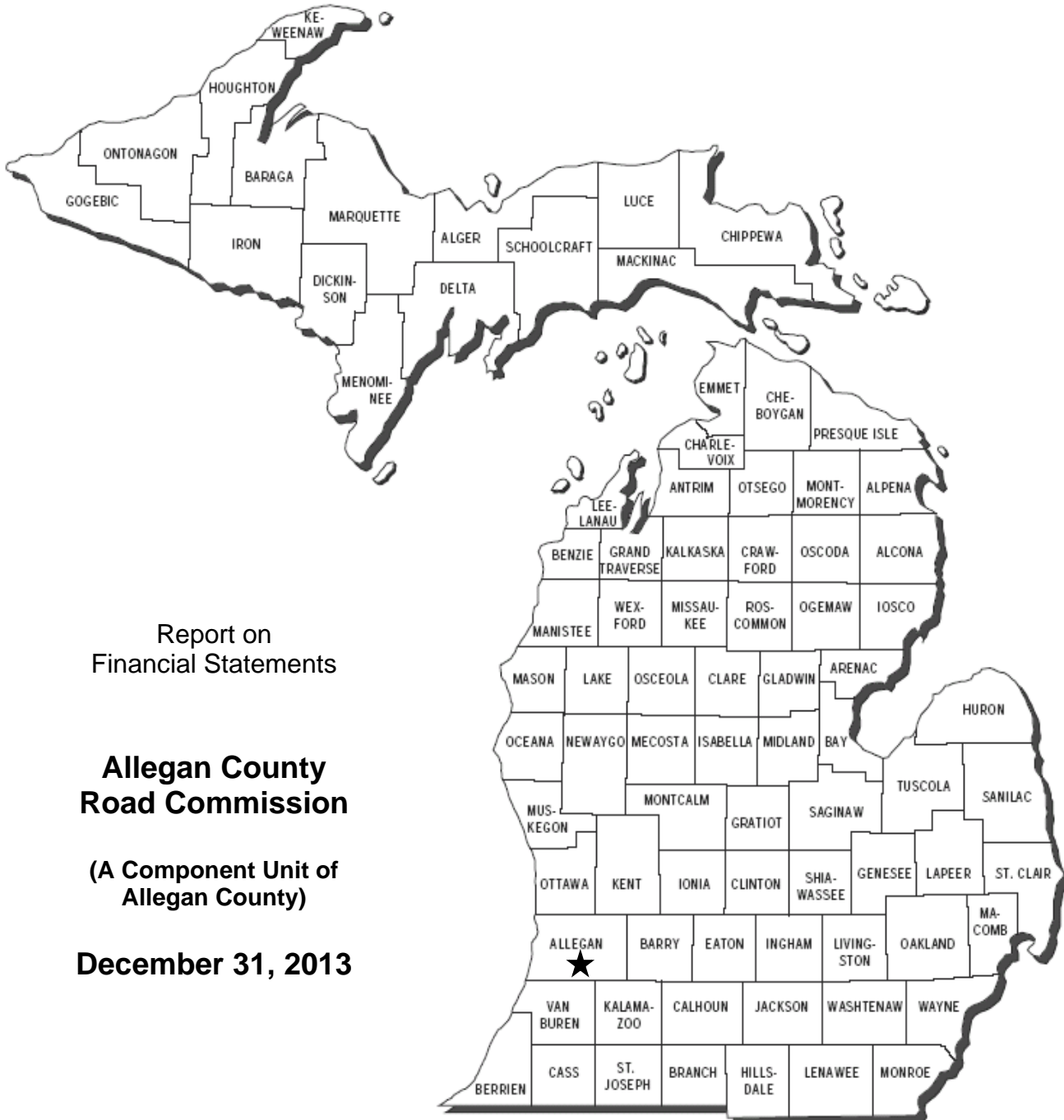


# STATE OF MICHIGAN

Rick Snyder, Governor

## DEPARTMENT OF TREASURY

ANDY DILLON  
State Treasurer



Report on  
Financial Statements

### Allegan County Road Commission

(A Component Unit of  
Allegan County)

December 31, 2013

ALLEGAN COUNTY ROAD COMMISSION  
BOARD OF COUNTY ROAD COMMISSIONERS

Bruce D. Culver  
Chairman

Robert T. Kaarlie  
Vice-Chairman

John Kleinheksel  
Member

Larry Brown  
Managing Director

Claire R. Patrick  
Business Manager

COUNTY POPULATION--2010  
111,408

STATE EQUALIZED VALUATION--2013  
\$5,302,554,945



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

R. KEVIN CLINTON  
STATE TREASURER

May 20, 2014

Board of County Road Commissioners  
Allegan County Road Commission  
1308 Lincoln Road  
Allegan, Michigan 49010

Independent Auditor's Report

Dear Commissioners:

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and major fund of the Allegan County Road Commission, a component unit of Allegan County, Michigan, as of and for the year ended December 31, 2013, and related notes to the financial statements, which collectively comprise the Allegan County 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 misstatements, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence supporting 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 principles 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 previously present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Allegan County Road Commission, as of December 31, 2013, and the respective changes in financial position for the year then ended in conformity 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 on pages 1 through 6 and the budgetary comparison information in Exhibits G and H and the schedule of funding progress for pensions and other post-employment benefits 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 the 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 the sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Allegan County Road Commission's basic financial statements. The accompanying supplementary and related information presented in Exhibits I through K is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary and related information presented in Exhibits I through K is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 accompanying supplementary and related information presented in Exhibits I through K are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

In accordance with Government Auditing Standards, we have also issued our report dated May 20, 2014, on our consideration of Allegan County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 in considering the Allegan County Road Commission's internal control over financial reporting and compliance.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

ALLEGAN COUNTY ROAD COMMISSION

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**ALLEGAN COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2013**

Our discussion and analysis of the Allegan County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the year ended December 31, 2013.

**USING THIS ANNUAL REPORT**

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. This report also contains supplementary information in addition to the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities on Exhibits A and B provide information about the activities of the Road Commission as a whole and present a longer-term view of the Road Commission's finances. Fund financial statements start with Exhibit C. The fund statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide statements by providing information about the Road Commission's general operating fund.

**Reporting the Road Commission as a Whole**

*The Statement of Net Position and the Statement of Activities*

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

These two statements report the Road Commission's net position and changes in them. You can think of the Road Commission's net position - the difference between assets and liabilities - as one way to measure the Road Commission's financial health, or financial position. Over time, increases or decreases in the Road Commission's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Road Commission's property tax base and the condition of Road Commission's infrastructure, to assess the overall health of the Road Commission.

In the Statement of Net Position and the Statement of Activities, the Road Commission presents Governmental activities. All of the Road Commission's basic services are reported here. State and Federal grants along with township contributions finance most activities.

**ALLEGAN COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2013**

**Report the Road Commission's Major Fund**

*Fund Financial Statements*

The Road Commission currently presents only a general operating fund, which is a governmental fund. All of the Road Commission's basic services are reported in this fund, which focuses on how money flows into and out of the fund and the balance left at year-end that is available for spending. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The fund financial statements provide a detailed short-term view of the Road Commission's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements as Exhibit D and F.

*Additional Required Supplementary Information (RSI)*

Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. The Required Supplementary Information includes budgetary comparison schedules, as well as schedule of funding progress for pensions and other post-employment benefits.

*Other Supplementary Information*

Other supplementary information includes combining financial statements. The Road Commission's general fund is split between the primary road, local road and county road commissions funds to comply with the reporting provisions issued by the Michigan Department of Transportation under Public Act 51 of 1951.

**The Road Commission as a Whole**

The Road Commission's net position increased from \$171,562,687 to \$180,334,105 for the year ended December 31, 2013. This is consistent to the previous year when the net position increased \$6,739,350. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the Road Commission's governmental activities.



**ALLEGAN COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2013**

**Table 1**  
**Net Position of Governmental Activities**

	12/31/12 Governmental Activities	12/31/13 Governmental Activities	Variance
Current and Other Assets	\$ 10,872,205	\$ 11,380,066	\$ 507,861
Net Capital Assets	<u>164,125,709</u>	<u>172,713,107</u>	<u>8,587,398</u>
Total Assets	<u>174,997,914</u>	<u>184,093,173</u>	<u>9,095,259</u>
Current Liabilities	292,590	466,493	173,903
Noncurrent Liabilities	<u>296,358</u>	<u>310,958</u>	<u>14,600</u>
Total Liabilities	<u>588,948</u>	<u>777,451</u>	<u>188,503</u>
Deferred Outflow of Resources			
Unearned Revenue-Property Taxes	<u>2,846,279</u>	<u>777,451</u>	<u>(2,068,828)</u>
Total Deferred Outflow of Resources	<u>2,846,279</u>	<u>777,451</u>	<u>(2,068,828)</u>
Net Position			
Net Investment in Capital Assets	164,125,709	172,713,107	8,587,398
Restricted	<u>7,436,978</u>	<u>7,620,998</u>	<u>184,020</u>
Total Net Position	<u>\$ 171,562,687</u>	<u>\$ 180,334,105</u>	<u>\$ 8,771,418</u>

The Road Commission's governmental activities total net position increased by 5.1% or \$8,771,418 (\$171,562,687 compared to \$180,334,105). Total net investment increased \$8,587,398 primarily due to the road commission investing funds in the county's road and bridge infrastructure. The restricted net position that can be used to fund the day-to-day operations within the provisions of Public Act 51 of 1951 increased \$184,020 (\$7,436,978 compared to \$7,620,998). This increase is due to increased Federal and State grants for roads along with increased Township Participation on local projects during the fiscal year 2013.

**ALLEGAN COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2013**

**Table 2**  
**Changes in Net Position of Governmental Activities**

	<u>2012</u>	<u>2013</u>	<u>Difference</u>
Program Revenue			
Licenses and Permits	\$ 27,210	\$ 54,858	\$ 27,648
Federal Grants	1,150,787	3,759,877	2,609,090
State Grants	9,770,284	9,038,515	(731,769)
Contributions From Local Units	6,191,593	7,433,734	1,242,141
Charges for Services	25,576	82,025	56,449
Investment Earnings	45,369	23,260	(22,109)
Other Contributions	775,750	500,810	(274,940)
General Revenue			
Taxes	3,063,138	2,882,287	(180,851)
Gain on Equipment Disposal	3,780	55,725	51,945
Total Revenue	<u>21,053,487</u>	<u>23,831,091</u>	<u>2,777,604</u>
Expenses			
Primary Road Maintenance	2,395,374	2,676,057	280,683
Local Road Maintenance	5,773,569	6,250,176	476,607
State Trunkline Maintenance	(257,965)	-	257,965
Net Equipment Expense	728,948	(854,610)	(1,583,558)
Net Administrative Expense	100	707,755	707,655
Infrastructure Depreciation Expense	5,761,954	6,170,733	408,779
Compensated Absences	(27,444)	14,600	42,044
Other Post-Employment Benefit Expense	(60,399)	94,962	155,361
Total Expenses	<u>14,314,137</u>	<u>15,059,673</u>	<u>745,536</u>
Change in Net Position	<u>6,739,350</u>	<u>8,771,418</u>	<u>2,032,068</u>
Ending Net Position	<u>\$ 171,562,687</u>	<u>\$ 180,334,105</u>	<u>\$ 8,771,418</u>

***Governmental Activities***

The Road Commission's governmental activities revenues increased by 13.2% or \$2,777,604, while expenses increased 5.2% or \$745,536 as compared with the prior fiscal year. This increase was primarily due to an increase in Federal and State grants for road improvements, and Township Participation. The expenses increased primarily due to the increased projects performed from the increased grants received and an increase in winter maintenance expense.

**ALLEGAN COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2013**

**THE ROAD COMMISSION'S FUND**

As the Road Commission completed the year, its general operating fund (as presented in the balance sheet on Exhibit C) reported a fund balance of \$7,931,956 which is more than last year's \$7,638,374. The primary reasons for the General Operating Fund's increase mirror the governmental activities analysis highlighted in the prior paragraph.

**GENERAL OPERATING FUND BUDGETARY HIGHLIGHT**

Over the course of the year, the Board of County Road Commissioners revised the budget several times. These budget amendments fall into two categories. The first category includes amendments based on the Federal and State grants received or not received for road and bridge projects. The second category includes year-end adjustments to account for accruals and then the spread of the distributive and non-distributive expenses incurred by the Road Commission.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

*Capital Assets*

As of December 31, 2013, the Road Commission had \$172,713,107 invested in a broad range of capital assets, including land, buildings, equipment, roads, and bridges. This amount represents a net increase (including additions and deductions) of \$8,587,398.

**Table 3**  
**Capital Assets at Year-End**

	12/31/12	12/31/13
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 139,787	\$ 139,787
Land/Right of Way	1,860,729	1,883,139
Infrastructure--Land and Improvements	75,556,799	78,602,780
Subtotal	<u>77,557,315</u>	<u>80,625,706</u>
Capital Assets Being Depreciated		
Buildings	1,383,385	1,383,385
Road Equipment	11,193,855	11,407,725
Shop Equipment	70,541	70,541
Office Equipment	36,798	45,422
Engineer's Equipment	71,042	71,752
Engineer's Equipment	1,065,073	1,065,073
Infrastructure--Traffic Signals	60,255	60,255
Infrastructure--Bridges	19,801,389	21,050,016
Infrastructure--Roads	114,349,138	122,039,193
Subtotal	<u>148,031,476</u>	<u>157,193,362</u>
Total Capital Assets	225,588,791	237,819,068
Total Accumulated Depreciation	<u>(61,463,082)</u>	<u>(65,105,961)</u>
Total Net Capital Assets	<u>\$ 164,125,709</u>	<u>\$ 172,713,107</u>

**ALLEGAN COUNTY ROAD COMMISSION**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2013**

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

Reconstruction of Bridges (by Location)	\$ 1,248,627
Various Resurfacing Projects and Related Land/Right-of-Way	13,425,342
Trucks/Equipment	740,547
Shop/Engineer/Office Equipment	<u>9,334</u>
 Total Additions	 <u><u>\$ 15,423,850</u></u>

The Road Commission’s fiscal-year 2014 capital budget calls for it to continue to spend funds for equipment purchases and on road and bridge projects. The Road Commission has no plans to issue any debt to finance these projects. More detailed information about the Road Commission’s capital assets is presented in Note D to the financial statements.

**Debt**

The Road Commission currently has not issued any debt instruments. The only debt the Road Commission is considered to have is employee vested benefits that are presented in more detail in Note E to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGET**

The Board of County Road Commissioners considered many factors when setting the fiscal year 2014 budget. The economy and the weather are two factors that make budgeting expenditures difficult. The economy has affected both revenues and expenditures. MTF funds increased in 2013 by 2.42%. The Road Commission continues to carefully select projects that have the most need and only replace necessary positions as people retire so that our solvency remains intact.

The budget for 2014 will reflect overall revenues consistent with 2013. Much of that revenue is expected to come from an increase in Federal and State Aid while other sources decline or remain the same. We will continue with our county-wide primary millage funded by our local citizens. We will strive to perform necessary maintenance. Our townships continue to provide a substantial part of our funding. Townships contributed 31.18% of 2013 revenues. In addition, the Road Commission is planning a new garage and office facility at the Allegan location in the near future. The Allegan County Road Commission strives to provide the excellent service with the available funds.

**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 accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Allegan County Road Commission's administrative offices at 1308 Lincoln Road, Allegan, Michigan 49010.

**ALLEGAN COUNTY ROAD COMMISSION  
STATEMENT OF NET POSITION  
December 31, 2013**

**EXHIBIT A**

**ASSETS**

Cash	\$ 3,362,421
Investments	580,517
Accounts Receivable	
Taxes	2,780,839
Sundry Accounts	75,007
Michigan Transportation Funds	1,331,358
State--Other	34,750
Due From Townships Road Agreements	2,101,331
Inventories	
Road Materials	464,430
Equipment Parts and Materials	548,782
Prepaid Expenses	100,631
Capital Assets-Nondepreciating	80,625,706
Capital Assets-Depreciating	92,087,401
	<hr/>
Total Assets	184,093,173

**LIABILITIES**

Current Liabilities	
Accounts Payable	264,970
Due to State of Michigan	49,420
Accrued Liabilities	130,823
Performance Bonds Payable	21,280
Noncurrent Liabilities	
Vested Employee Benefits Payable	310,958
	<hr/>
Total Liabilities	777,451

**DEFERRED INFLOW OF RESOURCES**

Unearned Revenue--Property Taxes	2,981,617
	<hr/>
Total Deferred Inflow of Resources	2,981,617

**NET POSITION**

Net Investment in Capital Assets	172,713,107
Restricted for County Roads	7,620,998
	<hr/>
Total Net Position	\$ 180,334,105

**The Notes to Financial Statements are an integral part of this statement.**

**ALLEGAN COUNTY ROAD COMMISSION  
STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2013**

**EXHIBIT B**

Program Expenses	
Primary Road Maintenance	\$ 2,676,057
Local Road Maintenance	6,250,176
Net Equipment Expense	(854,610)
Net Administrative Expense	707,755
Infrastructure Depreciation	6,170,733
Compensated Absences	14,600
Other Post-Employment Benefits Expense	94,962
	<hr/>
Total Program Expenses	15,059,673
	<hr/>
Program Revenue	
Charges for Services	
Licenses and Permits	54,858
Charges for Services	82,025
Refunds and Reimbursements	500,090
Operating Grants and Contributions	
Michigan Transportation Funds	8,432,943
Investment Earnings	23,260
Contributions From Local Units	1,350,143
Capital Grants and Contributions	
Federal Grants	3,759,877
State Grants	605,572
Contributions From Local Units	6,083,591
Contributions From Private Sources	720
	<hr/>
Total Program Revenue	20,893,079
	<hr/>
Net Program Revenue	5,833,406
	<hr/>
General Revenue	
Taxes	2,882,287
Gain on Equipment Disposal	55,725
	<hr/>
Total General Revenues	2,938,012
	<hr/>
Change in Net Position	8,771,418
	<hr/>
Net Position	
Beginning of Year	171,562,687
	<hr/>
End of Year	\$ 180,334,105
	<hr/> <hr/>

**The Notes to Financial Statements are an integral part of this statement.**

**ALLEGAN COUNTY ROAD COMMISSION  
BALANCE SHEET--GOVERNMENTAL FUND  
December 31, 2013**

**EXHIBIT C**

	General Operating Fund
<b><u>ASSETS</u></b>	
Cash	\$ 3,362,421
Investments	580,517
Accounts Receivable	
Taxes Receivable	2,780,839
Sundry Accounts	75,007
Michigan Transportation Funds	1,331,358
State--Other	34,750
Due From Townships Road Agreements	2,101,331
Inventories	
Road Materials	464,430
Equipment Parts and Materials	548,782
Prepaid Expense	100,631
	<hr/>
Total Assets	\$ 11,380,066
	<hr/> <hr/>
<b><u>LIABILITIES</u></b>	
Liabilities	
Accounts Payable	\$ 264,970
Due to State of Michigan	49,420
Accrued Liabilities	130,823
Performance Bonds Payable	21,280
	<hr/>
Total Liabilities	466,493
	<hr/>
<b><u>DEFERRED INFLOW OF RESOURCES</u></b>	
Unearned Revenue--Property Taxes	2,981,617
	<hr/>
Total Deferred Inflow of Resources	2,981,617
	<hr/>
<b><u>FUND EQUITY</u></b>	
Fund Balance	
Nonspendable	1,113,843
Restricted	6,818,113
	<hr/>
Total Fund Equity	7,931,956
	<hr/>
Total Liabilities, Deferred Inflow of Resources, and Fund Equity	\$ 11,380,066
	<hr/> <hr/>

**The Notes to Financial Statements are an integral part of this statement.**

**ALLEGAN COUNTY ROAD COMMISSION  
RECONCILIATION OF THE GOVERNMENTAL FUND  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
December 31, 2013**

**EXHIBIT D**

Total Governmental Fund Balance	\$ 7,931,956
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	172,713,107
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	<u>(310,958)</u>
Net Position of Governmental Activities	<u>\$ 180,334,105</u>

**The Notes to Financial Statements are an integral part of this statement.**



**ALLEGAN COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
For the Year Ended December 31, 2013**

**EXHIBIT E**

	General Operating Fund
Revenues	
Taxes	\$ 2,882,287
Licenses and Permits	54,858
Federal Grants	3,759,877
State Grants	9,038,515
Contributions From Local Units	7,433,734
Charges for Services	82,025
Interest and Rents	23,260
Other Revenue	<u>556,535</u>
Total Revenues	<u>23,831,091</u>
Expenditures	
Public Works	23,453,347
Capital Outlay--Net	<u>84,162</u>
Total Expenditures	<u>23,537,509</u>
Excess of Revenues Over (Under) Expenditures	293,582
Fund Balance--January 1, 2013	<u>7,638,374</u>
Fund Balance--December 31, 2013	<u><u>\$ 7,931,956</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**ALLEGAN COUNTY ROAD COMMISSION  
RECONCILIATION OF THE GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2013**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Funds \$ 293,582

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 as depreciation expense. This is the amount by which capital outlays  
exceeded depreciation in the current period. Equipment retirement is recorded  
as an expenditure credit in governmental funds, but not recorded as an expense  
in the Statement of Activities. 8,587,398

Some expenses reported in the Statement of Activities do not require the use of  
current financial resources and, therefore, are not reported as expenditures in  
governmental funds. (Decreases in compensated absences and other post-employment  
benefits expense) (109,562)

Change in Net Position of Governmental Activities \$ 8,771,418

**The Notes to Financial Statements are an integral part of this statement.**

# ALLEGAN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Allegan 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 Road Commission.

#### Reporting Entity

The Road Commission, which was established pursuant to the County Road Law, Michigan Compiled Law (MCL) 224.1, is governed by an appointed 5-member Board of County Road Commissioners. The Road Commission may not issue debt without the county's approval and the property tax levy for road purposes is subject to County Board of Commissioners' approval. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors, and would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 61, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Road Commission, a discretely presented component unit of Allegan County.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund (MTF) monies distributed to the county, which are earmarked by law for roads and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission General Operating Fund.

#### Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all non-fiduciary activities of the Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Position presents the Road Commission's assets and liabilities with the difference being reported as either net investment in capital assets or restricted net position. The net position not related to capital assets is classified as restricted due to legal constraints.

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

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the General Operating Fund (governmental fund). The General 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.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

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

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; 2) Michigan Transportation Funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as needed.

Measurement Focus/Basis of Accounting--Fund Financial Statements

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. Measurable refers to the ability to quantify in monetary terms the amount of the revenue. 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 Road Commission.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, based on quoted market prices.

Property Taxes Receivable

The property tax is levied on each December 1 on the taxable valuation of property located in the county as of the preceding December 31. The 2013 taxable valuation of Allegan County amounted to \$4,100,799,252, less \$1,053,369,703 for cities and villages on which ad valorem taxes of one (1) mill was levied for the Road Commission for road construction purposes for a total of \$2,981,617. The Taxes receivable at December 31, 2013 amounted to \$2,780,839 due to the County transmitting \$200,778 of the taxes levied prior year end.

The county's 2013 ad valorem tax is levied and collectible on December 1, 2013, and is reported as taxes receivable and is offset by unearned revenue at December 31, 2013.

Inventories

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

Prepaid 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.

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the General Operating Fund in the government-wide financial statements. Capital assets are defined by the 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 cost or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation

Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to a depreciation account for non-infrastructure related assets. Accordingly, the annual depreciation expense does not affect the available operating equities of the General Operating Fund for the non-infrastructure related assets; the infrastructure asset depreciation is reported as a separate line-item in the Statement of Activities.

The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Property Taxes

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Road Commission's tax is levied and collectible on December 1, 2013, and is recognized as revenue in the year ended December 31, 2014, when the proceeds of the levy are budgeted and available for the financing of operations.

Long-Term Obligations

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

Deferred Inflow of Resources

The deferred inflow of resources accounts for the resources received, but not yet earned. The deferred inflows of resources are reported in the government-wide and governmental fund financial statements for property taxes levied during the year that were intended to finance future periods.

# ALLEGAN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Use of Estimates

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

#### Fund Balance Classifications

In the fund financial statements, governmental funds report the following components of fund balance which comprise a hierarchy based on the extent to which the Road Commission is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

#### Non-spendable Fund Balances

Non-spendable fund balances includes amounts in governmental funds to designate amounts which are not available for spending, or are legally or contractually required to be maintained. The non-spendable amount reported on Exhibit C is related to the inventory on hand in the amount of \$1,013,212 and prepaid expenses in the amount of \$100,631.

#### Restricted Fund Balances

Restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The remaining Road Commission Funds are restricted as they can only be used in accordance with Public Act 51 of 1951, as amended.

The Road Commission does not have a formal minimum balance policy.

### NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### Budgetary Information

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended (MCL 141.421), which requires the Board of County Road Commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board does not conduct a public budget hearing; the budget is submitted to the county and included in its public hearing. The budget is amended as necessary during the year, and is approved by the Board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2013

NOTE C--CASH AND INVESTMENTS

Deposits are carried at cost. Deposits of the Road Commission are made in banks in the name of the Allegan County Treasurer. Michigan Compiled Laws (MCL), Section 129.91, as amended by Public Act 196 of 1997, authorizes the county treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase; and obligations of the State of Michigan or its political subdivisions which are rated investment grade. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated three (3) financial institutions for the deposit of Road Commission funds. The investment policy adopted by the Board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposit and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 3,362,321
Investments in Government Operating Money Markets and Government Securities	580,517
Petty Cash and Cash on Hand	<u>100</u>
Total	<u>\$ 3,942,938</u>

Non-negotiable certificates of deposits that are placed by the depositors directly with financial institutions and that are subject to a penalty if redeemed before maturity are treated as bank deposits. Because nonnegotiable certificates of deposits are deposits, no interest rate risk or credit risk disclosures are required, which are limited to investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.



ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

NOTE C--CASH AND INVESTMENTS (Continued)

The bank balance of the Road Commission's deposits is \$3,105,516, of which \$430,133 is covered by Federal depository insurance. The remaining \$2,675,383 is uncollateralized.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited its investments to government operating money markets and government securities purchased in the name of the Road Commission.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

Information about the sensitivity of the fair values of the Road Commission's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Road Commission's investments by maturity:

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>		
	<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
Fifth Third Securities			
Money Market Fund	<u>\$ 580,517</u>	<u>\$ 580,517</u>	<u>\$ -</u>
Total	<u>\$ 580,517</u>	<u>\$ 580,517</u>	<u>\$ -</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Road Commission's investment in a single issuer.

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2013

NOTE C--CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required (where applicable) by Michigan law, the Road Commission’s investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

<u>Investment Type</u>	<u>Rated Debt Investments</u>	
	<u>Fair Value</u>	<u>Rating</u>
Fifth Third Securities Money Market Fund	<u>\$ 580,517</u>	Unrated
Total	<u><u>\$ 580,517</u></u>	

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to the Road Commission’s indirect investment in securities through the use of mutual funds or government investment pools.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2013

NOTE D--CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Account Balances 1/1/2013	Additions	Deductions	Account Balances 12/31/2013
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 139,787	\$ -	\$ -	\$ 139,787
Land/Right-of-Way	1,860,729	22,410	-	1,883,139
Infrastructure Land Improvements	75,556,799	3,045,981	-	78,602,780
Subtotal	<u>77,557,315</u>	<u>3,068,391</u>	<u>-</u>	<u>80,625,706</u>
Capital Assets Being Depreciated				
Buildings	1,383,385	-	-	1,383,385
Road Equipment	11,193,855	740,547	526,677	11,407,725
Shop Equipment	70,541	-	-	70,541
Office Equipment	36,798	8,624	-	45,422
Engineer's Equipment	71,042	710	-	71,752
Yard and Storage	1,065,073	-	-	1,065,073
Infrastructure--Traffic Signals	60,255	-	-	60,255
Infrastructure--Bridges	19,801,389	1,248,627	-	21,050,016
Infrastructure--Roads	114,349,138	10,356,951	2,666,896	122,039,193
Total	<u>148,031,476</u>	<u>12,355,459</u>	<u>3,193,573</u>	<u>157,193,362</u>
Less Accumulated Depreciation				
Buildings	801,864	21,878	-	823,742
Road Equipment	9,557,979	592,581	526,677	9,623,883
Shop Equipment	51,255	12,876	-	64,131
Office Equipment	30,086	5,706	-	35,792
Engineer's Equipment	48,286	10,381	-	58,667
Yard and Storage	318,355	22,297	-	340,652
Infrastructure--Traffic Signals	20,085	4,017	-	24,102
Infrastructure--Bridges	4,066,747	448,974	-	4,515,721
Infrastructure--Roads	46,568,425	5,717,742	2,666,896	49,619,271
Total	<u>61,463,082</u>	<u>6,836,452</u>	<u>3,193,573</u>	<u>65,105,961</u>
Net Capital Assets Being Depreciated	<u>86,568,394</u>	<u>3,971,832</u>	<u>-</u>	<u>92,087,401</u>
Total Net Capital Assets	<u>\$ 164,125,709</u>	<u>\$ 7,040,223</u>	<u>\$ -</u>	<u>\$ 172,713,107</u>

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

NOTE D--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 592,581
Indirect Equipment	57,051
Net Administrative Expense	
Office Equipment	5,706
Engineering	10,381
Infrastructure Depreciation Expense	<u>6,170,733</u>
Total Depreciation Expense	<u>\$ 6,836,452</u>

NOTE E--VESTED EMPLOYEE BENEFITS

Employees with 6 months of seniority are granted leave time of 16 hours per month. Office employees get an additional 16 hours of leave pay on January 1 of each year. Employees of Local Union No. 517M, with 6 months or more of seniority, shall be granted 5 hours of leave pay on January 1 of each year. This leave time may be used to cover absences because of illness or vacation. Such leave may be accumulated to a maximum of 768 hours.

On the first payday of June each year, employees are paid an amount equal to all leave accrued in excess of 576 hours as shown in the records on December 31 of the preceding year. Accumulated leave time is payable in full upon resignation or retirement. Office employees leave time is payable in full upon resignation, termination or retirement. As of December 31, 2013, the balance of the vested employee benefits is \$310,958.

	Balance 01/01/13	Additions	(Reductions)	Balance 12/31/13	Due Within One Year
Vested Employee Benefits					
Vacation and Sick Leave	296,358	14,600	-	310,958	-
Totals	<u>\$ 296,358</u>	<u>\$ 14,600</u>	<u>\$ -</u>	<u>\$ 310,958</u>	<u>\$ -</u>

## ALLEGAN COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

#### NOTE F--DEFERRED COMPENSATION PLAN

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), 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 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Allegan 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 Road Commission's financial statements. Beginning in fiscal year 2013, the Road Commission approved to contribute \$120 per year to each non-union employee. For the fiscal year 2013, 10 employees qualified for the benefit and \$1,200 was paid by the Road Commission.

#### NOTE G--EMPLOYEES' RETIREMENT SYSTEM

##### Plan Description

The Road Commission is in an agent multi-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2% times the final average compensation (FAC). The most recent period for which actuarial data was available was for the year ended December 31, 2012.

MERS was established in 1946 under Public Act 135 of 1945 and granted independence from the State of Michigan pursuant to Public Act 220 of 1996, effective August 15, 1996. MERS is administered under the provisions of Public Act 427 of 1984, as amended. 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 MERS at 1134 Municipal Way, Lansing, Michigan 48917.

##### Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy. Employees contribute 4.7% of annual compensation in accordance with the competitive bargaining agreements and personnel policy. The Road Commission as employer is required to contribute at an actuarially determined rate which was 17.02% of the annual payroll for the union and supervisors, 19.04% for administration, and 14.00% for non-union based on the 2010 actuarial valuation beginning on January 1, 2012.

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Annual Pension Cost

During the year ended December 31, 2012, the Road Commission was required to make \$378,332 in contributions as determined by an actuarial valuation of the plan as of December 31, 2012 and employees contributed \$104,238 in accordance with the plan for a total amount of \$482,570. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required amortizing the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for their projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2010	\$ 425,790	100%	0%
2011	430,870	100%	0%
2012	482,570	100%	0%

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

NOTE H--OTHER POST-EMPLOYMENT HEALTHCARE BENEFITS

Plan Description

In addition to the pension benefits described in Note G, the Road Commission administered a single-employer defined benefit healthcare plan. The Road Commission provides post-employment healthcare benefits through the Road Commission group health insurance plan in accordance with the respective bargaining agreements and personnel policy.

# ALLEGAN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

### NOTE H--OTHER POST-EMPLOYMENT HEALTHCARE BENEFITS (Continued)

#### Funding Policy

The Road Commission provides health care insurance coverage, or payments towards such coverage, for a period of five years, for all members who retire and received benefits from MERS. The level of benefits, or payments towards coverage, will be the same as in effect for active employees. The Road Commission will provide benefits only to the employee and the Road Commission's obligation do not include the coverage of a retired employee's spouse or dependents. The Road Commission shall provide no benefits to any employee after reaching the age of 65. The retired employee shall be responsible for his/her health care insurance premium after five years from the date of retirement or at age 65, whichever comes sooner.

All employees who retire and who elect not to take the paid health insurance benefit from the Road Commission, will receive a lump sum payment of \$250 per month for all eligible time as an opt-out of taking the insurance. The amount will be placed into a health insurance plan.

Currently, fourteen (14) retirees meet those eligibility requirements. Expenditures for post-employment healthcare benefits are recognized as the insurance premiums become due. During the year, expenditures of \$72,151 were recognized for post-employment healthcare by the Road Commission. This consists of retiree healthcare insurance premiums. The Road Commission also contributed \$2,638 to the Health Care Savings Program, which is explained later in this note.

#### Annual OPEB Cost and Net OPEB Obligation

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

#### Funding Status and Funding Progress

For the year ended December 31, 2013, the Road Commission has estimated the cost of providing retiree healthcare benefits using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The alternative measurement method computes an annual required contribution. The computed required contribution and actual funding are summarized as follows:

ALLEGAN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2013

NOTE H--OTHER POST-EMPLOYMENT HEALTHCARE BENEFITS (Continued)

Annual Required Contribution	\$167,113
Interest on Beginning of Year Net OPEB Obligation	<u>-</u>
Annual OPEB Cost	167,113
Amounts Contributed	
Payments of Current Premiums	<u>(72,151)</u>
Increase in Net OPEB Obligation	94,962
Net OPEB Obligation--Beginning of Year	<u>(94,962)</u>
Net OPEB Obligation--End of Year	<u><u>\$ -</u></u>

The above schedule of employer contributions presents trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 43.

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Annual OPEB Costs	\$ 42,696	\$ 37,556	\$ 167,113
Percentage Contributed	189.50%	260.82%	43.17%
Net OPEB Asset (Obligation)	\$ 34,563	\$ 94,962	-

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 trends. Actuarially determined amounts 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 presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The Road Commission expects to prepare an alternative measurement method actuarial valuation every year.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of the 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.



## ALLEGAN COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

#### NOTE H--OTHER POST-EMPLOYMENT HEALTHCARE BENEFITS (Continued)

The following actuarial assumptions were used in the development of the Road Commission's retiree health cost projections using the alternative measurement method.

1. Actuarial Cost Method: Alternate Method as provided under GASB Statement No. 45 for plans with fewer than 100 employees
2. Interest Discount Rate: 5.50% compounded annually
3. Mortality Prior to Retirement: None
4. Turnover Prior to Retirement: Based on GASB Statement No. 43, Table 2 -- Expected Future Working Lifetimes of Employees, by Age - Default Values
5. Salary Scale: 3.3%
6. Post-Retirement Interest Rate: 5.5%
7. Post-Retirement Mortality: Based on life expectancy of age 77 for males and 81 for females

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

#### Health Care Savings Program

The Road Commission provides a Health Care Savings Program (HCSP) for three employee groups. The HCSP complements the Road Commission's defined benefit healthcare plan described above. The HCSP is an employer-sponsored savings account administered by the MERS designed to set aside money to cover the escalating costs of post-employment healthcare. Under the program, contributions are made by active employees and by the Road Commission. Once employees leave employment with the Road Commission, regardless of the reason or age at the time of leave, reimbursement may be made, tax exempt, for healthcare related expenses. The Road Commission matches employee's contributions up to \$10 per month. For the year ended December 31, 2013, the employees contributed \$10,819 and the Road Commission contributed \$2,638.

#### NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance from Inland Marine for physical damage (building and contents) and medical benefit claims. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool (Pool) for claims relating to general liability, excess liability, auto liability, errors and omissions and physical damage (equipment). The Road Commission participates in the County Road Commission Self-Insurance Fund (CRCSIF) for workers' compensation insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 fiscal years.

## ALLEGAN COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

#### NOTE I--RISK MANAGEMENT(Continued)

The county road commissions in the State of Michigan established a trust fund, known as the Pool pursuant to the provision of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Road Commission became a member in the pool in April 1984 and became a member of CRCSIF in 1981.

The Pool program operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

#### NOTE J--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2013, the Federal grants received and expended by the Road Commission was \$3,759,877 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administered by the Road Commission.

#### NOTE K--UPCOMING REPORTING CHANGE

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the 2015 fiscal year.

ALLEGAN COUNTY ROAD COMMISSION

REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended December 31, 2013

EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/10	\$ 15,035,282	\$ 19,850,984	\$ 4,815,702	76%	\$ 2,364,198	204%
12/31/11	14,801,764	20,463,223	5,661,459	72%	2,162,334	262%
12/31/12	14,485,795	20,508,865	6,050,070	71%	2,080,085	291%

OTHER POST-EMPLOYMENT BENEFITS

Required Supplementary Information – Schedule of Funding Progress

The funded status of the plan as of the most recent alternative measurement method date December 31, 2013, is presented in the Schedule of Funding Progress as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/11	\$ -	\$ 1,275,418	\$ 1,275,418	0%	\$ 2,337,571	54.56%
12/31/12	-	1,126,668	1,126,668	0%	2,292,758	49.14%
12/31/13	-	1,540,493	1,540,493	0%	2,428,206	63.44%

**ALLEGAN COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
GENERAL OPERATING FUND--SCHEDULE OF REVENUES  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended December 31, 2013**

**EXHIBIT G**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Property Taxes	\$ 2,842,000	\$ 2,884,000	\$ 2,882,287	\$ (1,713)
Licenses and Permits				
Permits	25,000	55,000	54,858	(142)
Federal Grants				
Surface Transportation Program	1,365,000	2,542,000	2,541,098	(902)
Federal Critical Bridge	-	637,000	636,968	(32)
Economic D Funds	809,000	235,000	234,895	(105)
High Risk Rural Roads	727,000	347,000	346,916	(84)
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	4,837,000	5,003,000	5,002,409	(591)
Local Road	2,895,000	2,966,000	2,965,356	(644)
Primary Urban Road	252,000	256,000	255,131	(869)
Local Urban Road	87,000	89,000	88,012	(988)
Snow Removal	115,000	113,000	112,035	(965)
Critical Bridge	808,000	328,000	327,605	(395)
Economic Development Funds				
D Funds	315,000	278,000	277,967	(33)
Contributions--Local Units				
Townships	5,896,000	7,431,000	7,429,876	(1,124)
City	-	4,000	3,858	(142)
Charges for Services				
Salvage Sales	10,000	28,000	27,201	(799)
Service Charge	15,000	55,000	54,824	(176)
Interest and Rents				
Interest Earned	60,000	24,000	23,260	(740)
Other Revenue				
Private Contributions	-	1,000	720	(280)
Reimbursements	15,000	501,000	500,090	(910)
Gain on Equipment Disposal	100,000	56,000	55,725	(275)
Total Revenue	21,183,000	23,843,000	<u>\$23,831,091</u>	<u>\$ (11,909)</u>
Fund Balance--January 1, 2013	<u>7,638,374</u>	<u>7,638,374</u>		
Total Budget	<u>\$28,821,374</u>	<u>\$31,481,374</u>		

**ALLEGAN COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
GENERAL OPERATING FUND--SCHEDULE OF EXPENDITURES  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended December 31, 2013**

**EXHIBIT H**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Construction/Capacity Improvements	\$ 10,000	\$ -	\$ -	\$ -
Preservation/Structural Improvements	6,894,000	6,729,000	6,728,356	644
Routine and Preventive Maintenance	2,220,000	2,675,000	2,671,925	3,075
Local Road				
Preservation/Structural Improvements	3,456,000	6,696,000	6,695,719	281
Routine and Preventive Maintenance	6,281,000	6,229,000	6,226,135	2,865
Primary Road Structure				
Preservation/Structural Improvements	210,000	284,000	283,488	512
Routine and Preventive Maintenance	5,000	5,000	4,132	868
Local Road Structure				
Preservation/Structural Improvements	894,000	967,000	966,405	595
Routine and Preventive Maintenance	20,000	25,000	24,041	959
Equipment Expense--Net	(440,000)	(854,000)		
Direct			\$ 1,366,730	
Indirect			852,948	
Operating			718,280	
Less: Equipment Rentals			<u>(3,792,567)</u>	609
Administrative Expense--Net	845,000	711,000		
Administrative Expense			709,027	
Less: Purchase Discounts			<u>(1,272)</u>	3,245
Capital Outlay--Net	275,000	85,000		
Capital Outlay			749,881	
Less: Depreciation Credits			<u>(665,719)</u>	838
Total Expenditures	20,670,000	23,552,000	<u>\$ 23,537,509</u>	<u>\$ 14,491</u>
Fund Balance--December 31, 2013	<u>8,151,374</u>	<u>7,929,374</u>		
Total Budget	<u>\$ 28,821,374</u>	<u>\$ 31,481,374</u>		

**ALLEGAN COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND  
ANALYSIS OF CHANGES IN FUND BALANCES  
For the Year Ended December 31, 2013**

**EXHIBIT I**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 11,442,742	\$ 11,727,074	\$ 661,275	\$23,831,091
Total Expenditures	<u>9,821,545</u>	<u>13,753,333</u>	<u>(37,369)</u>	<u>23,537,509</u>
Excess of Revenues Over (Under) Expenditures	<u>1,621,197</u>	<u>(2,026,259)</u>	<u>698,644</u>	<u>293,582</u>
Other Financing Sources (Uses) Optional Transfers	<u>(2,026,189)</u>	<u>2,026,189</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(2,026,189)</u>	<u>2,026,189</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	(404,992)	(70)	698,644	293,582
Fund Balance--January 1, 2013	<u>6,699,680</u>	<u>658,334</u>	<u>280,360</u>	<u>7,638,374</u>
Fund Balance--December 31, 2013	<u>\$ 6,294,688</u>	<u>\$ 658,264</u>	<u>\$ 979,004</u>	<u>\$ 7,931,956</u>

**ALLEGAN COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND  
ANALYSIS OF REVENUES  
For the Year Ended December 31, 2013**

**EXHIBIT J**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes				
Property Taxes	\$ 2,881,564	\$ -	\$ 723	\$ 2,882,287
Licenses and Permits				
Permits	-	-	54,858	54,858
Federal Grants				
Surface Transportation Program	2,221,923	294,826	24,349	2,541,098
Critical Bridge	10,112	626,856	-	636,968
Economic D Funds	234,895	-	-	234,895
High Risk Rural Roads	-	346,916	-	346,916
State Grants				
Michigan Transportation Fund				
Engineering	6,278	3,722	-	10,000
Allocation	5,002,409	2,965,356	-	7,967,765
Urban Roads	255,131	88,012	-	343,143
Snow Removal	-	112,035	-	112,035
Critical Bridge	210,069	117,536	-	327,605
Economic Development Funds				
D Funds	277,967	-	-	277,967
Contributions--Local Units				
Townships	265,737	7,164,139	-	7,429,876
City	-	-	3,858	3,858
Charges for Services				
Salvage Sales	-	-	27,201	27,201
Service Charge	-	-	54,824	54,824
Interest and Rents				
Interest Earned	20,402	2,004	854	23,260
Other Revenue				
Contributions From Private Sources	-	720	-	720
Reimbursements	653	4,829	494,608	500,090
Gain on Equipment Disposal	55,602	123	-	55,725
<b>Total Operating Revenue</b>	<b>\$ 11,442,742</b>	<b>\$ 11,727,074</b>	<b>\$ 661,275</b>	<b>\$ 23,831,091</b>

**ALLEGAN COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND  
ANALYSIS OF EXPENDITURES  
For the Year Ended December 31, 2013**

**EXHIBIT K**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 6,728,356	\$ -	\$ -	\$ 6,728,356
Routine and Preventive Maintenance	2,671,925	-	-	2,671,925
Local Road				
Preservation/Structural Improvements	-	6,695,719	-	6,695,719
Routine and Preventive Maintenance	-	6,226,135	-	6,226,135
Primary Road Structures				
Preservation/Structural Improvements	283,488	-	-	283,488
Routine and Preventive Maintenance	4,132	-	-	4,132
Local Road Structures				
Preservation/Structural Improvements	-	966,405	-	966,405
Routine and Preventive Maintenance	-	24,041	-	24,041
Equipment Expense--Net (Per Exhibit H)	(242,519)	(574,721)	(37,369)	(854,609)
Administrative Expense--Net (Per Exhibit H)	290,534	417,221	-	707,755
Capital Outlay--Net (Per Exhibit H)	85,629	(1,467)	-	84,162
Total Expenditures	<u>\$ 9,821,545</u>	<u>\$ 13,753,333</u>	<u>\$ (37,369)</u>	<u>\$ 23,537,509</u>





RICK SNYDER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

R. KEVIN CLINTON  
STATE TREASURER

May 20, 2014

Board of County Road Commissioners  
Allegan County Road Commission  
1308 Lincoln  
Allegan, Michigan 49010

RE: Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of the Financial Statements Performed  
in Accordance With Government Auditing Standards

Dear Commissioners:

We have audited, in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities and major fund of the Allegan County Road Commission, a component unit of Allegan County, Michigan, as of and for the year ended December 31, 2013, which collectively comprise the Allegan County Road Commission's basic financial statements and have issued our report thereon dated May 20, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Allegan 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 Allegan County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Allegan 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 Allegan County Road Commission'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. Given these limitations during an 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 the Allegan 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 and other matters that are required to be reported under Government Auditing Standards.

### **Purpose of this Report**

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Allegan County Road Commission's internal control or on compliance. This report is an integral part of the audit performed in accordance with Government Auditing Standards in considering Allegan County Road Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

R. KEVIN CLINTON  
STATE TREASURER

May 20, 2014

Board of County Road Commissioners  
Allegan County Road Commission  
1308 Lincoln Road  
Allegan, Michigan 49010

RE: Report to Those Charged With Governance

Dear Commissioners:

We have audited the financial statements of the governmental activities and major fund of the Allegan County Road Commission, a component unit of Allegan County, Michigan, for the year ended December 31, 2013, and have issued our report thereon dated May 20, 2014. Professional standards require that we provide you with the following information related to our audit.

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

As stated in the engagement letter dated November 15, 2013, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described in professional standards, is to evaluate the presentation of supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a

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

#### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on March 24, 2014.

#### Significant Results of the Audit

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Allegan County Road Commission are described in Note A to the financial statements. We noted no transactions entered into by the Allegan County Road Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Management's estimate of the depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets in accordance with Generally Accepted Accounting Principles. We evaluated the key factors and assumptions used to develop the depreciation in determining that it is reasonable in relation to the financial statements, taken as a whole.

#### Difficulties Encountered in Performing the Audit

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

#### Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 20, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

This information is intended solely for the use of the Allegan Board of County Road Commissioners and management of the Allegan County Road Commission and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division