

SAULT STE. MARIE BRIDGE AUTHORITY

BASIC FINANCIAL STATEMENTS

Year Ended December 31, 2012

Year Ended December 31, 2012

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Year Ended December 31, 2012

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SAULT STE. MARIE BRIDGE AUTHORITY

INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT

To the Sault Ste. Marie Bridge Authority
Members and Representatives
Sault Ste. Marie Bridge Authority
Sault Ste. Marie, Michigan

and

Mr. Thomas H. McTavish, CPA
Auditor General
State of Michigan
Lansing, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Sault Ste. Marie Bridge Authority, Michigan, as of and for the year ended December 31, 2012, and related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

To the Sault Ste. Marie Bridge Authority
Members and Representatives

and

Mr. Thomas H. McTavish, CPA
Auditor General

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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 Sault Ste. Marie Bridge Authority, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules on pages 4 through 13 and pages 31 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Sault Ste. Marie Bridge Authority
Members and Representatives

and

Mr. Thomas H. McTavish, CPA
Auditor General

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sault Ste. Marie Bridge Authority's financial statements. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and unaudited supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements.

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

The unaudited supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2013 on our consideration of the Sault Ste. Marie Bridge Authority'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 Sault Ste. Marie Bridge Authority's internal control over financial reporting and compliance.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

February 8, 2013

SAULT STE. MARIE BRIDGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

This section of the Authority's financial report presents our discussion and analysis of the Authority's financial performance during the year ended December 31, 2012. Please read it in conjunction with the Authority's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The Sault Ste. Marie Bridge Authority (SSMBA) is the international contractual entity created by the Intergovernmental Agreement to set policy and oversee bridge operations. The SSMBA Agreement became effective September 1, 2009.

TRAFFIC

- Total bridge traffic surpassed 2 million crossings in 2012, to end with the year with 2,070,449 crossings on December 31, 2012. This is an increase of 72,381 crossings, an increase of 3.6% in traffic, as compared to the year ending December 31, 2011.
- In comparison to total traffic, commercial traffic increased by 645 crossings in 2012, a marginal increase of 0.7%.
- Commuter crossings utilizing the IQ Prox Card increased by 6.2% for 2012, an increase of 59,701 crossings. Total commuter crossings for 2012 were 1,017,409.
- Full fare passenger auto crossings increased 1.4% to 911,293 crossings on December 31, 2012.

REVENUE & TOLL RATES

- The Canadian dollar appreciated 2.2% from December 31, 2011 to December 31, 2012. Revaluations of Canadian currency net position on the Authority's year end balance sheet resulted in an unrealized exchange gain of \$179,997.
- The American toll rates are the established benchmark for all bridge tolls. Toll currency adjustments to the Canadian rates occur on April 1 and October 1 when fluctuations occur in the Canadian dollar. The equity between the American and Canadian exchange rates remained stable in 2012, and no changes to the Canadian rates occurred.

- Toll revenues were \$7,365,425, an increase of 0.4% for the year ending December 31, 2012, as compared the year ended December 31, 2011. This was an increase of \$27,227. The combined effects of a stable Canadian dollar, as compared to the U.S. dollar in 2012, and combined with increased auto and commuter traffic, resulted in total toll revenue comparable to 2011.

EXPENDITURES

- Actual operational expenditures in the Revenue Fund were \$385,600, or 4.3% more than the final budget.
- Toll department was 3.7% under approved budgetary amounts.
- Maintenance costs were 9.4% above approved budgetary amounts.
- Administration expenditures were 8.4% above final budget amounts.
- Other expenditures remained 5.0% above final budgets.
- Bridge maintenance expenditures in the Capital Fund for the year ending December 31, 2012, included owner reserve account distributions, planned annual equipment capital outlay, and annual bridge inspection expenditures.
- The engineering inspections of the bridge in 2012 indicated the overall condition of the bridge is good and the structure is well maintained.

Year Ended December 31, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Figure A-2 Major Features of Authority's Government-wide and Fund Financial Statements		
	Government-wide Statements	Fund Statements Governmental Funds
Scope	Entire Authority government (except fiduciary funds) and the Authority's component units	The activities of the Authority that are not proprietary or fiduciary, such as toll collection, bridge maintenance, and administration
Required financial	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances
Accounting basis and Measurements focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

Government-wide Statements

The government-wide statements report information about the Authority as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Authority's net position and how they have changed. Net position – the difference between the Authority's assets and liabilities – is one way to measure the Authority's financial health, or position.

- Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Authority you need to consider additional non-financial factors such as changes in the bridge traffic and the condition of the International Bridge.

The government-wide financial statements of the Authority are:

- Governmental activities – Most of the Authority's basic services are included here, such as toll collection, bridge maintenance and general administration. Toll collection, lease and rental revenues finance most of these activities.

Year Ended December 31, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements

The fund financial statements provide more detailed information about the Authority's most significant funds-not the Authority as a whole. Funds are accounting devices that the Authority uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Sault Ste. Marie Bridge Authority Board establishes other funds to control and manage money for particular purposes (like the Capital Fund).
- Governmental funds – All of the Authority's basic services are included in governmental funds, which focus on (1) how much cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.

SAULT STE. MARIE BRIDGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

Net position. The Authority's combined assets increased to \$22.49 million for the year ended December 31, 2012. (See Table A-1.)

Table A-1
 Authority's Net Position
(in thousands of dollars)

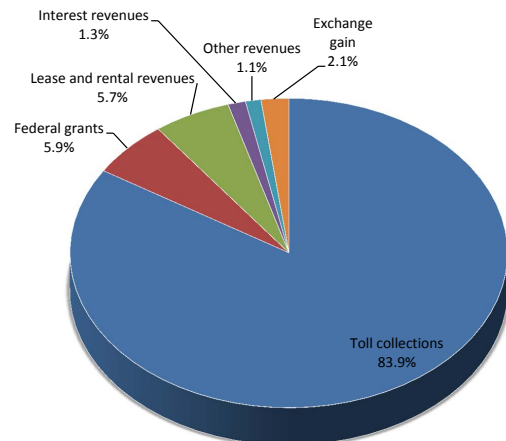
	Governmental Activities		Total Percentage Change
	2011	2012	2011-2012
Current and other assets	\$ 8,613.2	\$ 11,602.6	34.7%
Capital assets	11,352.2	10,887.4	(4.1)%
Total assets	19,965.4	22,490.0	12.6%
Current liabilities	1,122.4	1,429.5	27.4%
Long-term debt outstanding	208.7	230.4	10.4%
Total liabilities	1,331.1	1,659.9	24.7%
Net position			
Net investment in capital assets	11,352.2	10,887.4	(4.1)%
Restricted	5,351.1	1,953.8	(63.5)%
Unrestricted	1,931.0	7,988.8	313.7%
Total net position	\$ 18,634.3	\$ 20,830.1	11.8%

Net position of the Authority's governmental activities increased 11.8 percent to \$20.8 million. \$6.4 million of assets are nonspendable, \$0.23 million are committed, and \$1.4 million are assigned for operational purposes for which they can be used. Restricted assets are \$1.95 million and \$10.9 million are invested in capital assets (buildings, bridge, and so on).

Changes in net position. The Authority's total revenues decreased by 0.3 percent to \$7.9 million. (See Table A-2.) A majority of the Authority's revenue (84%) comes from toll collections. Federal grants accounted for 5.9% and 8.2% comes from interest, lease and rental revenues. See Figure A-3)

The total cost of all primary activities decreased 3.3 percent for the year of activity. The Authority's expenses cover toll collection, bridge maintenance, administration and other expenses. (See Figure A-4.)

Figure A-3
Authority
Revenue for the Year Ended
December 31, 2012



SAULT STE. MARIE BRIDGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

Governmental Activities

Revenues for the Authority's governmental activities decreased 0.3%, while total expenses decreased 3.3% for the year ending December 31, 2012.

Table A-2
Changes in Authority's Net Position
(in thousands of dollars)

	Governmental Activities		Total Percentage Change
	2011	2012	2011-2012
Revenues			
Charges for services	\$ 7,987.8	\$ 7,966.5	(0.3)%
Total Revenues	<u>7,987.8</u>	<u>7,966.5</u>	<u>(0.3)%</u>
Expenses			
Toll collections	1,543.6	1,699.9	10.1%
Bridge maintenance	3,030.2	3,230.5	6.6%
Administration	440.6	523.5	18.8%
Other expense	1,791.2	1,128.2	(37.0)%
Total Expenses	<u>6,805.6</u>	<u>6,582.1</u>	<u>(3.3)%</u>
Excess (deficiency) before Special items	<u>1,182.2</u>	<u>1,384.4</u>	<u>17.1%</u>
Special item: Federal grant and exchange gain (loss)	(269.8)	697.0	(358.3)%
Interest	78.6	114.3	45.4%
Change in net position	991.0	2,195.7	121.6%
Beginning net position	<u>\$ 17,643.1</u>	<u>\$ 18,634.3</u>	<u>5.6%</u>
Ending net position	<u><u>\$ 18,634.3</u></u>	<u><u>\$ 20,830.0</u></u>	<u>11.8%</u>

SAULT STE. MARIE BRIDGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

**FINANCIAL ANALYSIS OF THE
AUTHORITY'S FUNDS**

As the Authority completed the year ended December 31, its governmental funds reported an increase in combined fund balance from \$7.5 to \$10.2 million, a combined fund balance increase of 35.8%. The primary reason for the increase in fund balance is highlighted in the financial analysis of the Authority.

Functional Revenues are comprised of toll collections, leases, and rental revenues. These revenues are then allocated proportionally by bridge maintenance and toll collection expenses.

Table A-3 and the narrative that follows consider the operations of governmental-type activities.

**Figure A-4
Authority
Functional Expenses for the Year Ended
December 31, 2012**

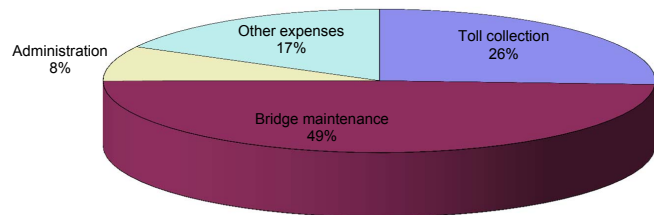


Table A-3
Changes in Authority's Fund Balance
(in thousands of dollars)

	Governmental Funds		Total Percentage Change
	2011	2012	2011-2012
Revenues			
Charges for services	\$ 7,338.2	\$ 7,365.4	0.4%
Federal grants	-	517.0	100%
Lease and rental revenues	457.5	500.9	9.5%
Interest revenues	78.6	114.3	45.4%
Other revenues	192.1	100.2	(47.8)%
Exchange gain	-	180.0	100.0%
Total Revenues	8,066.5	8,777.8	8.8%
Expenditures			
Toll collections	1,557.4	1,687.0	8.3%
Bridge maintenance	2,106.8	2,766.7	31.3%
Administration	455.4	513.7	12.8%
Other expense	1,791.1	1,128.2	37.0%
Exchange loss	269.8	-	(100.0)%
Total Expenditures	6,180.5	6,095.6	1.4%
Increase (decrease) in fund balance	\$ 1,886.0	\$ 2,682.2	42.2%

Year Ended December 31, 2012

Governmental Fund Revenues and Expenditures

Revenues for the bridge increased by 8.8% and expenditures for the Authority's governmental funds decreased 1.4%. A appreciation of the Canadian dollar at fiscal year end contributed an additional 2.1% in unrealized exchange gain, and a subsequent increase in total revenues of 8.8%. The net result was an increase in the change in fund balance of 42.2%.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Authority made changes to the original 2012 capital budget. Budgets were approved for the year ending December 31, 2012.

REVENUE FUND

- Revenue fund, after budget amendments, resulted in actual expenditures \$385,660, or 4.3% more than the final approved budget, including interfund transfers.
- Toll revenues in the revenue fund were \$7.3 million and \$276,472 or 3.9% above the budget year toll revenue.
- Toll department expenditures at year end were \$64,001 or 3.7% under approved budgetary amounts.
- Maintenance costs were \$155,967 or 9.4% above approved budgetary amounts.
- Administration expenditures were \$39,622, or 8.4% above final budget amounts.
- Other expenditures were \$254,012, or 5.0% above final budgets, including interfund transfers.

CAPITAL FUNDS

- Capital fund, after budget amendments, resulted in expenditures \$100,098, or 4.7% below the final approved budget for the year ending December 31, 2012.

The detailed budgetary comparison schedules for the revenue and capital fund are found in the required supplementary information on page 31-34.

LONG-TERM DEBT

At year-end, the Authority had \$230,443 in outstanding long-term liabilities – a increase of 10.4% percent over the year ending December 31, 2011. More detailed information about the Authority's long-term liabilities is presented in compensated absences, Note G in the notes to financial statements.

SAULT STE. MARIE BRIDGE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2012

CAPITAL ASSETS

At the year ending December 31, 2012, the Authority had invested \$10.9 million in a broad range of capital assets, including land, machinery and equipment, buildings, bridge, vehicles, and bridge security enhancements. (See Table A-4.) This amount presents a net decrease (including additions, deductions, and accumulated depreciation) of \$464,762 or 4.1 percent, for the year ended December 31, 2012. More detailed information about the Authority's capital assets is presented in Note D to the financial statements.

Table A-4
Authority's Capital Assets
(net of depreciation, in thousands of dollars)

	Governmental Activities		Total
			Percentage
	2011	2012	Change
	2011	2012	2011-2012
Bridge	\$ 7,043.6	\$ 6,441.6	(8.5)%
Bridge lights	68.5	42.8	(37.5)%
Buildings	1,187.9	1,068.4	(10.1)%
Machinery and equipment	114.2	103.8	(9.1)%
Land	1,965.5	1,965.5	- %
Land improvements	48.2	44.4	(7.8)%
Vehicles	111.5	99.3	(11.0)%
Security system	812.7	1,121.6	38.0%
Totals	\$ 11,352.1	\$ 10,887.4	(4.1)%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The value of the Canadian dollar has remained at par to the U.S. dollar for much of the fiscal year ending December 31, 2012. A slight appreciation at the Authority's fiscal year end resulted in an unrealized exchange gain at December 31, 2012. Sault Ste. Marie, Ontario had a population of 75,000 in 2012, as compared to Sault Ste. Marie, Michigan with a population of 14,000. The disproportionate population in the Sault Ste. Marie communities contribute to two times more Canadian bridge traffic as compared to U.S. traffic, as can be viewed in the supplemental information provided on page 37. Combined with the strong buying power of the Canadian dollar in the United States, Canadian consumers continue to impact the earned toll revenue, as recorded by the Authority. The changes in Canadian dollar valuation also impact the equity of Canadian held funds.

Fluctuations in commercial traffic also result in significant changes to toll revenue, as commercial traffic represents 4.7% of total bridge traffic, but provides 30.9% of bridge toll revenue.

These indicators were taken into account when adopting the Revenue (General) fund budget for 2012.

Year Ended December 31, 2012

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, bridge users, and investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the International Bridge Administration Office, 934 Bridge Plaza, Sault Ste. Marie, MI. 49783, or International Bridge Administration, 121 Huron St., Sault Ste. Marie, ON P6A 1R3.

SAULT STE. MARIE BRIDGE AUTHORITY

BASIC FINANCIAL STATEMENTS

SAULT STE. MARIE BRIDGE AUTHORITY**STATEMENT OF NET POSITION**

December 31, 2012

	Primary Government Governmental Activities 2012	
ASSETS		
Current assets:		
Cash and cash equivalents	\$	3,733,012
Investments		7,391,751
Receivables (net)		209,935
Prepaid expense		234,603
Inventory		33,310
Total current assets		11,602,611
Non-current assets:		
Capital assets (Note D):		
International bridge (net)		6,441,577
Bridge lights (net)		42,812
Buildings (net)		1,068,406
Machinery and equipment (net)		103,790
Land		1,965,530
Land improvements (net)		44,421
Vehicles (net)		99,272
Security system (net)		1,121,577
Total non-current assets		10,887,385
Total assets	\$	22,489,996

SAULT STE. MARIE BRIDGE AUTHORITY**STATEMENT OF NET POSITION**

December 31, 2012

	Primary Government Governmental Activities 2012
LIABILITIES	
Current liabilities:	
Accounts Payable	\$ 635,402
Accrued payroll and related liabilities	448,127
Deferred revenue	345,985
	<hr/>
Total current liabilities	1,429,514
	<hr/>
Non-current liabilities:	
Accrued compensated absences	230,443
	<hr/>
Total non-current liabilities	230,443
	<hr/>
Total liabilities	1,659,957
	<hr/>
NET POSITION	
Net investment in capital assets	10,887,385
Restricted	1,953,815
Unrestricted	7,988,839
	<hr/>
Total net position	20,830,039
	<hr/>
Total liabilities and net position	\$ 22,489,996
	<hr/> <hr/>

SAULT STE. MARIE BRIDGE AUTHORITY**STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2012

	Primary Government Governmental Activities 2012
EXPENSES	
Toll collection	\$ 1,699,872
Bridge maintenance	3,230,519
Administration	523,469
Other expenses	1,128,220
Total operating expenses	<u>6,582,080</u>
REVENUES	
Charges for services:	
Toll collection	\$ 2,746,654
Bridge maintenance	5,219,875
Total charges for services	<u>7,966,529</u>
Total revenues	<u>7,966,529</u>
Income from operations	<u>1,384,449</u>
General revenues and other changes in net position:	
Interest revenues	114,337
Federal grants	517,000
Exchange gain (loss)	179,997
Total general revenues and other changes in net position	<u>811,334</u>
Change in net position	2,195,783
Net position - beginning	<u>18,634,256</u>
Net position - ending	<u>\$ 20,830,039</u>

BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2012

	Revenue Fund	Capital Fund	MDOT Capital Fund	SMRBC Capital Fund	Total
ASSETS					
Cash and cash equivalents	\$ 2,487,479	\$ 1,245,533	\$ -	\$ -	\$ 3,733,012
Investments	7,140,476	251,275	-	-	7,391,751
Receivables (net)	192,986	16,949	-	-	209,935
Due from other funds	-	17,575	3,476,209	2,618,417	6,112,201
Prepaid expense	229,603	5,000	-	-	234,603
Inventory	33,310	-	-	-	33,310
	<u>10,083,854</u>	<u>1,536,332</u>	<u>3,476,209</u>	<u>2,618,417</u>	<u>17,714,812</u>
TOTAL ASSETS	\$ 10,083,854	\$ 1,536,332	\$ 3,476,209	\$ 2,618,417	\$ 17,714,812
<u>LIABILITIES AND FUND BALANCES</u>					
LIABILITIES					
Accounts payable	\$ 347,124	\$ 288,278	\$ -	\$ -	\$ 635,402
Accrued payroll and related liabilities	448,127	-	-	-	448,127
Due to other funds	5,244,779	867,422	-	-	6,112,201
Deferred revenue	345,985	-	-	-	345,985
	<u>6,386,015</u>	<u>1,155,700</u>	<u>-</u>	<u>-</u>	<u>7,541,715</u>
TOTAL LIABILITIES	6,386,015	1,155,700	-	-	7,541,715
FUND BALANCES					
Nonspendable	455,899	39,524	3,476,209	2,618,417	6,590,049
Committed	226,096	-	-	-	226,096
Restricted	1,612,707	341,108	-	-	1,953,815
Assigned	1,403,137	-	-	-	1,403,137
	<u>3,697,839</u>	<u>380,632</u>	<u>3,476,209</u>	<u>2,618,417</u>	<u>10,173,097</u>
TOTAL FUND BALANCES	3,697,839	380,632	3,476,209	2,618,417	10,173,097
TOTAL LIABILITIES AND FUND BALANCES	\$ 10,083,854	\$ 1,536,332	\$ 3,476,209	\$ 2,618,417	\$ 17,714,812

SAULT STE. MARIE BRIDGE AUTHORITY

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

December 31, 2012

Total fund balances – governmental funds \$ 10,173,097

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. These assets consist of:

Land	\$ 1,965,530
Infrastructure assets – bridge	22,451,968
Other capital assets (net)	6,833,162
Accumulated depreciation	<u>(20,363,275)</u>
Total capital assets	\$ 10,887,385

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Compensated absences	<u>(230,443)</u>
Total long-term liabilities	<u>(230,443)</u>
Net position of governmental activities	<u>\$ 20,830,039</u>

See accompanying notes to basic financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2012

	Revenue Fund	Capital Fund	MDOT Capital Fund	SMRBC Capital Fund	Total
REVENUES:					
Toll collections	\$ 7,365,425	\$ -	\$ -	\$ -	\$ 7,365,425
Federal grants	517,000	-	-	-	517,000
Lease and rental revenues	500,893	-	-	-	500,893
Interest revenues	101,806	12,531	-	-	114,337
Other revenues	100,211	-	-	-	100,211
Exchange gain	150,888	29,109	-	-	179,997
Total Revenues	<u>8,736,223</u>	<u>41,640</u>	<u>-</u>	<u>-</u>	<u>8,777,863</u>
EXPENDITURES:					
Current operations					
Toll collection	1,687,018	-	-	-	1,687,018
Bridge maintenance	1,815,419	951,270	-	-	2,766,689
Administration	513,419	267	-	-	513,686
Other expenditures	732,659	395,561	-	-	1,128,220
Total Expenditures	<u>4,748,515</u>	<u>1,347,098</u>	<u>-</u>	<u>-</u>	<u>6,095,613</u>
Excess (deficiency) of revenues over expenditures	<u>3,987,708</u>	<u>(1,305,458)</u>	<u>-</u>	<u>-</u>	<u>2,682,250</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	3,081,209	2,223,417	5,304,626
Transfers out	(4,613,787)	(690,839)	-	-	(5,304,626)
Total other financing sources (uses)	<u>(4,613,787)</u>	<u>(690,839)</u>	<u>3,081,209</u>	<u>2,223,417</u>	<u>-</u>
Net change in fund balances	(626,079)	(1,996,297)	3,081,209	2,223,417	2,682,250
Fund Balance-Beginning	<u>4,323,918</u>	<u>2,376,929</u>	<u>395,000</u>	<u>395,000</u>	<u>7,490,847</u>
Fund Balance-Ending	<u>\$ 3,697,839</u>	<u>\$ 380,632</u>	<u>\$ 3,476,209</u>	<u>\$ 2,618,417</u>	<u>\$ 10,173,097</u>

SAULT STE. MARIE BRIDGE AUTHORITY

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES**

December 31, 2012

Total net change in fund balances – governmental funds \$ 2,682,250

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives, as depreciation expense.

Capital outlay	\$ 553,090
Depreciation expense	<u>(1,017,855)</u>

This is the amount by which depreciation expense exceeds capital outlays in the period. (464,765)

In the statement of activities, certain operating expenses, compensated absences (sick pay and vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the net of the sick and vacation earned and used which must be added from the net fund balance of the governmental funds.

(21,703)

Change in net position of governmental activities \$ 2,195,783

See accompanying notes to basic financial statements.

SAULT STE. MARIE BRIDGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2012

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Sault Ste. Marie Bridge Authority, Michigan (the "Authority") conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies:

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Certain significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

1. Reporting Entity

An agency and instrumentality of the State of Michigan created in 1935 by Section 2, Act No. 237, P.A. of 1935 (Section 254, 202, Compiled Laws of 1948). By virtue of Act No. 99, P.A. 1954, as amended, the Authority is empowered to construct, maintain and operate a bridge project from the Upper Peninsula of Michigan to the Province of Ontario, Canada, to acquire necessary real and personal property, to exercise power of condemnation, to issue revenue bonds, payable solely from tolls and other revenues, and to charge and collect tolls and other charges for use of such projects. Congressional authority is provided by an Act of Congress as reenacted and approved September 21, 1959. Canadian authorization derives from an assignment and agreement dated January 15, 1960 between the Authority and St. Mary's River Bridge Co., a Canadian corporation, whereby the Authority succeeded to all the rights, powers, etc. of the corporation.

The International Bridge Authority tendered the last payment on its 1960 Series B 6% Secondary Pledge Revenue Bonds on September 1, 2000. Previous agreements and legislation mandated that upon this last payment ownership of the respective sides of the

International Bridge would revert to the Michigan Department of Transportation ("MDOT") and the St. Mary's River Bridge Company ("SMRBC"). As a result, the International Bridge Authority ceased to exist as an entity on September 1, 2000. To effectuate a seamless transition in bridge operation and maintenance, these parties entered into an intergovernmental agreement that created the Sault Ste. Marie Bridge Authority ("SSMBA") and International Bridge Administration ("IBA") and established the powers and responsibilities of each. The agreement was authorized by Michigan legislation passed in May 2000 that amends original legislation passed by Michigan Public Act 99 of 1954.

The SSMBA is the international contractual entity created by the agreement to set policy and oversee bridge operations. It has eight members, four from Michigan (appointed by the Governor) and four from Canada. The IBA is an administrative entity within the MDOT created to carry out the policy decisions of the SSMBA, and, under the direction and supervision of the MDOT, to enter into contracts and manage and operate the bridge on a daily basis.

The Agreement became effective September 1, 2009 and shall remain in effect until September 30, 2017, and is automatically renewed for successive ten-year periods thereafter unless, one (1) year prior to the renewal date, an Owner gives written notice to the other Owner that it elects not to renew the Agreement. The Agreement is subject to written notice of cancellation upon one (1) year written notice by MDOT or the SMRBC.

Year Ended December 31, 2012

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2. Basis of Presentation – Government-Wide Financial Statements**

The statement of net position and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange are recognized in accordance with Governmental Accounting Standards Board Statement 33.

The statement of net position and the statement of activities display information about the Authority as a whole. The statements include all funds of the primary government.

The statement of net position and the statement of activities are presented to distinguish between governmental and business type activities of the Authority. Governmental activities are financed through taxes, intergovernmental revenues, and other nonexchange revenues. These activities are reported in governmental funds. Business type activities are financed by fees charged to external parties for goods or services. The Authority does not have business type activities.

Capital assets are reported in the government-wide statements at historical cost. Capital assets include land, improvements to land, buildings, building improvements, vehicles, machinery and equipment, infrastructure and all other tangible or intangible assets that are used in operations and have initial useful lives beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets.

Capital assets that are depreciated are reported net of accumulated depreciation in the statement of net position. Capital assets that are not depreciated, such as land, are reported separately.

Capital assets are depreciated over their estimated useful lives. Depreciation expense is reported in the statement of activities by allocating the net cost over the estimated useful life of the asset. Assets are depreciated on an individual basis for equipment and buildings.

The government-wide focus is more on the sustainability of the Authority as an entity and the change in the Authority's net position resulting from the current year's activities.

3. Basic Financial Statements – Fund Financial Statements

The financial transactions of the Authority are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the Authority:

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the major governmental funds of the Authority.

Year Ended December 31, 2012

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Revenue fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

The Capital Projects Fund (Capital Fund) is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds).

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB 34 sets forth minimum criteria (percentage of the assets, liabilities, equity, revenues or expenditures/expenses of either fund category of the governmental and enterprise combined) for the determination of major funds. The Authority selected the Revenue and Capital Funds as Major Funds.

4. Measurement Focus and Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

The governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Restricted and Unrestricted Resources

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

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the Authority as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Bridge	60 years
Bridge enhancements	20 years
Bridge lights	5-25 years
Buildings	20-60 years
Machinery and equipment	5-20 years
Land improvements	20 years

Compensated Absences

The Authority accrues vested or accumulated sick and vacation leave when earned by the employee. The non-current portion (that is the amount not expected to be liquidated with expendable available financial resources) for governmental funds is maintained separately and represents a reconciling item between fund and government-wide presentations.

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 February 8, 2013, which is the date the financial statements were available to be issued.

Year Ended December 31, 2012

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Modified Accrual**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

The Authority reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Authority before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Cash, Cash Equivalents and Investments

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

Interfund Transfers

During the course of normal operations, the Authority has numerous transactions between funds, including expenditures and transfers of resources to construct assets and service debt. The accompanying financial statements generally reflect such transactions as operating transfers.

Prepaid Items

Payments made to vendors for insurance that will benefit future periods are recorded as prepaid items. All other payments made to vendors for services that will benefit future periods are recorded as expenditures. These payments do not have a material affect on the financial statements.

Annual Budget

The Authority adopts an annual budget each year for expenditures applicable to the Revenue (General) Fund and the Capital Fund. The operating budget includes proposed expenditures and the means of financing them is stated on a basis consistent with U.S. generally accepted accounting principles (GAAP). Budgets lapse at fiscal year end.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B CASH

The balance sheet accounts and types of cash items are presented below:

Cash and equivalents - unrestricted	\$ 3,733,012
TOTALS	\$ 3,733,012
Imprest	\$ 150
Change Fund	9,023
Savings and checking	3,723,839
TOTALS	\$ 3,733,012

NOTE C INVESTMENTS

Statutory Authority: An act (PA 152) to amend 1943 PA 20, entitled “An act relative to the investment of funds of public corporations of the state; and to validate certain investments,” by amending section 1 (MCL 129.91), as amended by 2009 PA 21.

Except as provided in section 5, the governing body by resolution may authorize its investment officer to invest the funds of that public corporation in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers’ acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
 - i) The purchase of securities on a when-issued or delayed delivery basis.
 - ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - iii) The limited ability to borrow and pledge a like portion of the portfolio’s assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

SAULT STE. MARIE BRIDGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2012

NOTE C INVESTMENTS (continued)

	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
Investments					
CIBC Guaranteed Investment Certificate (GIC)	\$ 7,391,751	\$ 3,595,814	\$ 3,795,937	\$ -	\$ -
Total Investments	\$ 7,391,751	\$ 3,595,814	\$ 3,795,937	\$ -	\$ -
 <u>As reported on the Statement of Net Position</u>					
Investments	<u>\$ 7,391,751</u>				
Total Investments	<u>\$ 7,391,751</u>				

Interest rate risk. The Authority 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 bonds to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has an investment policy that further limits its investment choices.

Custodial credit risk. Investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or securities that are in the possession of an outside party. Of the Authority's \$7,391,751 investments, \$7,391,751 are in the name of the Authority.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not re-

quire and the Authority does not have a policy for deposit custodial credit risk. As of December 31, \$3,536,409 of the Authority's bank balance of 3,736,919 was exposed to credit risk because it was uninsured and uncollateralized. \$0 was uninsured and collateralized by the pledging financial institution.

Foreign Currency Risk. These deposits are in a financial institution located in Ontario, Canada in varying amounts. All accounts are in the name of the Authority and specific funds. Interest is recorded in the month in which it is earned.

Cash and equivalents include cash deposited in a foreign (Canadian) financial institution. These deposits amount to \$2,564,980 (CAN) (\$2,578,061 U.S.) in its Canadian account and \$1,158,858 in its American account at the year ended December 31, 2012. These deposits are covered by Canadian depository insurance in the amount of \$100,510 (U.S.) (\$100,000 CAN), and Federal depository insurance in the amount of \$100,000.

SAULT STE. MARIE BRIDGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2012

NOTE D CAPITAL ASSETS

A summary of capital assets is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Assets not being depreciated:				
Land	\$ 1,965,530	\$ -	\$ -	\$ 1,965,530
Other capital assets:				
Bridge	22,451,968	-	-	22,451,968
Bridge lights	677,420	-	-	677,420
Buildings	2,854,012	-	-	2,854,012
Machinery & equipment	519,654	13,020	-	532,674
Land improvements	75,614	-	-	75,614
Office equipment	135,550	-	-	135,550
Vehicles	454,505	21,256	(42,018)	433,743
Security System	1,605,335	518,814	-	2,124,149
Subtotal	<u>28,774,058</u>	<u>553,090</u>	<u>(42,018)</u>	<u>29,285,130</u>
Accumulated depreciation:				
Bridge	(15,408,329)	(602,062)	-	(16,010,391)
Bridge lights	(608,916)	(25,692)	-	(634,608)
Buildings	(1,666,128)	(119,478)	-	(1,785,606)
Machinery & equipment	(405,493)	(23,391)	-	(428,884)
Land improvements	(27,412)	(3,781)	-	(31,193)
Office equipment	(135,550)	-	-	(135,550)
Vehicles	(342,983)	(33,506)	42,018	(334,471)
Security system	(792,627)	(209,945)	-	(1,002,572)
Subtotal	<u>(19,387,438)</u>	<u>(1,017,855)</u>	<u>42,018</u>	<u>(20,363,275)</u>
Net Other Capital Assets	<u>9,386,620</u>	<u>(464,765)</u>	<u>-</u>	<u>8,921,855</u>
Net Capital Assets	<u>\$ 11,352,150</u>	<u>\$ (464,765)</u>	<u>\$ -</u>	<u>\$ 10,887,385</u>

Note: Depreciation was entirely allocated to bridge maintenance expense.

SAULT STE. MARIE BRIDGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2012

NOTE E RESTRICTED NET POSITION

Restricted net position at year ended December 31, 2012 consist of \$1,953,815 in investments, for the purpose of bridge repair, maintenance, and bridge owner projects, as required by the Intergovernmental Agreement.

A summary of the lease revenue earned for the year ended December 31, 2012 is as follows:

American lease revenue	\$ 405,592
Canadian lease revenue	<u>95,301</u>
Total lease revenue	<u>\$ 500,893</u>

NOTE F FUND BALANCES

At December 31, 2012 the combined fund balances included a nonspendable \$6,590,049 fund balance, a committed fund balance for \$226,096 in state specified projects, and a combined restricted fund balance of \$1,953,815. Combined fund balance of \$1,403,137 was assigned for operational expenditures.

Lease revenue for future periods is based on a percentage of duty free shop annual gross sales. Lease rates vary based on actual gross sales. Five year future lease income is not available.

The combined owner reserve fund balance at December 31, 2012 were:

NOTE H COMPENSATED ABSENCES

All permanent employees of the Authority are employed through the State of Michigan and receive sick and vacation benefits in accordance with State guidelines. All employees are allowed to accumulate any unused sick and vacation hours up to specified limits. Upon termination of employment, the employee is entitled to compensation for the accumulated annual leave hours. State guidelines differ regarding payment for the accumulated sick leave hours depending on the date of hire.

The total amount that would be payable at the year ended December 31, 2012 was \$230,443. This amount is reflected as a liability in the Statement of Net Position.

NOTE G LEASES REVENUE

The Authority has entered into rental agreements that call for the Authority to receive a percentage of revenues from duty free shops on the American and Canadian plazas of the bridge. Also, the Authority receives fixed monthly and annual revenue for the use of land and right of ways owned by the Authority.

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

		Changes in Long-Term Debt			
		12/31/11	Additions	Deductions	12/31/12
Compensated Absences	\$ 208,740	\$ 21,703	\$ -	\$ 230,443	
Total	<u>\$ 208,740</u>	<u>\$ 21,703</u>	<u>\$ -</u>	<u>\$ 230,443</u>	

(1) The change in compensated absences is shown as a net increase.

SAULT STE. MARIE BRIDGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2012

NOTE I INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The Authority reports interfund balances between its funds. The total of all balances agrees with the sum of interfund balances presented in the statement of net position/balance sheet for governmental funds.

Interfund balances at December 31, 2012 consisted of the following:

Fund	<u>Due To</u>	<u>Due From</u>
Revenue Fund	\$ -	\$ 5,244,779
Capital Fund	17,575	867,422
MDOT Capital Fund	3,476,209	-
SMRBC Capital Fund	<u>2,618,417</u>	<u>-</u>
TOTALS	<u>\$ 6,112,201</u>	<u>\$ 6,112,201</u>

All balances resulted from the time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers for the year ended December 31, 2012 consisted of the following:

Fund	<u>Transfers Out</u>	<u>Transfers In</u>
Revenue Fund	\$ 4,613,787	\$ -
Capital Fund	690,839	-
MDOT Capital Fund		3,081,209
SMRBC Capital Fund		<u>2,223,417</u>
TOTALS	<u>\$ 5,304,626</u>	<u>\$ 5,304,626</u>

NOTE J PENSION PLAN

Plan Descriptions – The Authority participates in the State of Michigan’s defined benefit and defined contribution plans that covers most state employees, as well as related component units such as the International Bridge Administration. The defined benefit plan provides retirement, disability, death benefits, and the annual cost of living adjustment to plan members. The System 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 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-6262.

<u>Year End- ed Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2008	\$ 445,464	100%	0
2009	\$ 480,495	100%	0
2010	\$ 373,842	100%	0
2011	\$ 571,439	100%	0
2012	\$ 466,379	100%	0

Funding Policy – Plan members are not required to make contributions; the Authority is required to contribute at an actuarially determined rate for the defined benefit plan of 8.3, 20.2, 19.8, 22.8% percent of payroll for the years ended September 30 2007, 2008, 2009, and 2010 respectively. The contribution rate for 2011 was 3.3%. The Authority is required to contribute to the defined contribution plan 4.0 percent of payroll with an additional match of up to 3.0 percent for the years ended September 30, 2012, 2011, 2010, 2009, and 2008. The contribution requirements of plan members and the Authority are established and may be amended by the state legislature. The state legislature establishes the extent to which employer and employees are required to make contributions and establishes the benefit provisions for the plan. The Authority’s contributions to the plans, including post employment benefits as described in Note L.

Year Ended December 31, 2012

NOTE K FOREIGN CURRENCY VALUATION

The Authority engages in Canadian currency transactions for bridge toll collections and Canadian purchases. All financial statement amounts are restated as American funds at the time of toll collection and/or payment of Canadian purchases utilizing the average monthly exchange rate. The balance sheet is valued at the daily exchange rate as of the year ended December 31, 2012. Fluctuations in the exchange rate could be material to the Authority. For the year ended December 31, 2012, due to asset revaluation, revenue increased in the amount of \$179,997 due to the difference in U.S. and Canadian dollar currency rates at the fiscal year end.

NOTE L PROPERTY TAX PAYMENTS

The Authority pays property taxes in the City of Sault Ste. Marie, Ontario and payment in lieu of taxes, less Ontario tax rebates and refunds, to the City of Sault Ste. Marie, Michigan. The amounts paid to each respective unit, net of property tax rebates, for the year ended December 31, 2012, are as follows:

Sault Ste. Marie, Ontario	\$ 110,035
Sault Ste. Marie, Michigan	<u>110,260</u>
Total tax payments	<u><u>\$ 220,295</u></u>

NOTE M POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note I, the Authority provides post retirement health care benefits, in accordance with State statutes, to all employees who retire from the government with age and years of service amounting to 80 or more. The government reimburses the amount of validated claims for medical, dental, and hospitalization costs incurred by pre-Medicare retirees and their dependents. Expenditures for postretirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported to the State of Michigan. Post employment benefits is included within the State of Michigan financial reporting, and specific information relating to bridge administration employees is not available.

NOTE N CHANGE IN PRESENTATION

During 2012, the entity implemented Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that was included in Financial Accounting Standards Board and predecessor organization's pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. There were no significant changes to the financial statements as a result of adopting these Statements. The Authority has not adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

NOTE O EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 2 of 1968, as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Authority's actual expenditures were in excess of amounts appropriated as follows:

	<u>Total</u>	<u>Total</u>	<u>Budget</u>
	<u>Appropriations</u>	<u>Appropriations</u>	<u>Variance</u>
Revenue			
Fund	\$ 8,976,702	\$ 9,362,302	\$ (385,600)

SAULT STE. MARIE BRIDGE AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SAULT STE. MARIE BRIDGE AUTHORITY

BUDGETARY COMPARISON SCHEDULE

REVENUE FUND

For the Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, December 31, 2011	\$ 4,323,918	\$ 4,323,918	\$ 4,323,918	\$ -
Resources (inflows):				
Toll collections	7,088,953	7,088,953	7,365,425	276,472
Federal grants	-	517,000	517,000	-
Lease and rental revenues	400,000	400,000	500,893	100,893
Interest revenues	43,000	43,000	101,806	58,806
Other revenues	43,680	43,680	100,211	56,531
Exchange gain	-	-	150,888	150,888
Amounts available for appropriation	7,575,633	8,092,633	8,736,223	643,590
Charges to appropriation (outflows):				
Salaries	2,097,139	2,097,139	2,105,124	(7,985)
Benefits	290,966	290,966	347,700	(56,734)
Retirement	449,752	776,291	830,997	(54,706)
Insurance	313,186	313,186	378,222	(65,036)
Supplies	29,032	29,032	28,506	526
Accounting and audit fees	28,515	28,515	27,196	1,319
Periodicals and memberships	3,274	3,274	4,028	(754)
Printing and postage	4,341	4,341	3,251	1,090
Advertising	69,587	69,587	85,269	(15,682)
Uniforms	12,616	12,616	14,595	(1,979)
Medical exam	2,700	2,700	2,685	15
Salary administration	32,048	32,048	47,621	(15,573)
Cash transportation services	12,000	12,000	12,976	(976)
Commutation debit accounts	2,281	2,281	3,068	(787)
Vehicle gas and oil	24,308	24,308	31,682	(7,374)
Travel & meeting expense	34,942	34,942	38,226	(3,284)
Utilities	167,541	167,541	166,274	1,267
Service contract purchased	21,186	21,186	6,592	14,594
Computers, software and support	140,857	140,857	122,685	18,172
Training	515	515	163	352
Building maintenance	14,151	14,151	16,591	(2,440)
Building improvements and equipment	30,288	30,288	20,430	9,858
Heating and plumbing repair	5,150	5,150	6,492	(1,342)
Ground maintenance	1,906	1,906	4,349	(2,443)
Equipment repair	30,488	30,488	33,332	(2,844)
Vehicle maintenance	12,360	12,360	6,139	6,221
Leases and rentals	3,193	3,193	1,695	1,498
Paint and sandblast materials	4,635	4,635	9,268	(4,633)
Sand and ice melter	26,523	26,523	30,482	(3,959)
Small tools purchase	4,017	4,017	3,922	95
Bridge and road maintenance and repair	25,750	25,750	30,836	(5,086)
Commuter bus expenditures	76,220	76,220	83,105	(6,885)
Property tax and payment in lieu of taxes	238,000	238,000	220,295	17,705
Miscellaneous	3,492	3,492	1,061	2,431
Commuter rate adjustments	-	-	23,658	(23,658)
Transfers (in) out	-	4,437,204	4,613,787	(176,583)
Total charges to appropriations	4,212,959	8,976,702	9,362,302	(385,600)
Budgetary fund balance, December 31, 2012	\$ 7,686,592	\$ 3,439,849	\$ 3,697,839	\$ 257,990

SAULT STE. MARIE BRIDGE AUTHORITY

BUDGETARY COMPARISON SCHEDULE
CAPITAL FUND

For the Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		Positive (Negative)
Budgetary fund balance, December 31, 2011	\$ 2,376,929	\$ 2,376,929	\$ 2,376,929	\$ -
Resources (inflows):				
Interest revenues	46,000	46,000	12,531	(33,469)
Exchange gain	-	-	29,109	29,109
Amounts available for appropriation	46,000	46,000	41,640	(4,360)
Charges to appropriations (outflows):				
Repairs and maintenance	405,714	518,000	537,245	(19,245)
Professional services	608,068	310,795	265,373	45,422
Capital outlay	41,818	41,818	148,652	(106,834)
Administration	-	-	267	(267)
Repairs and maintenance (owner)	-	400,000	395,561	4,439
Transfers out	-	867,422	690,839	176,583
Total charges to appropriations	1,055,600	2,138,035	2,037,937	100,098
Budgetary fund balance, December 31, 2012	\$ 1,367,329	\$ 284,894	\$ 380,632	\$ 95,738

SAULT STE. MARIE BRIDGE AUTHORITY

**BUDGETARY COMPARISON SCHEDULE
MDOT CAPITAL FUND**

For the Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, December 31, 2011	\$ 395,000	\$ 395,000	\$ 395,000	\$ -
Resources (inflows):				
Transfers in	-	-	3,081,209	3,081,209
Amounts available for appropriation	-	-	3,081,209	3,081,209
Budgetary fund balance, December 31, 2012	<u>\$ 395,000</u>	<u>\$ 395,000</u>	<u>\$ 3,476,209</u>	<u>\$ 3,081,209</u>

SAULT STE. MARIE BRIDGE AUTHORITY

**BUDGETARY COMPARISON SCHEDULE
SMRBC CAPITAL FUND**

For the Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		Positive (Negative)
Budgetary fund balance, December 31, 2011	\$ 395,000	\$ 395,000	\$ 395,000	\$ -
Resources (inflows):				
Transfers in	-	-	2,223,417	2,223,417
Amounts available for appropriation	-	-	2,223,417	2,223,417
Budgetary fund balance, December 31, 2012	<u>\$ 395,000</u>	<u>\$ 395,000</u>	<u>\$ 2,618,417</u>	<u>\$ 2,223,417</u>



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

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MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

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

To the Sault Ste. Marie Bridge Authority
Members and Representatives
Sault Ste. Marie Bridge Authority
Sault Ste. Marie, Michigan

and

Mr. Thomas H. McTavish, CPA
Auditor General
State of Michigan
Lansing, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Sault Ste. Marie Bridge Authority, Michigan, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated February 8, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Sault Ste. Marie Bridge Authority, Michigan'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sault Ste. Marie Bridge Authority, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Sault Ste. Marie Bridge Authority, Michigan's internal control.

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

To the Sault Ste. Marie Bridge Authority
Members and Representatives

and

Mr. Thomas H. McTavish, CPA
Auditor General

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, describe in the accompany schedule of findings and questioned costs that we consider to be a significant deficiency listed as 12-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sault Ste. Marie Bridge Authority, Michigan'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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 12-1.

Sault Ste. Marie Bridge Authority, Michigan's Response to Findings

The Sault Ste. Marie Bridge Authority, Michigan's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Sault Ste. Marie Bridge Authority, Michigan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

February 8, 2013



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

To the Sault Ste. Marie Bridge Authority
Members and Representatives
Sault Ste. Marie Bridge Authority
Sault Ste. Marie, Michigan

and

Mr. Thomas H. McTavish, CPA
Auditor General
State of Michigan
Lansing, Michigan

Report on Compliance for Each Major Federal Program

We have audited the Sault Ste. Marie Bridge Authority, Michigan's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Sault Ste. Marie Bridge Authority, Michigan's major federal programs for the year ended December 31, 2012. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

To the Sault Ste. Marie Bridge Authority
Members and Representatives

and

Mr. Thomas H. McTavish, CPA
Auditor General

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

February 8, 2013

SAULT STE. MARIE BRIDGE AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Homeland Security/ Michigan Department of State Police			
Pass-thru MDOT Award: 2009 Homeland Security Grant Program	97.067	-	\$ 517,000
Total Expenditures of Federal Awards			\$ 517,000

See notes to Schedule of Expenditures of Federal Awards.

SAULT STE. MARIE BRIDGE AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2012

NOTE A BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Sault Ste. Marie International Bridge Authority and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B COGNIZANT AGENCY:

The Authority has not been assigned a cognizant agency. Therefore, the Authority is under the general oversight of the Michigan Department of Transportation, sub-grantee to the Michigan Department of State Police, that provided the greatest amount of indirect federal funding to the Authority during 2012.

NOTE C RECONCILIATION TO COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE:

The following is a reconciliation of the amounts reported on the basic financial statements to the Schedule of Expenditures of Federal Awards:

Total Federal per Combined Financial Statements	
Revenues – Primary Government	\$ <u>517,000</u>
Total Federal Revenue Recognized per Schedule of	
Expenditures of Federal Awards	\$ <u>517,000</u>

SAULT STE. MARIE BRIDGE AUTHORITY

SUMMARY OF AUDITOR'S RESULTS AND SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
· Material weaknesses identified?	No
· Reportable conditions identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
· Material weaknesses identified?	No
· Reportable conditions identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of Major Programs

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
97.067	2009 Homeland Security Grant Program
Dollar threshold used to distinguish between types A and type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	No

SUMMARY OF AUDITOR'S RESULTS AND SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2012

Section II - Financial Statement Findings

NONCOMPLIANCE WITH STATE STATUTES

**EXCESS EXPENDITURES OVER APPROPRIATIONS
BUDGETARY FUNDS**

FINDING 12-1

Condition: Our examination of procedures used by the Authority to adopt and maintain operating budgets for the Authority's budgetary funds revealed the following instance of noncompliance with the provisions of Public Act 621 of 1978, Section 18(1), as amended, the Uniform Budgeting and Accounting Act.

The Authority's 2012 General Appropriations Act (budget) provided for expenditures of the Authority to be controlled to the activity level. During the fiscal year ended December 31, 2012, expenditures were incurred in excess of amounts appropriated in the amended budgets for the revenue fund on pages 31 of the financial statements.

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Public Act 621 of 1978, as amended.

During the year ended December 31, 2012, the Authority incurred expenditures in certain budgetary funds, which were in excess of the amount appropriated as follows:

Effect: The Authority has not complied with various State Statutes.

Cause: Failure to amend the budget for the Revenue Fund during the year.

Recommendation: We recommend that the Authority and personnel responsible for administering the activities of the various funds of the Authority, develop budgetary control procedures for the Revenue Fund, which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Management's Response – Corrective Action Plan:

Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

- **Contact Person(s) Responsible for Correction:**
Phillip Becker, General Manager
Peter Petainen, Chief Financial Officer

SAULT STE. MARIE BRIDGE AUTHORITY

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year Ended December 31, 2012

Section III - Federal Award Findings and Questioned Costs

NONE

SAULT STE. MARIE BRIDGE AUTHORITY

UNAUDITED SUPPLEMENTAL INFORMATION

SAULT STE. MARIE BRIDGE AUTHORITY

BUDGETARY COMPARISON SCHEDULE
REVENUE FUND BY DEPARTMENT - UNAUDITED

For the Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, December 31, 2011	\$ 4,323,918	\$ 4,323,918	\$ 4,323,918	\$ -
Resources (inflows):				
Toll collections	7,088,953	7,088,953	7,365,425	276,472
Federal grants	-	517,000	517,000	-
Lease and rental revenues	400,000	400,000	500,893	100,893
Interest revenue	43,000	43,000	101,806	58,806
Other revenue	43,680	43,680	100,211	56,531
Exchange gain (loss)	-	-	150,888	150,888
Amounts available for appropriation	7,575,633	8,092,633	8,736,223	643,590
Charges to appropriation (outflows):				
Toll collection				
Salaries	1,006,549	1,006,549	926,938	79,611
Benefits	143,073	143,073	168,274	(25,201)
Retirement	218,991	374,438	394,973	(20,535)
Insurance	28,310	28,310	28,508	(198)
Supplies	3,708	3,708	3,713	(5)
Printing and postage	268	268	281	(13)
Advertising	2,500	2,500	1,479	1,021
Uniforms	4,700	4,700	4,878	(178)
Medical exam	1,000	1,000	690	310
Salary administration	15,559	15,559	23,841	(8,282)
Cash transportation services	12,000	12,000	12,976	(976)
Commutation debit accounts	1,500	1,500	1,872	(372)
Travel & meeting expense	850	850	478	372
Computers, software and support	128,862	128,862	105,381	23,481
Building maintenance	2,100	2,100	2,077	23
Building improvements and equipment	17,017	17,017	7,623	9,394
Equipment repair	6,525	6,525	2,874	3,651
Miscellaneous	2,060	2,060	162	1,898
Total toll collection	1,595,572	1,751,019	1,687,018	64,001

SAULT STE. MARIE BRIDGE AUTHORITY

BUDGETARY COMPARISON SCHEDULE
REVENUE FUND BY DEPARTMENT - UNAUDITED

For the Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		Positive (Negative)
Bridge maintenance				
Salaries	834,266	834,266	907,334	(73,068)
Benefits	111,832	111,832	132,606	(20,774)
Retirement	170,206	300,433	325,657	(25,224)
Insurance	44,440	44,440	52,814	(8,374)
Supplies	18,792	18,792	20,892	(2,100)
Printing and postage	464	464	533	(69)
Advertising	824	824	-	824
Uniforms	7,916	7,916	9,717	(1,801)
Medical exam	1,700	1,700	1,995	(295)
Salary administration	11,957	11,957	19,048	(7,091)
Commutation debit accounts	371	371	851	(480)
Vehicle gas and oil	24,308	24,308	31,682	(7,374)
Travel & meeting expense	1,236	1,236	2,074	(838)
Utilities	159,362	159,362	155,542	3,820
Service contract purchased	5,305	5,305	-	5,305
Computers, software and support	3,488	3,488	4,152	(664)
Training	515	515	163	352
Building maintenance	12,051	12,051	14,514	(2,463)
Building improvements and equipment	12,154	12,154	12,807	(653)
Heating and plumbing repair	5,150	5,150	6,492	(1,342)
Ground maintenance	1,906	1,906	4,349	(2,443)
Equipment repair	23,963	23,963	30,458	(6,495)
Vehicle maintenance	12,360	12,360	6,139	6,221
Leases and rentals	3,193	3,193	438	2,755
Paint and sandblast materials	4,635	4,635	9,268	(4,633)
Sand and ice melter	26,523	26,523	30,482	(3,959)
Small tools purchase	4,017	4,017	3,922	95
Bridge and road maintenance and repair	25,750	25,750	30,836	(5,086)
Miscellaneous	541	541	654	(113)
Total maintenance	1,529,225	1,659,452	1,815,419	(155,967)

SAULT STE. MARIE BRIDGE AUTHORITY

BUDGETARY COMPARISON SCHEDULE
REVENUE FUND BY DEPARTMENT - UNAUDITED

For the Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		Positive (Negative)
Administration				
Salaries	256,324	256,324	270,852	(14,528)
Benefits	36,061	36,061	46,820	(10,759)
Retirement	60,555	101,420	110,367	(8,947)
Insurance	3,536	3,536	4,109	(573)
Supplies	6,532	6,532	3,901	2,631
Accounting and audit fees	28,515	28,515	27,196	1,319
Periodicals and memberships	3,274	3,274	4,028	(754)
Printing and postage	3,609	3,609	2,437	1,172
Advertising	1,263	1,263	3,264	(2,001)
Salary administration	4,532	4,532	4,732	(200)
Commutation debit accounts	213	213	277	(64)
Travel & meeting expense	5,273	5,273	7,024	(1,751)
Utilities	8,179	8,179	10,732	(2,553)
Service contract purchased	4,551	4,551	4,342	209
Computers, software and support	8,507	8,507	13,152	(4,645)
Building improvements and equipment	1,117	1,117	-	1,117
Miscellaneous	891	891	186	705
Total administration	432,932	473,797	513,419	(39,622)
Other expenditures				
Insurance	236,900	236,900	292,791	(55,891)
Advertising	65,000	65,000	80,526	(15,526)
Commutation debit accounts	197	197	68	129
Travel & meeting expense	27,583	27,583	28,650	(1,067)
Service contract purchased	11,330	11,330	2,250	9,080
Leases and rentals	-	-	1,257	(1,257)
Commuter bus expenditures	76,220	76,220	83,105	(6,885)
Property tax and payment in lieu of taxes	238,000	238,000	220,295	17,705
Miscellaneous	-	-	59	(59)
Commuter rate adjustments	-	-	23,658	(23,658)
Transfers (in) out	-	4,437,204	4,613,787	(176,583)
Total other expenditures	655,230	5,092,434	5,346,446	(254,012)
Total charges to appropriations	4,212,959	8,976,702	9,362,302	(385,600)
Budgetary fund balance, December 31, 2012	\$ 7,686,592	\$ 3,439,849	\$ 3,697,839	\$ 257,990



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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ROBERT L. HASKE, CPA
AMBER N. MACK, CPA, EA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Sault Ste. Marie Bridge Authority
Members and Representatives
Sault Ste. Marie Bridge Authority
Sault Ste. Marie, Michigan

and

Mr. Thomas H. McTavish, CPA
Auditor General
State of Michigan
Lansing, Michigan 48913

We have audited the financial statements of the governmental activities and each major fund of the Sault Ste. Marie Bridge Authority, of Michigan, for the year ended December 31, 2012, and have issued our report thereon dated February 8, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, Government Auditing Standards and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated October 15, 2012, 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 U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

In planning and performing our audit, we will consider the Sault Ste. Marie Bridge Authority, of Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Sault Ste. Marie Bridge Authority, of Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also, in accordance with OMB Circular A-133, we will examine, on a test basis, evidence about the Sault Ste. Marie Bridge Authority, of Michigan's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the Sault Ste. Marie Bridge Authority, of Michigan's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it will not provide a legal determination on the Sault Ste. Marie Bridge Authority, of Michigan's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters on October 15, 2012.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Sault Ste. Marie Bridge Authority, of Michigan are described in Note A to the financial statements. Three new accounting policies were adopted regarding the implementation of GASB Statements 62, 63 and 65 and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions that have been recognized in the financial statements in the proper period.

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

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreement with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 8, 2013.

Management Consultations with Other Independent Accountants

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

Other Audit findings or Issues

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

Comments and Recommendations

Reporting Employer Provided Health Coverage on Form W-2

The Affordable Care Act requires employers to report the cost of coverage under an employer-sponsored group health plan on an employee's Form W-2, Wage and Tax Statement. Many employers are eligible for transition relief for tax year 2013 and beyond, until the IRS issues final guidance for this reporting requirement.

The amount reported does not affect tax liability, as the value of the employer excludible contribution to health coverage continues to be excludible from an employee's income, and it is not taxable. This reporting is for informational purposes only, to show employees the value of their health care benefits so they can be informed consumers. More information about the reporting can be found at [Form W-2 Reporting of Employer-Sponsored Health Coverage](#).

Pension Reporting

In June 2012, the Governmental Accounting Standards Board (GASB) approved a pair of related Statements that implement substantial changes to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes new accounting and financial reporting requirements. These requirements include a provision for reporting net pension liabilities on the accrual based statement of net position and measuring investments at fair value as well as additional footnote and required supplementary information disclosures.

The Board and Management should review the procedures for implementation of these new standards effective in fiscal 2014 and assess the impact on the local unit of government's financial reporting.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any further assistance, please contact us.

This information is intended solely for the use of state and provincial regulatory agencies and management of the Sault Ste. Marie Bridge Authority and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

February 8, 2013