

ANTRIM COUNTY ROAD COMMISSION
BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

ANTRIM COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS

Jerome Dobrzelewski
Commissioner

Glenn Paradis
Commissioner

Frederick Hunt
Commissioner

Burt Thompson
Engineer/Manager

Dale Farrier
Office Manager

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INDEPENDENT AUDITOR'S REPORT

March 22, 2012

Board of County Road Commissioners
Antrim County
Mancelona, MI 49659

I have audited the accompanying financial statements of the governmental activities and major fund of the Antrim County Road Commission, a component unit of Antrim County, Michigan, as of and for the year ended December 31, 2011, which collectively comprise the Road Commission's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the Road Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, based on my audit, 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 Antrim County Road Commission as of December 31, 2011 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 22, 2012, on my consideration of Antrim County Road Commission's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 25 through 26 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Antrim County Road Commission's basic financial statements as a whole. Other supplementary information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Thomas R. Zick CPA, P.C.
Certified Public Accountant

ANTRIM COUNTY ROAD COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Antrim County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2011. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the road commission's operations in more detail than government-wide financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities—this is one way to measure the Road Commission's financial health or position.

The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

REPORTING THE COMMISSION AS A WHOLE

Government-Wide Statements

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

The two statements, mentioned above, report the road commission's net assets and how they have changed. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the road commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the road commission's roads, and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The road commission currently has only one fund, the general operations fund. All of the road commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. Our analysis of the road commission's major fund begins on this page. The fund financial statements begin on page 11 and provide detailed information about the major fund.

**ANTRIM COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

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

FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE

The road commission's net assets decreased 1.49% from \$30,613,040 to \$30,155,652 as of December 31, 2011. The net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) by creditors, grantors, contributors, or laws or regulations of other governments; b) by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used for only the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The investment in capital assets, net of related debt, was \$28,811,256 at December 31, 2010 and \$28,328,015 as of December 31, 2011.

Net assets as of year ended December 31, 2011 and December 31, 2010

| | <u>12/31/2011</u> | <u>12/31/2010</u> | <u>Increase/ (Decrease)</u> |
|---------------------------------------------------|----------------------|----------------------|---------------------------------|
| Current and Other Assets | \$ 2,628,467 | \$ 2,375,930 | \$ 252,537 |
| Capital Assets (Net) | <u>28,328,015</u> | <u>28,811,256</u> | <u>(483,241)</u> |
| Total Assets | <u>30,956,482</u> | <u>31,187,186</u> | <u>(230,704)</u> |
| | | | |
| Long-Term Debt Outstanding | 314,061 | 317,172 | (3,111) |
| Other Liabilities | <u>486,769</u> | <u>256,974</u> | <u>229,795</u> |
| Total Liabilities | <u>800,830</u> | <u>574,146</u> | <u>226,684</u> |
| Net Assets | | | |
| Invested in Capital Assets Net of Related Debt | 28,328,015 | 28,811,256 | (483,241) |
| Restricted | <u>1,827,637</u> | <u>1,801,784</u> | <u>25,853</u> |
| Total Net Assets | <u>\$ 30,155,652</u> | <u>\$ 30,613,040</u> | <u>\$ (457,388)</u> |

**ANTRIM COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Changes in Net Assets

A summary of changes in net assets follows:

| | <u>12/31/2011</u> | <u>12/31/2010</u> | Increase/ <u>(Decrease)</u> |
|------------------------------------|---------------------|-------------------|--------------------------------|
| Revenues | | | |
| Licenses and Permits | \$ 52,538 | \$ 29,787 | \$ 22,751 |
| Federal Grants | 406,940 | 833,655 | (426,715) |
| State Grants | 3,356,157 | 3,381,227 | (25,070) |
| Contributions from Local Units | 1,050,327 | 870,604 | 179,723 |
| Reimbursements/Miscellaneous | 3,117 | 40,275 | (37,158) |
| Charges for Services | 660,544 | 710,733 | (50,189) |
| Interest and Rents | <u>7,746</u> | <u>7,662</u> | <u>84</u> |
| Total Program Revenue | <u>5,537,369</u> | <u>5,873,943</u> | <u>(336,574)</u> |
| Expenditures | | | |
| Public Works | <u>5,994,757</u> | <u>4,936,961</u> | <u>1,057,796</u> |
| Total Expenditures | <u>5,994,757</u> | <u>4,936,961</u> | <u>1,057,796</u> |
| Increase (Decrease) in Net Assets | <u>\$ (457,388)</u> | <u>\$ 936,982</u> | <u>\$ (1,394,370)</u> |

The Road Commission's Fund

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

A summary of changes in the Operating Fund is as follows:

| | <u>12/31/2011</u> | <u>12/31/2010</u> | Increase/ <u>(Decrease)</u> |
|--------------------------------|-------------------|-------------------|--------------------------------|
| Revenues | | | |
| Licenses and Permits | \$ 52,538 | \$ 29,787 | \$ 22,751 |
| Federal Grants | 406,940 | 833,655 | (426,715) |
| State Grants | 3,356,157 | 3,381,227 | (25,070) |
| Contributions from Local Units | 1,050,327 | 870,604 | 179,723 |
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| Charges for Services | 660,544 | 710,733 | (50,189) |
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| Total Program Revenue | <u>5,537,369</u> | <u>5,873,943</u> | <u>(336,574)</u> |

**ANTRIM COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

| | <u>12/31/2011</u> | <u>12/31/2010</u> | Increase/ (Decrease) |
|-------------------------------------------------|---------------------|---------------------|-------------------------|
| Expenditures | | | |
| Public Works | 5,485,961 | 5,672,618 | (186,657) |
| Net Capital Outlay | 28,666 | 70,674 | (42,008) |
| Debt Service | - | - | - |
| Total Expenditures | <u>5,514,627</u> | <u>5,743,292</u> | <u>(228,665)</u> |
| Excess of Revenues Over (Under) Expenditures | 22,742 | 130,651 | (107,909) |
| Fund Balance - January 1 | <u>2,118,956</u> | <u>1,988,305</u> | <u>130,651</u> |
| Fund Balance - December 31 | <u>\$ 2,141,698</u> | <u>\$ 2,118,956</u> | <u>\$ 22,742</u> |

BUDGETARY HIGHLIGHTS

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

The final amended revenue budget for 2011 was \$568,226 higher than the original budget primarily due to an increase in State trunkline maintenance revenue, and increases in Federal aid and State Aid allocation.

The final amended expenditure budget for 2011 was \$332,000 lower than the original budget primarily due to the road commission budgeting for lower expenses in Local Road Structural Improvements and lower expenses for Equipment expends. The actual expenditures incurred during 2011 were more than the final amended budget by (\$606,627). There were several unfavorable variances in expenditure line items.

**ANTRIM COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Capital Assets

As of the respective year-ends, the road commission had invested the following in net capital assets including infrastructure as follows:

| | <u>12/31/2011</u> | <u>12/31/2010</u> | <u>Increase/ (Decrease)</u> |
|---------------------------------------|----------------------|----------------------|---------------------------------|
| Capital assets not being depreciated: | | | |
| Land and Improvements | \$ 58,250 | \$ 58,250 | \$ - |
| Infrastructure and Land Improvements | <u>14,804,260</u> | <u>14,652,291</u> | <u>151,969</u> |
| Subtotal | <u>14,862,510</u> | <u>14,710,541</u> | <u>151,969</u> |
| Capital assets being depreciated: | | | |
| Buildings | 2,470,421 | 2,470,421 | - |
| Equipment - Road | 5,891,349 | 5,740,288 | 151,061 |
| Equipment - Shop | 162,581 | 159,579 | 3,002 |
| Equipment - Office | 87,115 | 83,647 | 3,468 |
| Equipment - Engineering | 52,642 | 52,642 | - |
| Equipment - Yard & Storage | 929,058 | 929,058 | - |
| Infrastructure - Bridges | 1,385,552 | 1,385,552 | - |
| Infrastructure - Roads | <u>24,204,144</u> | <u>23,433,247</u> | <u>770,897</u> |
| Subtotal | <u>35,182,862</u> | <u>34,254,434</u> | <u>928,428</u> |
| Total Capital Assets | <u>50,045,372</u> | <u>48,964,975</u> | <u>1,080,397</u> |
| Total Accumulated Depreciation | <u>21,717,357</u> | <u>20,153,719</u> | <u>1,563,638</u> |
| Total Net Capital Assets | <u>\$ 28,328,015</u> | <u>\$ 28,811,256</u> | <u>\$ (483,241)</u> |

The Road Commission capitalized infrastructure and related assets during the current year in the amount of \$1,234,904. The infrastructure recorded, during 2011 will be depreciated in following years. The infrastructure is financed through Federal, State and local contributions

Major capital asset additions included the following by year:

| | <u>12/31/2011</u> | <u>12/31/2010</u> | <u>Increase/ (Decrease)</u> |
|---------------------------------------------------------------|---------------------|---------------------|---------------------------------|
| Various Resurfacing Projects and Related Costs-Infrastructure | \$ 922,866 | \$ 2,101,853 | \$ (1,178,987) |
| Equipment | <u>312,038</u> | <u>343,857</u> | <u>(31,819)</u> |
| Total Additions | <u>\$ 1,234,904</u> | <u>\$ 2,445,710</u> | <u>\$ (1,210,806)</u> |

There were no installment purchase agreements entered into during 2011. All the equipment was acquired with road commission funds.

**ANTRIM COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Debt

At the year-end, the road commission had \$0 in bonds payable. Other long-term debt is accrued vacation and sick pay leave and retiree health insurance liability.

In 2011, the Road Commission does not anticipate borrowing or financing any debt related to the acquisition of capital assets.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners, along with the road commission's fiscal and chief administrative officers, considered many factors when setting the calendar year 2012 budget. These factors included MTF collection forecasts, the economy, township contributions, MDOT's maintenance budget and various others. We are projecting a decrease in revenues for 2012 primarily due to less MDOT maintenance, less Federal project revenue and reduced township contributions. The MTF funds are starting the year 2012 slightly up from 2011 due to higher registration fees being collected which are offsetting reduced fuel tax collections. Fuel prices could also affect our 2012 results. Budget adjustments may be necessary during 2012 if these trends continue.

This financial report is designed to provide the public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Antrim County Road Commission's administrative offices at 319 E. Lincoln St., P.O. Box 308, Mancelona, MI 49659, phone 231-587-8521.

**ANTRIM COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

| | |
|--------------------------------------------------|--------------------------|
| ASSETS | |
| Cash demand and time deposits | \$ 1,279,993 |
| Investments | 117,835 |
| Accounts receivable: | |
| Michigan Transportation Fund | 475,979 |
| State - Other | 106,728 |
| Due on County Road Agreements | 16,832 |
| Sundry Accounts | 3,841 |
| Inventories | |
| Road Materials | 452,665 |
| Equipment Parts and Materials | 135,024 |
| Prepaid expenses | 39,570 |
| Capital Assets (Net of Accumulated Depreciation) | <u>28,328,015</u> |
| TOTAL ASSETS | <u>30,956,482</u> |
| LIABILITIES | |
| Current Liabilities | |
| Account payable | 248,834 |
| Accrued liabilities | 35,335 |
| Advances from governmental units | 202,600 |
| Noncurrent liabilities: | |
| Vested employee benefits payable | 140,208 |
| Post employment health care (OPEB) | <u>173,853</u> |
| TOTAL LIABILITIES | <u>800,830</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 28,328,015 |
| Restricted for County Roads | <u>1,827,637</u> |
| TOTAL NET ASSETS | <u>\$ 30,155,652</u> |

See Notes to Financial Statements

**ANTRIM COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | |
|-----------------------------------------------|----------------------|
| Program Expenses | |
| Primary Road Maintenance | \$ 1,824,407 |
| Local Road Maintenance | 2,797,641 |
| Net Equipment Expense | 330,752 |
| Net Administrative Expense | 386,059 |
| State Trunkline Maintenance / Non-Maintenance | <u>655,898</u> |
| Total Program Expenses | <u>5,994,757</u> |
| Program Revenue | |
| License and Permits | 52,538 |
| Federal Grants | 406,940 |
| State Grants | 3,356,157 |
| Contributions From Local Units/Other | 1,050,327 |
| Charges for Services | 660,544 |
| Reimbursements/Miscellaneous | <u>3,117</u> |
| Total Program Revenue | <u>5,529,623</u> |
| Net Program Revenue | <u>(465,134)</u> |
| General Revenue | |
| Investment Income | <u>7,746</u> |
| Total General Revenue | <u>7,746</u> |
| Change in Net Assets | <u>(457,388)</u> |
| Net Assets | |
| Beginning of Year | <u>30,613,040</u> |
| End of Year | <u>\$ 30,155,652</u> |

See Notes to Financial Statements

**ANTRIM COUNTY ROAD COMMISSION
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2011**

| | <u>General Operating Fund</u> |
|------------------------------------|-----------------------------------|
| ASSETS | |
| Cash Demand and Time Deposits | \$ 1,279,993 |
| Investments | 117,835 |
| Accounts Receivable: | |
| Due from State | 582,707 |
| Due on County Road Agreements | 16,832 |
| Sundry | 3,841 |
| Inventories | |
| Road Materials | 452,665 |
| Equipment Parts and Materials | 135,024 |
| Prepaid Expenses | <u>39,570</u> |
| | |
| TOTAL ASSETS | <u>\$ 2,628,467</u> |
| | |
| LIABILITIES AND FUND EQUITY | |
| LIABILITIES | |
| Accounts Payable | \$ 248,834 |
| Accrued Liabilities | 35,335 |
| Advances from Governmental Units | <u>202,600</u> |
| | |
| TOTAL LIABILITIES | 486,769 |
| | |
| FUND EQUITY | |
| Fund Balance | |
| Non-spendable | 627,259 |
| Restricted for County Roads | <u>1,514,439</u> |
| | |
| TOTAL FUND EQUITY | <u>2,141,698</u> |
| | |
| TOTAL LIABILITIES AND FUND EQUITY | <u>\$ 2,628,467</u> |

See Notes to Financial Statements

ANTRIM COUNTY ROAD COMMISSION
Reconciliation of Fund Balances on the Balance Sheet
to the Statement of Net Assets
DECEMBER 31, 2011

| | |
|-----------------------------------------------------------------------------------------------------------------------------------|----------------------|
| Total Governmental Fund Balance | \$ 2,141,698 |
| <p>Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:</p> | |
| <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:</p> | |
| Capital assets at cost | 50,045,372 |
| Accumulated depreciation | (21,717,357) |
| Vested Employee Benefits Payable are not due and payable in the current period and are not reported in the funds | (140,208) |
| Other post employment health care benefits (OPEB) are not due and payable in the current period and are not reported in the funds | <u>(173,853)</u> |
| Net Assets of Governmental Activities | <u>\$ 30,155,652</u> |

**ANTRIM COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | <u>General Operating Fund</u> |
|------------------------------------------------------|-----------------------------------|
| REVENUES | |
| Licenses and Permits | \$ 52,538 |
| Federal Grants | 406,940 |
| State Grants | 3,356,157 |
| Contributions From Local Units / Other Contributions | 1,050,327 |
| Charges for Services | 660,544 |
| Interest | 7,746 |
| Other Revenue | <u>3,117</u> |
| TOTAL PROGRAM REVENUE | <u>5,537,369</u> |
| EXPENDITURES | |
| Public Works | 5,485,961 |
| Net Capital Outlay | <u>28,666</u> |
| TOTAL EXPENDITURES | <u>5,514,627</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>22,742</u> |
| FUND BALANCES, BEGINNING OF YEAR | <u>2,118,956</u> |
| FUND BALANCES, END OF YEAR | <u><u>\$ 2,141,698</u></u> |

ANTRIM COUNTY ROAD COMMISSION
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance of Governmental Funds
to the Statement of Activities
FOR THE YEAR ENDED DECEMBER 31, 2011

| | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ | 22,742 |
| <p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p> | | |
| Add - Capital Outlay | | 1,234,904 |
| Deduct - Depreciation Expense | | (1,718,145) |
| <p>Vested employee benefits payable do not require the current use of financial resources and are not reported as expenditures in the fund statements</p> | | |
| Add - decrease in vested employee benefits | | 38,289 |
| <p>Increase in other post employment health care benefits (OPEB) does not require the current use of financial resources and is not reported as expenditures in the fund statements</p> | | |
| Deduct - increase in OPEB | | <u>(35,178)</u> |
| Change in Net Assets | \$ | <u>(457,388)</u> |

**ANTRIM COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY

The Antrim County Road Commission, which is established pursuant to the County road Law (MCL 224.1), is governed by a 3 member board of county road commissioners appointed by the county board of commissioners. The road commission may not issue bonded debt without the County's approval and property tax levies for road purposes are subject to county board of commissioners' approval.

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

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of County road commissioners is responsible for the administration of the Road Commission Operating Fund.

Basis of Presentation - Government-Wide financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Antrim County Road commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the road commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

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

Basis of Presentation - Fund Financial Statements

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

**ANTRIM COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue.

Measurement Focus/Basis of Accounting-Fund Financial Statements

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

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Cash, Cash Equivalents and Investments

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

Inventories

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

Prepaid Expenses

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

**ANTRIM COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

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

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Antrim County Road Commission has capitalized the current year's infrastructure, as well as the prior year's, as required by GASB 34, and has reported the infrastructure in the statement of net assets.

Depreciation

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

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

Long-Term Obligations

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

Use of Estimates

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

Budgets and Budgetary Accounting - The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 621 of 1978, in the preparation and execution of its annual general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law. The budgets are amended as appropriate throughout the year and lapse at year-end.

Fund Balance Classification - The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Commission is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

**ANTRIM COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Commission has classified inventories and prepaid items as being nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Commission has committed funds for future employee benefits, equipment purchases, and building replacement/renovation.

Assigned: This classification includes amounts that are constrained by the Board's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.

Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

The Board would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**ANTRIM COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

NOTE B - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2011 the County Road Commission incurred expenditures in certain areas which were in excess of the amounts budgeted as follows:

| Function | Total Budget | Amount of Expenditures | Budget Variance |
|---------------------------------------------|-----------------|---------------------------|--------------------|
| Primary Road: | | | |
| Maintenance | \$ 1,025,000 | \$ 1,156,447 | \$ (131,447) |
| Local Road: | | | |
| Maintenance | \$ 1,825,000 | \$ 2,033,604 | \$ (208,604) |
| State Trunkline Maintenance/Non-Maintenance | \$ 615,000 | \$ 655,898 | \$ (40,898) |
| Equipment Expense - Net | \$ 50,000 | \$ 330,752 | \$ (280,752) |
| Administrative Expense - Net | \$ 350,000 | \$ 386,395 | \$ (36,395) |

The above line items were spent in excess of their respective budgeted amounts and total expenditures exceeded the total budgeted amount by \$606,627.

NOTE C - CASH AND INVESTMENTS

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

| <u>Balance Sheet Accounts</u> | <u>Amount</u> | <u>Cash Items</u> | <u>Amount</u> |
|-------------------------------|---------------------|----------------------------------|---------------------|
| Imprest cash | \$ 200 | Imprest cash | \$ 200 |
| Cash demand and time deposits | 1,279,793 | Savings and checking accounts | 1,279,793 |
| Investments | 117,895 | Investments | 117,895 |
| Total | <u>\$ 1,397,888</u> | | <u>\$ 1,397,888</u> |

DEPOSITS - At year-end the carrying amount of the road account deposits was \$1,279,793 and the bank balance was \$1,419,493. These funds are 27.5% insured by the Federal Deposit Insurance Corporation.

Investments - Act 217, PA 1982, authorized the commission to deposit and invest in the following:

- (a) bonds and other direct obligations of the United States or its agencies
- (b) certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the National Credit Union Administration that are eligible to be depository of surplus money belonging to the State under Section 5 or 6 of Act 105, PA 1855, as amended (MCL 21.145 and 21.146)
- (c) commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase and not more than 50 percent of any fund may be invested in commercial paper at any time
- (d) United States government or Federal agency obligation repurchase agreements

**ANTRIM COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

NOTE C - CASH AND INVESTMENTS (CONTINUED)

- (e) bankers' acceptance of United States banks
- (f) mutual funds composed of investments which are legal for direct investments by local units of government in Michigan.

The following investments are considered mutual or trust funds:

| | Carrying Value | Market Value |
|--------------------------------------------|-------------------|-----------------|
| Investments held by: | | |
| Merrill Lynch Governmental Securities Fund | \$ 117,835 | \$ 117,835 |
| | \$ 117,835 | \$ 117,835 |

The above investments were the road commission's share of investment pools which were made up of U.S. Treasury, Agencies, and instrumentalities, commercial paper, banker's acceptances, repurchase agreements and reverse repurchase agreements which were not in the name of the Commission. These are considered investment pools and are not required to be categorized as to investment risk. They are uninsured investments.

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

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

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

Custodial Deposit Credit Risk – custodial deposit credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end \$928,125 of the Commission's bank balance of \$1,279,793 was exposed to credit risk because it was uninsured and uncollateralized.

NOTE D - STATE EQUIPMENT PURCHASE ADVANCE/STATE HIGHWAY MAINTENANCE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract. At December 31, 2011 the amount was \$87,298.

During 2011 the State had advanced \$63,203 on the routine maintenance agreement, which would be refunded to the State Department of Transportation upon termination of the contract.

NOTE E - FEDERAL REVENUE/EXPENDITURES

All Federal dollars recorded by the Antrim County Road Commission in 2011 were for projects controlled by the Michigan Department of Transportation. Federal compliance testing of these funds will be included in the audit of MDOT and not at the local road commission level. No A-133 Single audit is required for the Antrim County Road Commission. Federal revenues totaled \$406,940 for 2011.

**ANTRIM COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

NOTE F - CAPITAL ASSETS

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

| | <u>Balance 1/1/2011</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance 12/31/2011</u> |
|---------------------------------------|-----------------------------|---------------------|------------------|-------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 58,250 | \$ - | \$ - | \$ 58,250 |
| Infrastructure and Land Improvements | 14,652,291 | 151,969 | - | 14,804,260 |
| | <u>14,710,541</u> | <u>151,969</u> | <u>-</u> | <u>14,862,510</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 2,470,421 | - | - | 2,470,421 |
| Equipment - Road | 5,740,288 | 305,568 | 154,507 | 5,891,349 |
| Equipment - Shop | 159,579 | 3,002 | - | 162,581 |
| Equipment - Office | 83,647 | 3,468 | - | 87,115 |
| Equipment - Engineering | 52,642 | - | - | 52,642 |
| Equipment - Yard & Storage | 929,058 | - | - | 929,058 |
| Infrastructure - Bridges | 1,385,552 | - | - | 1,385,552 |
| Infrastructure - Roads | 23,433,247 | 770,897 | - | 24,204,144 |
| Subtotal | <u>34,254,434</u> | <u>1,082,935</u> | <u>154,507</u> | <u>35,182,862</u> |
| Accumulated Depreciation: | | | | |
| Buildings | 939,125 | 55,429 | - | 994,554 |
| Equipment - Road | 5,125,078 | 210,796 | 154,507 | 5,181,367 |
| Equipment - Shop | 127,643 | 6,639 | - | 134,282 |
| Equipment - Office | 64,508 | 5,864 | - | 70,372 |
| Equipment - Engineering | 43,745 | 1,979 | - | 45,724 |
| Equipment - Yard & Storage | 916,067 | 2,664 | - | 918,731 |
| Infrastructure - Bridges | 630,038 | 40,762 | - | 670,800 |
| Infrastructure - Roads | 12,307,515 | 1,394,012 | - | 13,701,527 |
| Subtotal | <u>20,153,719</u> | <u>1,718,145</u> | <u>154,507</u> | <u>21,717,357</u> |
| Net Capital Assets Being Depreciated | <u>14,100,715</u> | <u>(635,210)</u> | <u>-</u> | <u>13,465,505</u> |
| Total Net Capital Assets | <u>\$ 28,811,256</u> | <u>\$ (483,241)</u> | <u>\$ -</u> | <u>\$ 28,328,015</u> |

Depreciation expense was charged to operations as follows:

| | |
|----------------|---------------------|
| Primary | \$ 668,967 |
| Local | 765,807 |
| Equipment | 275,528 |
| Administration | <u>7,843</u> |
| | <u>\$ 1,718,145</u> |

**ANTRIM COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

NOTE G - PENSION PLAN

Plan Description - Antrim County Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, Michigan 48917. The most recent report for which actuarial data was available was for the fiscal year ended December 31, 2010.

All full time county road union and administrative employees are eligible to participate in the system. Benefits vest after ten years of service. Union employees who retire at or after age 60 with 10 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.5 percent of the member's 5-year final average compensation per year of service. Administrative employees who retire at or after age 60 with 10 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.5 percent of the member's 3-year final average compensation per year of service. In addition, both union and administrative employees with 30 years of service can elect to retire at age 55. The system also provides death and disability benefits which are established by State Statute.

Participating county road employees are not required to contribute to the system. The county road is required to contribute the amounts necessary to fund the Michigan Municipal Employees Retirement System using the actuarial basis specified by statute.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2010. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (a) inflation, and (b) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (c) the assumption that benefits will increase 2.5% annually after retirement.

All entries are based on the actuarial methods and assumption that were used in the December 31, 2010 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

**ANTRIM COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

NOTE G - PENSION PLANS (CONTINUED)

GASB 25 INFORMATION (as of 12/31/10) (Most Recent Available)

| | |
|--------------------------------------------------------------------------------------|--------------|
| Actuarial Accrued Liability: | |
| Retirees and beneficiaries currently receiving benefits | \$ 7,127,959 |
| Current employees: | |
| Accumulated employee contributions including | |
| allocated investment income | 56,512 |
| Employer financed | 4,446,564 |
| Total Actuarial accrued liability | 11,631,035 |
| | |
| Net Assets Available for Benefits, at actuarial value (Market Value is 5,485,793) | 6,379,544 |
| Unfunded (over funded) actuarial accrued liability | \$ 5,251,491 |

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2010 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

| <u>Annual Pension Cost</u> | | | |
|----------------------------|------------------------------|-------------------------------------|------------------------------|
| Year Ended December 31, | Annual Pension Cost (APC) | Percentage Of APC Contributed | Net Pension Obligation |
| 2009 | 367,248 | 100% | -0- |
| 2010 | 410,124 | 100% | -0- |
| 2011 | 420,276 | 100% | -0- |

The County Road Commission was required to contribute \$420,276 for the year ended December 31, 2011. Payments were based on contribution calculations made by MERS.

**ANTRIM COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

NOTE G - PENSION PLANS (CONTINUED)

| Actuarial Valuation Date <u>December 31,</u> | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a % Of Covered Payroll |
|-------------------------------------------------------|---------------------------------|--------------------------------------------|---------------------------|-----------------|--------------------|-----------------------------------------|
| 2008 | 6,473,232 | 11,459,055 | 4,985,823 | 56% | 1,436,392 | 347% |
| 2009 | 6,328,466 | 11,404,567 | 5,076,101 | 55% | 1,474,209 | 344% |
| 2010 | 6,379,544 | 11,631,035 | 5,251,491 | 55% | 1,479,712 | 355% |

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1997, 2000, 2004, 2008, and 2009 valuations.

NOTE H- RISK MANAGEMENT

Antrim County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between Municipal Corporations (inter-local agreements) to form group self-insurance pools.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, vehicle liability coverage, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Antrim County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, vehicle and equipment liability, bodily injury, property damage and personal injury liability. The Pool agreement provides that it shall be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance based upon limits determined by the Pool Board of Directors.

The road commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.

NOTE I - LONG-TERM DEBT

The long-term debt of the road commission is summarized as follows:

| | Balance <u>1 /01/2011</u> | Additions (Reductions) | Balance <u>12/31/2011</u> |
|------------------------------------|------------------------------|---------------------------|------------------------------|
| Compensated Absences | \$ 178,497 | \$ (38,289) | \$ 140,208 |
| Post Employment Health Care (OPEB) | <u>138,675</u> | <u>35,178</u> | <u>173,853</u> |
| Total | <u>\$ 317,172</u> | <u>\$ (3,111)</u> | <u>\$ 314,061</u> |

Compensated absences are for accumulated personal, sick and vacation days. At December 31, 2011 the total accumulated liability was \$140,208.

**ANTRIM COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

NOTE J – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Effective for the 2008 calendar year, the Road Commission implemented Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, for certain health care reimbursements provided by the Commission to retired employees. The requirements of this statement are being implemented prospectively, using the alternative calculation provision of the statement for employers with less than 100 employees, with the accrued liability for benefits amortized over future years. No liability is reported at the transition date. The Commission currently is not advance funding the liability. It is funding only the required current amount based on a pay-as-you go policy.

The following table shows the Commission's annual OPEB cost and calculation of the Annual Required Contribution

| | |
|---------------------------------------|-------------------|
| Normal Cost Component | |
| Normal Cost | \$ 57,796 |
| Interest | <u>3,179</u> |
| Total Normal Costs | <u>\$ 60,975</u> |
| | |
| Amortization Component | |
| Actuarial Accrued Liability | \$ 978,361 |
| Less: Assets | <u>-</u> |
| Unfunded Actuarial Accrued Liability | 978,361 |
| Divided by PV factor | <u>22.4707</u> |
| Amortization Payment | 43,539 |
| Interest | <u>2,395</u> |
| Total Amortization Payment | <u>45,934</u> |
| Annual Required Contribution | <u>\$ 106,909</u> |
| | |
| Annual Cost for OPEB | |
| Annual Required Contribution | \$ 106,909 |
| Interest on Net OPEB obligation | - |
| Adjustments to ARC | <u>-</u> |
| Annual OPEB Cost | 106,909 |
| Contributions made - Current year | <u>(71,731)</u> |
| | |
| Increase in net OPEB obligation | 35,178 |
| Net OPEB obligation beginning of year | <u>138,675</u> |
| Net OPEB obligation end of year | <u>\$ 173,853</u> |

The road commission provides post retirement health care benefits to all employees who retire from the road commission. Any employee retiring after 7/1/89, who had completed at least ten years of service and was eligible for retirement has \$150 per month contributed towards the employee and spouse coverage. Effective for retirees retiring after July 1, 1999 the commission contribution will be \$200 per month and effective July 1, 2003 \$250 per month. At age 65 those receiving \$250 per month change to \$200 per month for the remainder of their life. There were 28 retirees receiving benefits with an approximate annual cost of \$71,731. There were 33 active employees at December 31, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

**ANTRIM COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | Original Adopted Budget | Final Amended Budget | Actual | Variance With Final Budget |
|---------------------------------|-------------------------------|----------------------------|---------------------|----------------------------------|
| Licenses and Permits: | | | | |
| Permits | \$ - | \$ - | \$ 52,538 | \$ 52,538 |
| Subtotal | <u>-</u> | <u>-</u> | <u>52,538</u> | <u>52,538</u> |
| Federal Aid: | | | | |
| STP Funds / FAS | - | 103,000 | 103,352 | 352 |
| Safety Funds / D Funds | <u>370,000</u> | <u>409,000</u> | <u>303,588</u> | <u>(105,412)</u> |
| Subtotal | <u>370,000</u> | <u>512,000</u> | <u>406,940</u> | <u>(105,060)</u> |
| State Aid: | | | | |
| Engineering | 10,000 | 10,000 | 10,000 | - |
| Allocation | 2,835,000 | 2,930,000 | 2,965,480 | 35,480 |
| Snow Removal | 285,000 | 295,121 | 295,121 | - |
| Forest Road Funds | 50,000 | 51,105 | 51,105 | - |
| Other | <u>-</u> | <u>-</u> | <u>34,451</u> | <u>34,451</u> |
| Subtotal | <u>3,180,000</u> | <u>3,286,226</u> | <u>3,356,157</u> | <u>69,931</u> |
| Contributions | | | | |
| Townships | 800,000 | 1,050,000 | 1,023,019 | (26,981) |
| Other | <u>-</u> | <u>-</u> | <u>27,308</u> | <u>27,308</u> |
| Subtotal | <u>800,000</u> | <u>1,050,000</u> | <u>1,050,327</u> | <u>327</u> |
| Charges for Services: | | | | |
| State Trunkline Maintenance | 560,000 | 615,000 | 560,925 | (54,075) |
| State Trunkline Non-Maintenance | <u>-</u> | <u>-</u> | <u>99,619</u> | <u>99,619</u> |
| Subtotal | <u>560,000</u> | <u>615,000</u> | <u>660,544</u> | <u>45,544</u> |
| Interest | | | | |
| Interest Income | <u>-</u> | <u>-</u> | <u>7,746</u> | <u>7,746</u> |
| Other Revenue: | | | | |
| Miscellaneous | (1) <u>45,000</u> | <u>60,000</u> | <u>3,117</u> | <u>(56,883)</u> |
| Subtotal | <u>45,000</u> | <u>60,000</u> | <u>3,117</u> | <u>(56,883)</u> |
| Total Operating Revenue | <u>\$ 4,955,000</u> | <u>\$ 5,523,226</u> | <u>\$ 5,537,369</u> | <u>\$ 14,143</u> |

See Notes to Financial Statements

**ANTRIM COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | Original Adopted Budget | Final Amended Budget | Actual | Variance With Final Budget |
|----------------------------------------|-------------------------------|----------------------------|---------------------|----------------------------------|
| Primary Road: | | | | |
| Preservation-Structural Improvements | \$ 380,000 | \$ 418,000 | \$ 379,182 | \$ 38,818 |
| Maintenance | 1,000,000 | 1,025,000 | 1,156,447 | (131,447) |
| Local Road: | | | | |
| Preservation - Structural Improvements | 1,000,000 | 550,000 | 543,683 | 6,317 |
| Maintenance | 1,600,000 | 1,825,000 | 2,033,604 | (208,604) |
| State Trunkline Maintenance | 560,000 | 615,000 | 560,925 | 54,075 |
| State Trunkline Non-Maintenance | - | - | 94,973 | |
| Equipment Expense - Net | <u>100,000</u> | <u>50,000</u> | <u>330,752</u> | <u>(280,752)</u> |
| Administrative Expense - Net | <u>350,000</u> | <u>350,000</u> | <u>386,395</u> | <u>(36,395)</u> |
| Capital Outlay - Net | <u>250,000</u> | <u>75,000</u> | <u>28,666</u> | <u>46,334</u> |
| Total Expenditures | <u>\$ 5,240,000</u> | <u>\$ 4,908,000</u> | <u>\$ 5,514,627</u> | <u>\$ (606,627)</u> |

See Notes to Financial Statements

OTHER SUPPLEMENTARY INFORMATION

**ANTRIM COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | <u>Primary Road Fund</u> | <u>Local Road Fund</u> | <u>County Road Commission</u> | <u>Total</u> |
|----------------------------------------------|----------------------------------|--------------------------------|---------------------------------------|---------------------|
| Total Revenues and Other Financing Sources | \$ 2,363,961 | \$ 2,427,724 | \$ 745,684 | \$ 5,537,369 |
| Total Expenditures | <u>1,764,749</u> | <u>2,997,959</u> | <u>751,919</u> | <u>5,514,627</u> |
| Excess of Revenues Over (Under) Expenditures | <u>599,212</u> | <u>(570,235)</u> | <u>(6,235)</u> | <u>22,742</u> |
| Fund Balance - January 1, 2011 | 509,843 | 1,012,910 | 596,203 | 2,118,956 |
| Optional Transfers | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balance - December 31, 2011 | <u>\$ 1,109,055</u> | <u>\$ 442,675</u> | <u>\$ 589,968</u> | <u>\$ 2,141,698</u> |

See Notes to Financial Statements

**ANTRIM COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | <u>Primary Road Fund</u> | <u>Local Road Fund</u> | <u>County Road Commission</u> | <u>Total</u> |
|---------------------------------|----------------------------------|--------------------------------|---------------------------------------|---------------------|
| Licenses and Permits: | | | | |
| Permits | \$ - | \$ - | \$ 52,538 | \$ 52,538 |
| Federal Aid: | | | | |
| STP Funds | 103,352 | - | - | 103,352 |
| D Funds | 303,588 | - | - | 303,588 |
| State Aid: | | | | |
| Engineering | 5,902 | 4,098 | - | 10,000 |
| Allocation | 1,750,271 | 1,215,209 | - | 2,965,480 |
| Snow Removal | 142,357 | 152,764 | - | 295,121 |
| Economic Development Funds | 34,451 | - | - | 34,451 |
| Forest Road Funds | - | 51,105 | - | 51,105 |
| Contributions | | | | |
| Townships | 22,173 | 1,000,846 | - | 1,023,019 |
| Other | - | - | 27,308 | 27,308 |
| Charges for Services: | | | | |
| State Trunkline Maintenance | - | - | 560,925 | 560,925 |
| State Trunkline Non-Maintenance | - | - | 99,619 | 99,619 |
| Interest | | | | |
| Interest Income | 1,867 | 3,702 | 2,177 | 7,746 |
| Other Revenue: | | | | |
| Miscellaneous | - | - | 3,117 | 3,117 |
| Total Revenue | <u>\$ 2,363,961</u> | <u>\$ 2,427,724</u> | <u>\$ 745,684</u> | <u>\$ 5,537,369</u> |

See Notes to Financial Statements

**ANTRIM COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | <u>Primary Road Fund</u> | <u>Local Road Fund</u> | <u>County Road Commission</u> | <u>Total</u> |
|---------------------------------------|----------------------------------|--------------------------------|---------------------------------------|-------------------------|
| Primary Road: | | | | |
| Preservation - Structural Improvement | \$ 379,182 | \$ - | \$ - | \$ 379,182 |
| Maintenance | 1,156,447 | - | - | 1,156,447 |
| Local Road: | | | | |
| Preservation - Structural Improvement | - | 543,683 | - | 543,683 |
| Maintenance | - | 2,033,604 | - | 2,033,604 |
| State Trunkline Maintenance | - | - | 560,925 | 560,925 |
| State Trunkline Non-Maintenance | - | - | 94,973 | 94,973 |
| Equipment Expense - Net | 84,853 | 178,544 | 67,355 | 330,752 |
| Administrative Expense - Net | 144,267 | 242,128 | - | 386,395 |
| Capital Outlay - Net | <u>-</u> | <u>-</u> | <u>28,666</u> | <u>28,666</u> |
| Total Expenditures | <u>\$ 1,764,749</u> | <u>\$ 2,997,959</u> | <u>\$ 751,919</u> | <u>\$ 5,514,627</u> |

See Notes to Financial Statements



Thomas R. Zick CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

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**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**

March 22, 2012

Board of County Road Commissioners
Antrim County
Mancelona, Michigan 49659

I have audited the component unit financial statements of the governmental activities and major fund of the Antrim County Road Commission, a Special Revenue Fund of the County of Antrim, Michigan, as of and for the year ended December 31, 2011 which collectively comprise the Antrim County Road Commission's basic financial statements, and have issued my report thereon dated March 22, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, I identified a deficiency in internal control over financial reporting that I consider to be a significant deficiency in internal control over financial reporting:

Establishment and maintenance of internal control over the financial reporting process requires management to prepare annual financial statements in accordance with GASB Statement Number 34. The Road Commission's auditor prepares these statements.

MEMBER: AMERICAN INSTITUTE OF CPAS & MICHIGAN ASSOCIATION OF CPAS

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Antrim County Road Commission's component unit financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of Antrim County Road Commission in a separate letter dated March 22, 2012.

This report is intended solely for the information and use of management, the Board of Road Commissioners, the Michigan Department of Treasury, and Michigan Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.



THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT



Thomas R. Zick CPA, P.C.
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REPORT TO MANAGEMENT / BOARD OF ROAD COMMISSIONERS

March 22, 2012

Board of County Road Commissioners
Antrim County
Mancelona, Michigan 49659

I have audited the financial statements of Antrim County Road Commission for the year ended December 31, 2011, and have issued my reports thereon dated March 22, 2012. Professional standards require that I provide you with the following information related to my audit.

My Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. Generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because I did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me.

In planning and performing my audit, I considered Antrim County Road Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and no to provide assurance on the internal control over financial reporting. I also considered internal control over compliance with requirements that could have a direct and material effect on the financial statements.

As part of obtaining reasonable assurance about whether Antrim County Road Commission's financial statements are free of material misstatement, I 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 my audit. While my audit provides a reasonable basis for my opinion, it does not provide a legal determination of Antrim County Road Commission's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Antrim County Road Commission are described in Note 1 to the financial statements. I noted no transactions entered into by Antrim County Road Commission during the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, of transactions for which there is a lack of authoritative guidance or consensus.

MEMBER: AMERICAN INSTITUTE OF CPAS & MICHIGAN ASSOCIATION OF CPAS

Accounting Estimates

Some accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience and 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. My conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Antrim County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). All of the adjustments, I proposed, have been recorded by Antrim County Road Commission.

Disagreements with Management

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

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 Antrim County Road Commission's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with me to determine that the consultant has all of the relevant facts. To my knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

Comments and Recommendations

The following is a summary of my observations with suggestions for improvements I believe should be brought to your attention.

BUDGETS

The Road Commission follows the procedures in establishing the budgetary data reflected in the financial statements in accordance with the Uniform Budgeting and Accounting Act (Act No. 621, Public Act of 1978) as prescribed by the State of Michigan.

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2011, the County Road Commission incurred expenditures which were in excess of the amounts appropriated as follows:

| <u>Function</u> | <u>Total Budget</u> | <u>Amount of Expenditures</u> | <u>Budget Variance</u> |
|---------------------------------------------|---------------------|-------------------------------|------------------------|
| Primary Road: | | | |
| Maintenance | <u>\$ 1,025,000</u> | <u>\$ 1,156,447</u> | <u>\$ (131,447)</u> |
| Local Road: | | | |
| Maintenance | <u>\$ 1,825,000</u> | <u>\$ 2,033,604</u> | <u>\$ (208,604)</u> |
| State Trunkline Maintenance/Non-Maintenance | <u>\$ 615,000</u> | <u>\$ 655,898</u> | <u>\$ (40,898)</u> |
| Equipment Expense - Net | <u>\$ 50,000</u> | <u>\$ 330,752</u> | <u>\$ (280,752)</u> |
| Administrative Expense - Net | <u>\$ 350,000</u> | <u>\$ 386,395</u> | <u>\$ (36,395)</u> |

INVENTORY

Quantities on hand must be verified by physical count periodically throughout the year and the computer perpetual inventory should be adjusted to those counts. It is critical that a physical inventory be taken close to year end each year to assure the perpetual system is accurate and that adjustments are made so that the financial statements are materially correct. Large dollar items such as blades and tires should be counted periodically during the year to assure these items are being properly charged to the expenditure accounts.

SEGREGATION OF DUTIES

There is not adequate segregation of duties in the accounting area. The individual who posts all journals and the general ledger also prepares checks and related disbursements journals, and also initiates all journal entries.

I recognize that with only two full time individuals working in the accounting area adequate segregation of duties is not only difficult but for all practical purposes impossible. The Board must recognize that all internal controls must be evaluated for cost effectiveness and at this point little can be done to increase the control without a considerable cost increase. The controls, which could be added, would have to be compared with the costs required to obtain those controls. By assigning the bank reconciliation procedures to another employee, considerable strengthening of internal accounting control has already occurred.

Page 4
Board of Road Commissioners
March 22, 2012

This report is intended solely for the information and use of the Antrim County Road Commission, its management, and the Michigan Departments of Treasury and Transportation and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read 'T. Zick, CPA, P.C.', written in a cursive style.

THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT