Antrim County Road Commission

BASIC FINANCIAL STATEMENTS

December 31, 2014

ANTRIM COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

Jerome Doberzelewski
Chairman

Glenn Paradis Vice Chairman	Fredrick Hunt Commissioner
Burt R. Thompson, P.E. Engineer/Manager	Dale Farrier Office Manager

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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SUE A. BOWLBY, CPA, PRINCIPAL
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ROBERT L. HASKE, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS
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MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Antrim County Road Commission
Mancelona, Michigan 49659

Report on the Financial Statements

We 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, 2014, and related notes to the financial statements, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Basis for Qualified Opinion

We did not observe the taking of the physical inventories for road materials at December 31, 2014 (stated at $409,198), since the Road Commission did not perform physical counts of those items at year end. We were unable to obtain sufficient appropriate audit evidence about inventory quantities by other auditing procedures.

Qualified Opinion

In our opinion, except for the effect of the matter described in the "Basis for Qualified Opinion" paragraph, 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, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress, budgetary comparison schedules on pages 4 through 8, page 26 and pages 27 through 28 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 inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Antrim County Road Commission's basic financial statements. The schedules of analysis are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2015 on our consideration of the Antrim County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Antrim County Road Commission's internal control over financial reporting and compliance.

Anderson Tackman & Co. PLC

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

May 4, 2015

Management’s Discussion and Analysis

Using This Annual Report

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, 2014. This annual report consists of a series of financial statements. The Statement of Net Position 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 a government-wide financial statement.

Overview of the Financial Statements

This annual report consists of five parts–management's discussion and analysis (this section), the basic financial statements, notes to financial statements, required supplementary information, and other information that presents the operating fund allocated 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 Position includes all of the government's assets, liabilities and inflows. 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 position and how they have changed. "Net Position" is the difference between the assets, liabilities and inflows. 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 that the government-wide statements.

Reporting the Road Commission as a Whole

<u>Government-Wide Statements</u>

The Statement of Net Position and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer 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 Position includes all of the Road Commission's assets, liabilities and inflows 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 position and how they have changed. The reader can think of the Road Commission's net position as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the road commission's net position is 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.

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

The Road Commission as a Whole

The Road Commission's net position was $31,557,915 at December 31, 2014 a 7.2% increase over 2013. The net position is summarized below.

Net Position

Restricted net position is those 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) are considered restricted.

The net investment in capital assets was $27,899,208 at December 31, 2013 and $29,225,468 at December 31, 2014.

Net position as of years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Current and Other Assets	$ 3,387,918	$ 2,436,366
Capital Assets	29,225,468	27,899,208
Total Assets	$ 32,613,386	$ 30,335,574
Current Liabilities	$ 602,086	$ 424,972
Other Liabilities and Inflows	453,385	460,384
Total Liabilities	1,055,471	885,356
Net Position:		
Net Investment in Capital Assets	29,225,468	27,899,208
Restricted for County Road	2,332,447	1,551,010
Total Net Position	$ 31,557,915	$ 29,450,218

A summary of changes in net position for the years ended December 31, 2014 and 2013 follows:

	2014	2013
Program Revenues		
Charges for Services	$ 904,760	$ 922,224
Operating Grants, Capital Grants and Contributions	6,763,997	4,727,530
Interest Earnings and Other	86,829	11,829
Total Revenues	7,755,586	5,661,583
Program Expenses		
Primary Roads		
Maintenance	2,046,432	1,994,178
Local Roads		
Maintenance	2,330,641	3,009,454
State Trunkline	750,388	734,983
Equipment	161,074	(7,841)
Administrative	359,354	384,904
Total Expenses	5,647,889	6,115,678
Changes in Net Position	2,107,697	(454,095)
Net Position - Beginning	29,450,218	29,904,313
Net Position – Ending	$ 31,557,915	$ 29,450,218

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 Operating Fund for the years ended December 31, 2014 and December 31, 2013 is as follows:

	2014	2013
Revenues:		
Licenses and Permits	$ 34,906	$ 37,645
Federal Sources	759,965	-
State Sources	4,754,755	3,421,407
Contributions from Local Units	1,105,669	1,306,123
Reimbursements/Miscellaneous	3,576	11,093
Charges for Services	869,854	884,579
Interest and Rents	1,014	736
Gain on Sale of Capital Assets	82,239	-
Total Revenues	7,611,978	5,661,583

	2014	2013
Expenditures:		
Public Works	7,053,746	5,726,068
Capital Outlay	(107,098)	117,682
Total Expenditures	6,946,648	5,843,750
Excess of Revenues Over (Under) Expenditures	665,330	(182,167)
Fund Balance – January 1	1,975,982	2,158,149
Fund Balance – December 31	$ 2,641,312	$ 1,975,982

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 budgets were compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2014 was under the actual revenues by $558,891. This was primarily due to an increase in State special disbursements including PA 252 and specific project assistance.

The final amended expenditure budget for 2014 was $985,000 higher than the original budget primarily due to the Road Commission budgeting for additional primary preservation projects. The actual expenditures incurred during 2014 were more than the final amended budget by $171,648. There were several unfavorable variances in expenditures line items.

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2014 and 2013, the Road Commission had $29,225,468 and 27,899,208, respectively invested in capital assets as follows:

	2014	2013
Capital Assets Not Being Depreciated		
Land and Improvements	$ 119,860	$ 119,860
Infrastructure and Land Improvements	15,697,953	15,308,221
Total Capital Assets Not Being Depreciated	15,817,813	15,428,081
Capital Assets Being Depreciated		
Buildings	2,482,739	2,479,271
Road Equipment	6,787,813	6,847,630
Other Equipment and Assets	1,308,089	1,269,239
Infrastructure and Improvements	29,423,942	27,064,939
Total Capital Assets Being Depreciated	40,002,583	37,661,079
Total Accumulated Depreciation	(26,594,928)	(25,189,952)
Total Net Capital Assets	$ 29,225,468	$ 27,899,208

Major additions included the following:

	2014	2013
Equipment and Buildings	$ 367,879	$ 538,095
Infrastructure – Roads and Bridges	$ 2,748,735	$ 1,045,844

Debt

There was no installment purchase agreements entered into during 2014. All the equipment was acquired with Road Commission funds.

Long-term debt includes accrued vacation and sick pay leave and retiree health insurance liability (OPEB).

In 2015, 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 2015 budget. These factors included MTF collection forecasts, the economy, township contributions, MDOT's maintenance budget and various other items. We are projecting a decrease in revenues for 2015 primarily due to State and Federal project revenue. The MTF funds are starting the year 2015 slightly up from 2014 due to higher registration fees being collected which are offsetting reduced fuel tax collections. Fuel prices could also affect our 2015 results as could an election to be held state wide on May 5, 2015 which would raise additional revenue if the referendum passes. Budget adjustments may be necessary during 2015 if these trends continue.

Contacting the Road Commission's Financial Management

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.

Basic Financial Statements

Statement of Net Position
December 31, 2014

ASSETS		
Cash and Equivalents	$	1,888,672
Accounts Receivable:		
Michigan Transportation Fund		556,449
State Other		329,508
Due on County Road Agreements		27,576
Sundry Accounts		21,375
Inventories:		
Road Materials		409,198
Equipment, Parts and Materials		106,264
Prepaid Items		48,876
Capital Assets (Not Depreciated)		15,817,813
Capital Assets (Net of Accumulated Depreciation)		13,407,655
Total Assets	$	32,613,386
LIABILITIES		
Accounts Payable	$	355,738
Accrued Liabilities		10,986
Advances from Governmental Units		235,362
Vested Employee Benefits - Due in more than one year		143,106
OPEB Obligation - Due in more than one year		309,367
Total Liabilities		1,054,559
DEFERRED INFLOWS OF RESOURCES		
Unearned Revenue - MDOT Contract		912
NET POSITION		
Net Investment in Capital Assets		29,225,468
Restricted for County Roads		2,332,447
Total Net Position	$	31,557,915

See accompanying notes to financial statements.

Antrim County Road Commission

Statement of Activities
For the Year Ended December 31, 2014

Program Expenses:		
Primary Road Maintenance		
and Preventive Maintenance	$	2,046,432
Local Road Maintenance		
and Preventive Maintenance		2,330,641
State Trunkline Maintenance / Nonmaintenance		750,388
Net Equipment Expense		161,074
Net Administrative Expense		359,354
Total Program Expenses		5,647,889
Program Revenues:		
Charges for Services		904,760
Operating Grants and Contributions:		
State Grants		3,815,292
Contributions from Local Units		199,970
Interest and Other		4,590
Capital Grants and Contributions:		
Federal Grants		759,965
State Grants		1,083,071
Contributions from Local Units		905,699
Total Program Revenues		7,673,347
Net Program Revenues (Expenses)		2,025,458
General Revenues:		
Gain on Equipment Disposal		82,239
Total General Revenues		82,239
Change in Net Position		2,107,697
Net Position - Beginning Balance		29,450,218
Net Position - Ending Balance	$	31,557,915

See accompanying notes to financial statements.

Balance Sheet
December 31, 2014

		Governmental Fund Type General Operating Fund
ASSETS		
Cash and Equivalents	$	1,888,672
Accounts Receivable:		
Michigan Transportation Fund		556,449
State Other		329,508
Due on County Road Agreements		27,576
Sundry Accounts		21,375
Inventories:		
Road Materials		409,198
Equipment, Parts and Materials		106,264
Prepaid Items		48,876
Total Assets	$	3,387,918
LIABILITIES		
Accounts Payable	$	355,738
Accrued Liabilities		10,986
Advances from Governmental Units		235,362
Total Liabilities		602,086
DEFERRED INFLOWS OF RESOURCES		
Unearned Revenue - MDOT Contract		912
Public Act 252		143,608
Total Deferred Inflows of Resources		144,520
FUND BALANCE		
Nonspendable		564,338
Restricted for County Roads		2,076,974
Total Fund Balance		2,641,312
Total Liabilities, Deferred Inflows of Resources and Fund Balance	$	3,387,918

See accompanying notes to financial statements.

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Position For the Year Ended December 31, 2014

Total Governmental Fund Balance	$ 2,641,312
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.	
Capital assets at cost	55,820,396
Accumulated depreciation	(26,594,928)
Deferred Inflows of Other State Revenue for PA 252 is recorded as deferred inflows on the balance sheet but as revenue on the government-wide statements.	143,608
Vested Employee Benefits Payable are not due and payable in the current period and are not reported in the funds.	(143,106)
Other Post Employment Benefits (OPEB) are not due and payable in the current period and are not reported in the fund statements.	(309,367)
Net Position of Governmental Activities	$ 31,557,915

See accompanying notes to financial statements.

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2014

	Governmental Fund Type
	General Operating Fund
Revenues	
License and Permits	$ 34,906
Federal Sources	759,965
State Sources	4,754,755
Contributions form Local Units	1,105,669
Charges for Services	869,854
Interest Earned	1,014
Other Revenue	85,815
Total Revenues	7,611,978
Expenditures	
Public Works	7,053,746
Capital Outlay	(107,098)
Total Expenditures	6,946,648
Excess of Revenues Over (Under) Expenditures	665,330
Fund Balance - Beginning of Year	1,975,982
Fund Balance - End of Year	$ 2,641,312

See accompanying notes to financial statements.

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities
For the Year Ended December 31, 2014

Net Change in Fund Balance - Total Governmental Funds	$ 665,330
Amounts reported for governmental activities in the statements are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.	1,326,260
Deferred Inflows of other State Revenue for PA 252 is recorded as deferred on the balance sheet but as revenue on the government-wide statements.	143,608
Vested employee benefits payable to not require the current use of financial resources and are not reported as expenditures in the fund statements.	
Deduct - increase in vested employee benefits	(4,229)
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.	(23,272)
Net Change in Net Position of Governmental Activities	$ 2,107,697

See accompanying notes to financial statements.

Notes to Financial Statements

NOTE 1 – 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 the Antrim County Road Commission.

A. 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 Antrim County Board of County Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement Number 14 and as amended by GASB No. 61, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Antrim County Road Commission as 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 administration of the Road Commission Operating Fund.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) 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 position presents the Road Commission's assets, liabilities and inflows with the difference being reported as either net investment in capital assets or restricted net position.

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

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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.

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

Cash, Equivalents and Investments

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

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

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 the 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Depreciation

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

Buildings	30 to 50 years
Equipment - Road	5 to 8 years
Equipment - Office	4 to 10 years
Equipment - Shop	10 years
Equipment - Engineering	4 to 10 years
Equipment – Yard and Storage	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 position.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Road Commission has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Unearned Revenues

Unearned revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

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 Road 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:

- 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 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.

- 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.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

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

Budget Violations

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. Expenditures that exceeded appropriations by material amounts are listed on page 28.

NOTE 3 - CASH AND EQUIVALENTS

The cash and equivalents are classified by GASB Statement No. 40 in the following categories:

Balance Sheet Account		Cash Items	
Cash and Equivalents	$ 1,888,672	Imprest Cash	$ 200
		Checking & Savings	1,888,472
	$ 1,888,672		$ 1,888,672

Investments - Act 217, PA 1982 as amended, 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
(e) Bankers' acceptance 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.

NOTE 3 - CASH AND EQUIVALENTS (Continued)

(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.

The Road commission has no investments at December 31, 2014.

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 Road 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 Road 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 Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. As of year end, $1,638,188 of the Road Commission's bank balance of $1,977,480 was exposed to credit risk because it was uninsured and uncollateralized.

NOTE 4 - 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, 2014 the amount was $166,269.

During 2014, the State had advanced $69,093 on the routine maintenance agreement, which would be refunded to the State Department of Transportation upon termination of the contract.

NOTE 5 - FEDERAL REVENUE/EXPENDITURES

Most Federal dollars recorded by the Antrim County Road Commission in prior years were for projects controlled by the Michigan Department of Transportation (MDOT). Federal compliance testing of these funds will be included in the Single Audit of MDOT and not at the local road commission level. A Single Audit therefore is not required for the Antrim County Road Commission. Federal revenues totaled $759,965 for 2014, all of which were MDOT projects.

NOTE 6 - CAPITAL ASSETS

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

	Beginning Balances 01/01/14	Additions	Adjustments/ Deductions	Ending Balances 12/31/14
Capital Assets (Nondepreciable)				
Land	$ 119,860	$ -	$ -	$ 119,860
Infrastructure and Land Improvements	15,308,221	389,732	-	15,697,953
Subtotal	15,428,081	389,732	-	15,817,813
Capital Assets (Depreciable)				
Buildings	2,479,271	3,468	-	2,482,739
Equipment - Road	6,847,630	325,561	385,378	6,787,813
Equipment - Shop	188,238	15,442	-	203,680
Equipment - Office	86,731	-	-	86,731
Equipment - Engineering	50,521	8,494	-	59,015
Equipment – Yard and Storage	943,749	14,914	-	958,663
Infrastructure - Bridges	1,385,552	13,616	-	1,399,168
Infrastructure – Roads	25,679,387	2,345,387	-	28,024,774
Subtotal	37,661,079	2,726,882	385,378	40,002,583
Less Accumulated Depreciation				
Buildings	1,103,877	55,425	-	1,159,302
Equipment - Road	5,675,472	399,441	385,378	5,689,535
Equipment - Shop	149,641	11,046	-	160,687
Equipment - Office	80,405	3,985	-	84,390
Equipment - Engineering	47,563	2,129	-	49,692
Equipment – Yard and Storage	924,823	2,950	-	927,773
Infrastructure - Bridges	750,572	40,228	-	790,800
Infrastructure – Roads	16,457,599	1,275,150	-	17,732,749
Subtotal	25,189,952	1,790,354	385,378	26,594,928
Net Capital Assets - Depreciated	12,471,127	936,528	-	13,407,655
Total Net Capital Assets	$ 27,899,208	$ 1,326,260	$ -	$ 29,225,468

Depreciation expense was charged to the following programs:

Primary Road	$ 642,474
Local Road	672,904
Equipment	468,862
Administrative	6,114
Total Depreciation Expense	$ 1,790,354

NOTE 7 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

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, which provides retirement, survivor and disability benefits, on a voluntary basis to 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.

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 1134 Municipal Way, Lansing, Michigan 49817. The most recent report for which actuarial data was available was for the fiscal year ended December 31, 2013.

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.

Funding Policy – 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. Contribution rates as a percentage of payroll were as follows:

General Union	32.70%
General Nonunion	44.93%

Annual Pension Costs – For the year ended December 31, 2014, the Antrim County Road Commission's pension cost of $558,735 for the plan was equal to the required and actual contribution. The annual contribution was determined as part of an actuarial valuation as of December 31, 2012, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5% per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 26 years.

Three year trend information as of December 31 follows:

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	$ 506,258	100%	0
2012	445,465	100%	0
2013	537,586	100%	0

NOTE 8- RISK MANAGEMENT

The Road Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Road Commission. In the opinion of management, any such disallowed claims may not have a material effect on any of the financial statements included herein or on the overall financial position of the Road Commission at December 31, 2014.

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. The Commission was unable to provide an estimate of additional potential assessments under these arrangements.

NOTE 9 -LONG-TERM DEBT

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

	Beginning Balances	Net Additions (Reductions)	Ending Balances
Vested Employee Benefits	$ 138,877	$ 4,229	$ 143,106
Other Post Employment Benefits	286,095	23,272	309,367
Total	$ 424,972	$ 27,501	$ 452,473

Vested employee benefits are for accumulated personal, sick and vacation days. At December 31, 2014 the total accumulated liability was $143,106.

Road Commission employment policies provide for vacation and personal benefits to be earned in varying amounts depending on the employee's years of service. New employees are eligible for vacation benefits after 1 year of service, and vacation benefits accrue each July 1st and are paid a prorated share for unused vacation days. Employees may accumulate up to a maximum of 200 hours of vacation benefits. Personal days are paid to a maximum of 112 hours.

NOTE 9 - LONG-TERM DEBT (Continued)

Road Commission employment policies provide for sick leave benefits for employees hired before fiscal year 2000. Employees hired prior to January 1, 2000, upon voluntary termination with ten working days notice, retirement, or death of an employee in the service of the Road Commission, shall be paid for 50% of any accumulated unused sick leave accumulated to December 31, 1999.

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS

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 Road Commission to retired employees. The requirements of this statement are 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 30 years. The Road 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:

Annual required contribution	$	92,210
Interest on net OPEB obligation		9,441
Annual pension cost		101,651
Contributions made		(78,379)
Increase in net OPEB obligation		23,272
Net OPEB obligation beginning of year		286,095
Net OPEB obligation end of year	$	309,367

The Road Commission provides post retirement health care benefits to all employees who retire from the road commission. Any employee retiring after July 1, 1989, 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 Road 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 38 retirees receiving benefits with an approximate annual cost of $78,379. There were 29 active employees at December 31, 2014. This benefit is not available for anyone hired after July 1, 2014.

The Road Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for three fiscal years are as follows:

Fiscal Year End		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
2012	$	106,909	48%	$	229,192
2013	$	106,909	46%	$	286,095
2014	$	101,651	77%	$	309,367

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress: As of December 31, 2014, the actuarial accrued liability for benefits was $939,006, none of which is funded. The covered payroll (annual payroll of active employees covered by the plan) was $1,288,049, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 73%.

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

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

Assumptions About Employees and Members: Based on the historical average retirement age of the covered group, active plan members were assumed to retire at age 55 to 65 or the first year thereafter in which the member would qualify for benefits. Marital status as of the calculation date was assumed to continue throughout retirement. Life expectancy was based on mortality tables published by the National Center for Health Statistics. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using non-group-specific age-based turnover data from GASB Statement No. 45.

Assumptions About Healthcare Costs: The 2014 health plan fixed payments for retirees were used to calculate the present value of total benefits to be paid. The expected rate of increase in health insurance premiums – Health Care Cost Trend Rate – was zero percent.

Other Assumptions and Methods: The inflation rate was assumed to be 3.3 % and the discount rate was 5.5%. The value of the Plan assets was set at market value. A simplified version of the entry age actuarial cost method was used in the actuarial valuation. The UAAL is amortized over a thirty-year period as a level percent of projected payroll on an open basis. Payroll was assumed to grow over the long-term at the same rate as inflation.

NOTE 11 - SUBSEQUENT EVENT

During January 2015, a Road Commission driver was involved in a collision causing severe damage to the vehicle. The Road Commission filed a claim in the amount of $234,000 for damages and replacement. During February 2015, the Road Commission authorized and executed equipment purchases in the amount of $311,000. During March 2015, the Board awarded a bid for the purchase of a motor grader in the amount of $243,000.

Required Supplementary Information

Required Supplementary Information
Employee Retirement and Benefit Systems
Schedule of Funding Progress
December 31, 2014

Pension:

Three year trend information as of December 31, 2013 as follows:

	2011	2012	2013
Actuarial Value of Assets	$ 6,415,349	$ 6,282,734	$ 6,407,018
Actuarial Accrued Liability	12,061,908	11,810,420	12,075,287
Unfunded AAL	5,646,559	5,527,686	5,668,269
Funded Ratio	53%	53%	53%
Covered Payroll	1,244,877	1,271,679	1,316,387
UAAL as a Percentage of Covered Payroll	454%	435%	431%

Health Benefits:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b – a) / c)
2012	$ -	$ 978,361	$ 978,361	0.0%	Unavailable	Unavailable
2013	$ -	$ 978,361	$ 978,361	0.0%	Unavailable	Unavailable
2014	$ -	$ 939,006	$ 939,006	0.0%	$ 1,288,049	73%

Required Supplementary Information
Budgetary Comparison Schedule
Statement of Revenues - Budget and Actual
For the Year Ended December 31, 2014

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits	$ -	$ -	$ 34,906	$ 34,906
Federal Sources				
STP Funds	430,000	698,000	759,965	61,965
State Sources				
Engineering	10,000	10,000	10,000	-
Allocation	3,035,000	2,975,000	3,128,200	153,200
Snow Removal	290,000	307,983	307,983	-
Forest Road	50,000	51,104	51,104	-
EDF - Category D	300,000	-	-	-
State Special Disbursement	-	1,186,000	1,257,468	71,468
Contributions from Local Units				
Townships	1,200,000	1,090,000	1,086,457	(3,543)
Other	-	-	19,212	19,212
Charges for Services				
State Trunkline Maintenance	560,000	700,000	865,326	165,326
State Trunkline Nonmaintenance	-	-	4,528	4,528
Interest and Rent	-	-	1,014	1,014
Other Revenue				
Miscellaneous	40,000	35,000	3,576	(31,424)
Gain on Equipment Disposal	-	-	82,239	82,239
Total Revenues	$ 5,915,000	$ 7,053,087	$ 7,611,978	$ 558,891

Required Supplementary Information
Budgetary Comparison Schedule
Statement of Expenditures - Budget and Actual
For the Year Ended December 31, 2014

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road:				
Preservation - Structural Improvement	$ 605,000	$ 1,780,000	$ 1,843,036	$ (63,036)
Maintenance	1,265,000	1,230,000	1,392,672	(162,672)
Local Road				
Preservation - Structural Improvement	500,000	925,000	905,699	19,301
Maintenance	2,115,000	1,650,000	1,644,410	5,590
State Trunkline Maintenance	560,000	700,000	745,860	(45,860)
State Trunkline Nonmaintenance	-	-	4,528	(4,528)
Equipment Expense - Net	15,000	50,000	161,074	(111,074)
Administrative Expense - Net	380,000	390,000	356,467	33,533
Capital Outlay - Net	350,000	50,000	(107,098)	157,098
Total Expenditures	$ 5,790,000	$ 6,775,000	$ 6,946,648	$ (171,648)

Other Information

Analysis of Changes in Fund Balance
For the Year Ended December 31, 2014

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	$ 3,663,867	$ 2,579,728	$ 1,368,383	$ 7,611,978
Total Expenditures	3,478,079	2,795,036	673,533	6,946,648
Excess of Revenues Over (Under) Expenditures	185,788	(215,308)	694,850	665,330
Optional Transfers and Adjustments	(215,000)	215,000	-	-
Fund Balance - January 1, 2014	1,548,485	6,255	421,242	1,975,982
Fund Balance - December 31, 2014	$ 1,519,273	$ 5,947	$ 1,116,092	$ 2,641,312

Analysis of Revenues
For the Year Ended December 31, 2014

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	$ -	$ -	$ 34,906	$ 34,906
Federal Sources				
STP Funds	759,965	-	-	759,965
State Sources				
Engineering	5,912	4,088	-	10,000
Allocation	1,849,382	1,278,818	-	3,128,200
Snow Removal	148,725	159,258	-	307,983
Forest Road	-	51,104	-	51,104
Other	899,088	-	358,380	1,257,468
Contributions from Local Units				
Townships	-	1,086,457		1,086,457
Other	-	-	19,212	19,212
Charges for Services				
State Trunkline Maintenance	-	-	865,326	865,326
State Trunkline Nonmaintenance	-	-	4,528	4,528
Interest and Rent	795	3	216	1,014
Other Revenue				
Miscellaneous	-	-	3,576	3,576
Gain (Loss) on Equipment Disposal	-	-	82,239	82,239
Total Revenues	$ 3,663,867	$ 2,579,728	$ 1,368,383	$ 7,611,978

Analysis of Expenditures
For the Year Ended December 31, 2014

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation - Structural Improvements	$ 1,829,420	$ -	$ -	$ 1,829,420
Preservation - Structural	13,616	-	-	13,616
Maintenance	1,392,672	-	-	1,392,672
Local Road				
Preservation - Structural Improvements	-	905,699	-	905,699
Maintenance	-	1,644,410	-	1,644,410
State Trunkline Maintenance	-	-	745,860	745,860
State Trunkline Nonmaintenance	-	-	4,528	4,528
Equipment Expense - Net	43,017	87,814	30,243	161,074
Administrative Expense - Net	199,354	157,113	-	356,467
Capital Outlay - Net	-	-	(107,098)	(107,098)
Total Expenditures	$ 3,478,079	$ 2,795,036	$ 673,533	$ 6,946,648

Report on Compliance

ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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

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*

Board of County Road Commissioners
Antrim County Road Commission
Mancelona, Michigan 49659

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and major fund of the Antrim County Road Commission (a component unit of Antrim County, Michigan), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Antrim County Road Commission's (a component unit of Antrim County, Michigan) basic financial statements and have issued our report thereon dated May 4, 2015, which was modified for the lack of physical inventory procedures.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Antrim County Road Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Antrim County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Antrim County Road Commission's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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 certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies listed as 2014-001 and 2014-002.

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Board of County Road Commissioners
Antrim County Road Commission

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Antrim County Road Commission's financial statements are free from 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 is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as items 2014-002.

Antrim County Road Commission Response to Findings

The Antrim County Road Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Antrim County Road Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 & Co. PLC

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

May 4, 2015

Significant Deficiency - Internal Control

Segregation of Duties — ***Finding 2014-001***

Statement of Condition/Criteria: The Road Commission Office Manager performs several functions of receipting, disbursing, and posting to the general ledger. To provide a system of checks and balances, these functions are generally assigned to separate positions to minimize the potential for unauthorized transactions.

Effect: Lack of segregation of duties provides opportunities for inaccurate or unauthorized disbursements or transfers from road funds and increases the potential for inaccurate reporting of account activity.

Cause: Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the added personnel.

Recommendation: The Board should be aware of the potential weakness in the system and provide appropriate oversight or assistance to personnel when cost beneficial.

Planned Corrective Action: The Board has implemented compensating controls to reduce the risks discussed above such as dual signature checks and account reviews.

- *Contact Person(s) Responsible for Correction:*
  Burt Thompson, Manager

Significant Deficiency – Noncompliance with State Statutes

Expenditures in Excess of Appropriations—Budgetary Funds ***Finding 2014-002***

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

Condition: Our examination of procedures used by the Road Commission to adopt and maintain operating budgets for the Road Commission's budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The Road Commission's 2014 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2014 expenditures exceeded the board's approved budget allocations for some general fund activities.

During the fiscal year ended December 31, 2014, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 28 of the financial statements.

Effect: Condition's violate State Statutes.

Cause: Unknown.

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

Planned Corrective Action: Amounts will be maintained in the future.

- *Contact Person(s) Responsible for Correction:*
  Burt Thompson, Manager

ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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MICHIGAN & WISCONSIN

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of County Road Commissioners
Antrim County Road Commission
Mancelona, Michigan 49659

We have audited the financial statements of the governmental activities and major fund of the Antrim County Road Commission (a component unit of the County of Antrim, Michigan) for the year ended December 31, 2014, and have issued our reports thereon dated May 4, 2015, which was modified for unobserved physical inventory for road materials. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, 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 *Government Auditing Standards*

As stated in our engagement letter dated December 16, 2014, 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.

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

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

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis, schedule of funding progress, and budgetary comparison schedules, which supplement the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

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We have been engaged to report on the individual schedules, which accompany the financial statements but are not RSI. Our responsibility for this other information, as described by professional standards, is to evaluate the presentation of the other information in relation to the financial statements as a whole and to report on whether the other information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our memorandum about planning matters on March 23, 2015.

Significant Audit Findings

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 Antrim County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing polices was not changed during the fiscal year. We noted no transactions entered into by the Road Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

- Vested Employee Benefits are based on current rates which may differ from rates used at time of distribution.

- Management's estimate of the Annual Required Contribution for the Pension Plan and Other Post Employment Benefits and Actuarial Accrued Liability and Actuarial Value of Assets was based on actuarial assumptions and estimates.

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 each opinion unit's 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 May 4, 2015.

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 the 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

Excess Expenditures Over Appropriations (Prior Year)

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit of government shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Road Commission's actual expenditures were in excess of amounts appropriated for certain line items as indicated on the Statement of Expenditures – Budget and Actual.

Status: No change.

Inventory Controls (Prior Year)

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. The inventory detail schedules must also be reconciled to the general ledger control accounts throughout the year and especially at year end.

Status: Physical count performed October 2014.

Capitalization Policy

The Commission is required to develop a capitalization policy and guidelines for infrastructure and capital assets. A threshold of $5,000 for infrastructure and $1,000 for other capital assets should be sufficient for accurate reporting.

Fraud Policy

With the implementation of Statement of Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks with a governmental entity. The Commission does not have a "fraud policy" which would address fraud or suspected fraud and related board actions. We recommend the Commission adopt a fraud policy in compliance with SAS No. 99.

ACH/EFT Policy

The Road Commission currently does not have a policy for ACH or EFT payments. Due to the increasing number of payments made in this manner, it is recommended that the Road Commission adopt a policy regarding these.

Policy and Procedure Manual

The Accounting Procedures Manual for Local Units of Governments and the Uniform Accounting Procedures Manual for County Road Commissions were recently updated by the Michigan Department of Treasury. These bulletins contain several policies and procedures which the Commission should review and implement as appropriate. The Commission policy and procedures have not been updated to incorporate the changes recommended in the state manuals.

Obsolete Inventory

The Road Commission has accumulated outdated and obsolete inventory, which should be scrapped or sold. Removal of old and unused inventory items reduces handling time and costs and more accurately reports inventory levels.

Infrastructure Removals

MCGA Statement No. 11 requires that certain fully depreciated types of infrastructure (such as depreciable road systems) be removed in the year the asset is fully depreciated. The Commission did not remove specific crack sealed road costs and gravel during 2014 in accordance with the standard. The Commission should implement procedures in the future to comply with Statement No. 11 "Infrastructure Reporting."

Employee Files

It was noted during our testing of controls over payroll that multiple employee files were missing or contained outdated statutorily required documentation (Forms I-9 or W-4). We recommend that required employment documentation be completed at the beginning of employment and updated on an annual basis as necessary.

Invoices

It was noted during our testing of controls over disbursement that invoices did not have any proof of individual examination and/or approval. We recommend that when invoices are reviewed for payment that they be stamped, signed, or initialed to show proof of examination.

Information Technology

The Board may want to perform vulnerability or intrusion scans or tests to assure that unauthorized or illegal access to Road Commission software or data has not occurred to prevent or detect theft of private information. Additionally, this procedure detects "ghost" programs operating for other than Road Commission purposes due to the internet.

GASB 54 Fund Balance Components

The Governmental Accounting Standards Board has issued a new pronouncement, GASB #54 – Fund Balance Reporting and Governmental Fund Type Definitions. GASB #54 eliminates the current use of the terms reserved and designated in the reporting of fund balance, and replaces those terms with five new categories for segregating fund balance. The Standard is effective for periods beginning after June 15, 2010.

Following are the new categories and related definitions to be used for describing the components of your fund balance:

- **Non-spendable** – Includes amounts either not in spendable form or legally or contractually required to be maintained intact. This would include inventory, prepaids, and non-current receivables.

- **Restricted** – Reflects the same definition as Restricted net assets: Constraints placed on the use of amounts are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. This would generally include amounts in bonded capital projects funds and debt service funds.

- **Committed** – Includes amounts that are committed for specific purposes by formal action of the government's highest level of decision-making authority. Amounts classified as "committed" are not subject to legal enforceability like restricted fund balance; however, those amounts cannot be used for any other purpose unless the government removes or changes the limitation by taking the same form of action it employed to previously imposed the limitation.

- **Assigned** – Amounts that are intended by the government to be used for specific purposes, but are neither restricted nor limited, should be reported as assigned fund balance. Intent should be expressed by the Board itself or a subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes in accordance with policies established by the board. This would include ANY activity reported in a fund other than the General Fund.

- **Unassigned** – Includes any remaining amounts after applying the above definitions. Planned spending in the subsequent year's budget would be included here and can no longer be described as "designated"**.**

The Standard also requires disclosure in the financial statements of any minimum fund balance policies. We encourage the Road Commission to become familiar with the new terms and definitions and work with the users of the financial statements to ensure a clear presentation and understanding of the new requirements. The ledger should be updated for the various classifications.

Status: The general ledger chart of accounts should be updated for the classifications.

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.

Uniform Administrative Requirements

During December 2013, the Office of Management and Budget released its final version of the *"Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards."* The guidance is applicable to federal grants and cooperative agreements and provides a comprehensive consolidation and revision of OMB Circulars which currently govern Federal and some non-Federal entities. The guidance combines A-110 and A-102 into a single set of administrative rules, combines A-21, A-87 and A-122 into a single set of consolidated cost principles and revises the language of A-133. This publication is designed to provide a single document which will serve as a "one-stop shop" for financial assistance regulatory requirements for all awarding agencies. The new requirements will be effective and applicable for audits of years beginning on or after December 26, 2014.

Revisions Related to Single Audit Requirements

The Office of Management and Budget set forth new consolidated audit standards for entities receiving Federal financial assistance awards and replaces OMB Circular A-133. The changes within the final guidance primarily combine the guidance in OMB A-133 and A-50 on audit follow-up. The guidance reflects a movement to focus these audits and oversight efforts on higher dollar, higher risk awards and focus oversight on improper payments, waste, fraud, and abuse.

Most significantly, the threshold triggering a single audit or program-specific audit requirements is increased to $750,000 or more in annual Federal awards. These requirements apply equally to recipients and sub-recipients under Federal programs. The final guidelines incorporate an exception to these audit requirements for non-U.S.-based entities expending Federal awards.

Further, the final guidance increases the minimum threshold for reporting questioned costs from $10,000 to $25,000 to focus on the audit findings presenting the greatest risk. OMB believes this will eliminate smaller-dollar audit findings, which require utilization of resources for follow-up audits that are unlikely to indicate significant weaknesses in internal controls.

These changes necessitate a careful review and analysis of an organization's current business practices. Although OMB has raised certain thresholds for audit and materiality, it has also improved mechanisms of oversight related to mandatory disclosures, pre-award review of risks, standards for financial and program management, sub-recipient monitoring, and remedies for noncompliance. The revisions are effective for audits of years beginning on or after December 26, 2014.

Public Act 298 of 2012 "Performance Audit"

Public Act 298 of 2012 allows the Department of Transportation to request the local agency (road commission, county, city or village expending Act 51 monies) to engage an auditor to conduct a "performance audit" of whether it has expended funds in compliance with Act 51 of 1951, as amended (Act 51). A "performance audit" is different in scope than a "financial audit". A "performance audit" by definition is an independent examination of a program, function, operation or the management systems and procedures of a governmental entity to assess whether the entity is achieving economy, efficiency, and effectiveness in the employment of available resources. All local agencies will be required to have a Performance Audit for periods beginning October 1, 2015. The performance audit under Public Act 298 of 2012 must be performed by an independent certified public accountant that is currently licensed to practice in the State of Michigan or by an employee of the Department of Transportation.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, schedule of funding progress, and budgetary comparison schedules, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and our knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the individual schedules, which accompany the financial statements but are not RSI. With respect to this other information, we made certain inquires of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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 assistance, please contact us.

This information is intended solely for the use of the Antrim County Road Commission, the cognizant audit agencies and other federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson Tackman & Co. PLC

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

May 4, 2015