Antrim County Road Commission

BASIC FINANCIAL STATEMENTS

December 31, 2015

ANTRIM COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

Jerome Dobrzelewski
Chairman

Glenn Paradis
Vice Chairman

Fredrick Hunt Jr.
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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KENNETH A. TALSMA, CPA, PRINCIPAL
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS
MEMBER MACPA
OFFICES IN
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, 2015, 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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Board of County Road Commissioners
Antrim County Road Commission

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Antrim County Road Commission, as of December 31, 2015, 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 9, pages 31 through 33 and pages 34 through 35 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 of analysis 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 March 23, 2016 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

March 23, 2016

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, 2015. 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, outflows, 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, deferred outflows, liabilities and deferred 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, deferred outflows, liabilities and deferred 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 12 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 $26,514,761 at December 31, 2015, a 16% decrease over 2014. 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; or 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 $29,225,468 at December 31, 2014 and $30,622,211 at December 31, 2015.

Net position as of years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Current and Other Assets	$ 2,837,819	$ 3,387,918
Capital Assets	30,622,211	29,225,468
Total Assets	33,460,030	32,613,386
Deferred Outflows of Resources	472,240	-
Current Liabilities	250,462	602,086
Other Liabilities	7,167,047	452,473
Total Liabilities	7,417,509	1,054,559

The Road Commission as a Whole (Continued)

	2015	2014
Deferred Inflows of Resources	-	912
Net Position:		
Net Investment in Capital Assets	30,622,211	29,225,468
Restricted for County Road	(4,107,450)	2,332,447
Total Net Position	$ 26,514,761	$ 31,557,915

A summary of changes in net position for the years ended December 31, 2015 and 2014 follows:

	2015	2014
Program Revenues		
Charges for Services	$ 733,635	$ 904,760
Operating Grants, Capital Grants and Contributions	6,523,654	6,763,997
Interest Earnings and Other	261,470	86,829
Total Revenues	7,518,759	7,755,586
Program Expenses		
Primary Roads		
Maintenance	1,843,504	2,046,432
Local Roads		
Maintenance	3,157,364	2,330,641
State Trunkline	700,293	750,388
Equipment	200,302	161,074
Administrative and Other	515,279	359,354
Total Expenses	6,416,742	5,647,889
Changes in Net Position	1,102,017	2,107,697
Net Position – Beginning as Restated	25,412,744	29,450,218
Net Position – Ending	$ 26,514,761	$ 31,557,915

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, 2015 and December 31, 2014 is as follows:

	2015	2014
Revenues:		
Licenses and Permits	$ 31,914	$ 34,906
Federal Sources	407,439	759,965
State Sources	4,172,939	4,754,755
Contributions from Local Units	1,828,313	1,105,669
Reimbursements/Miscellaneous	-	3,576
Charges for Services	701,721	869,854
Interest Earnings and Rent	4,601	1,014
Gain on Sale of Capital Assets	256,869	82,239
Total Revenues	7,403,796	7,611,978
Expenditures:		
Public Works	7,059,664	7,053,746
Capital Outlay	656,659	(107,098)
Total Expenditures	7,716,323	6,946,648
Excess of Revenues Over (Under) Expenditures	(312,527)	665,330
Fund Balance – January 1	2,641,313	1,975,983
Fund Balance – December 31	$ 2,328,786	$ 2,641,313

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 2015 was more than actual revenues by $637,062. This was primarily due to an increase in State special disbursements including PA 252 and specific project assistance.

The final amended expenditure budget for 2015 was $760 thousand more than the original budget primarily due to the Road Commission budgeting for additional local road preservation projects. The actual expenditures incurred during 2015 were more than the final amended budget by $346,323. There were several unfavorable variances in expenditures line items.

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2015 and 2014, the Road Commission had $30,622,211 and $29,225,468, respectively invested in capital assets as follows:

	2015	2014
Capital Assets Not Being Depreciated		
Land and Improvements	$ 119,860	$ 119,860
Infrastructure and Land Improvements	16,071,798	15,697,953
Total Capital Assets Not Being Depreciated	16,191,658	15,817,813
Capital Assets Being Depreciated		
Buildings	2,482,739	2,482,739
Road Equipment	7,515,425	6,787,813
Other Equipment and Assets	1,336,047	1,308,089
Infrastructure and Improvements	23,736,798	29,423,942
Total Capital Assets Being Depreciated	35,071,009	40,002,583
Total Accumulated Depreciation	(20,640,456)	(26,594,928)
Total Net Capital Assets	$ 30,622,211	$ 29,225,468

Major additions included the following:

Equipment and Buildings	$ 1,157,849	$ 367,879
Infrastructure – Roads and Bridges	$ 1,999,939	$ 2,748,735

Debt

There were no installment purchase agreements entered into during 2015. All the equipment was acquired with Road Commission funds.

Long-term debt includes accrued vacation and sick pay leave, retiree health insurance liability and net pension liability.

In 2016, 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 2016 budget. These factors included MTF collection forecasts, the economy, township contributions, MDOT's maintenance budget and various other items. We are projecting an increase in revenues for 2016 primarily due to State and Federal project revenue. The MTF funds are starting the year 2016 slightly up from 2015 due to higher fuel tax collections. Budget adjustments may be necessary during 2016 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, 2015

ASSETS	
Cash and Equivalents	$ 1,136,933
Accounts Receivable:	
Michigan Transportation Fund	515,302
State Trunkline Maintenance	54,715
State Transportation - Other	420
Due on County Road Agreements	159,212
Sundry Accounts	398,389
Inventories:	
Road Materials	417,924
Equipment, Parts and Materials	103,503
Prepaid Items	51,421
Capital Assets (Not Depreciated)	16,191,658
Capital Assets (Net of Accumulated Depreciation)	14,430,553
Total Assets	33,460,030
DEFERRED OUTFLOWS OF RESOURCES	
Pension investment experience and contributions	472,240
LIABILITIES	
Accounts Payable	49,813
Accrued Liabilities	16,942
Advances	183,707
Vested Employee Benefits- Due in more than one year	150,729
Other Post Employment Benefits - Due in more than one year	304,003
Net Pension Liability - Due in more than one year	6,712,315
Total Liabilities	7,417,509
NET POSITION	
Net Investment in Capital Assets	30,622,211
Unrestricted (Deficit)	(4,107,450)
Total Net Position	$ 26,514,761

See accompanying notes to financial statements.

Antrim County Road Commission

Statement of Activities
For the Year Ended December 31, 2015

Program Expenses:		
Primary Road Maintenance		
and Preventive Maintenance	$	1,843,504
Local Road Maintenance		
and Preventive Maintenance		3,157,364
State Trunkline		700,293
Net Equipment Expense		200,302
Net Administrative Expense		418,116
Other		97,163
Total Program Expenses		6,416,742
Program Revenues:		
Charges for Services:		
Licenses and Permits		31,914
Charges for Services		701,721
Operating Grants and Contributions:		
Michigan Transportation Funds		4,287,902
Contributions from Local Units		235,813
Interest Earnings		4,601
Capital Grants and Contributions:		
Federal Grants		407,439
Contributions from Local Units		1,592,500
Total Program Revenues		7,261,890
Net Program Revenues (Expenses)		845,148
General Revenues:		
Gain (Loss) on Disposal		256,869
Total General Revenues		256,869
Change in Net Position		1,102,017
Net Position - Beginning Balance as Restated (See Note 13)		25,412,744
Net Position - Ending Balance	$	26,514,761

See accompanying notes to financial statements.

Balance Sheet
December 31, 2015

	Governmental Fund Type	
	General Operating Fund	
ASSETS		
Cash and Equivalents	$	1,136,933
Accounts Receivable:		
Michigan Transportation Fund		515,302
State Trunkline Maintenance		54,715
State Transportation - Other		420
Due on County Road Agreements		159,212
Sundry Accounts		398,389
Inventories:		
Road Materials		417,924
Equipment, Parts and Materials		103,503
Prepaid Items		51,421
Total Assets	$	2,837,819
LIABILITIES		
Accounts Payable	$	49,813
Accrued Liabilities		16,942
Advances		183,707
Total Liabilities		250,462
DEFERRED INFLOWS OF RESOURCES		
Other State Grants		258,571
FUND BALANCE		
Nonspendable		572,848
Unassigned		1,755,938
Total Fund Balance	$	2,328,786

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Position For the Year Ended December 31, 2015

Total Governmental Fund Balance	$ 2,328,786
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.	30,622,211
Net pension liability requirement.	(6,712,315)
Deferred outflows resulting from pension assumptions and contributions.	472,240
Deferred inflows resulting from other state grants.	258,571
Other long-term liabilities are not available to pay in the current period and therefore are not reported in the funds.	(454,732)
Net Position of Governmental Activities	$ 26,514,761

See accompanying notes to financial statements.

Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2015

	Governmental Fund Type
	General Operating Fund
Revenues	
License and Permits	$ 31,914
Federal Sources	407,439
State Sources	4,172,939
Contributions form Local Units	1,828,313
Charges for Services	701,721
Interest Earnings and Rent	4,601
Other Revenue	256,869
Total Revenues	7,403,796
Expenditures	
Public Works	7,059,664
Capital Outlay	656,659
Total Expenditures	7,716,323
Excess of Revenues Over (Under) Expenditures	(312,527)
Fund Balance - Beginning of Year	2,641,313
Fund Balance - End of Year	$ 2,328,786

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, 2015

Net Change in Fund Balance - Total Governmental Funds	$ (312,527)
Amounts reported for governmental activities in the statements are different because:	
Governmental funds report capital outlays and infrastructure costs 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 in the current period.	1,396,743
Increase in state revenue related to local agency payments which are not considered available under modified accrual.	114,963
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	(97,162)
Net Change in Net Position of Governmental Activities	$ 1,102,017

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, outflows, 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 and Equivalents

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.

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plan and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 pension 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unearned Revenues

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

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, outflows, liabilities and inflows 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 35.

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	$ 1,136,933	Imprest Cash	$ 200
		Checking & Savings	1,136,733
	$ 1,136,933		$ 1,136,933

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, 2015.

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, $931,753 of the Road Commission's bank balance of $1,285,041 was exposed to credit risk because it was uninsured and uncollateralized.

NOTE 4 - STATE ADVANCES

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, 2015 the amount was $114,614.

During 2015, 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 $407,439 for 2015, 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 01/01/15	Additions	Adjustments/ Deductions	Ending Balances 12/31/15
Capital Assets (Nondepreciable)				
Land	$ 119,860	$ -	$ -	$ 119,860
Infrastructure and Land Improvements	15,697,953	373,845	-	16,071,798
Subtotal	15,817,813	373,845	-	16,191,658
Capital Assets (Depreciable)				
Buildings	2,482,739	-	-	2,482,739
Equipment - Road	6,787,813	1,125,994	398,382	7,515,425
Equipment - Shop	203,680	1,524	-	205,204
Equipment - Office	86,731	11,455	3,897	94,289
Equipment - Engineering	59,015	-	-	59,015
Equipment – Yard and Storage	958,663	18,876	-	977,539
Infrastructure - Bridges	1,399,168	-	138,721	1,260,447
Infrastructure – Roads	28,024,774	1,626,094	7,174,517	22,476,351
Subtotal	40,002,583	2,783,943	7,715,517	35,071,009
Less Accumulated Depreciation				
Buildings	1,159,302	55,454	-	1,214,756
Equipment - Road	5,689,535	425,725	398,382	5,716,878
Equipment - Shop	160,687	11,080	-	171,767
Equipment - Office	84,390	1,726	3,897	82,219
Equipment - Engineering	49,692	2,671	-	52,363
Equipment – Yard and Storage	927,773	4,534	-	932,307
Infrastructure - Bridges	790,800	40,569	138,721	692,648
Infrastructure – Roads	17,732,749	1,219,286	7,174,517	11,777,518
Subtotal	26,594,928	1,761,045	7,715,517	20,640,456
Net Capital Assets - Depreciated	13,407,655	1,022,898	-	14,430,553
Total Net Capital Assets	$ 29,225,468	$ 1,396,743	$ -	$ 30,622,211

Depreciation expense was charged to the following programs:

Primary Road	$ 595,913
Local Road	663,942
Equipment	425,726
Administrative	4,397
Allocated	71,067
Total Depreciation Expense	$ 1,761,045

NOTE 7 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Description of Plan and Plan Assets

The Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.50% times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2014.

General Information about the Pension Plan

Plan Description. The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

01 – Gen Union: Open Division	
	2014 Valuation
Benefit Multiplier:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/30
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
Employee Contributions	0%
RS50% Percentage:	50%
Act 88:	No

10 – Gen NonUni: Open Division	
	2014 Valuation
Benefit Multiplier:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	55/30
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	3 years
Employee Contributions	0%
RS50% Percentage:	50%
Act 88:	No

NOTE 7 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Employees Covered by Benefit Terms

At December 31, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	40
Inactive employees entitled to but not yet receiving benefits	1
Active employees	34
	75

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The Road Commission is required to contribute at an actuarially determined rate of 32.63% and 45.66% of payroll for union and nonunion employees, respectively.

Net Pension Liability

The Road Commission's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 to 4.0 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	8.0 percent

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2008. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 2013.)

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

NOTE 7 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount Rate. The discount rate used to measure the total pension liability is 8.25% for 2015 and will be 8.0% in 2016 and thereafter. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions well be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability:

	Increases (Decreases)		
	Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability**
Balances at December 31, 2014	$ 12,300,402	$ 6,155,231	$ 6,145,171
Service cost	150,184	-	150,184
Interest on total pension liability	987,193	-	987,193
Changes in benefits	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions	-	-	-
Employer contributions	-	662,974	(662,974)
Employee contributions	-	(2,306)	2,306
Net investment income	-	(89,576)	89,576
Benefit payments, including employee refunds	(819,043)	(819,043)	-
Administrative expense	-	(13,323)	13,323
Other changes	(12,464)	-	(12,464)
Net changes	305,870	(261,274)	567,144
Balances as of December 31, 2015	$ 12,606,272	$ 5,893,957	$ 6,712,315

NOTE 7 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the Road Commission, calculated using the discount rate of 8.25% , as well as what the Road Commission's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.25%) or 1-percentage-point higher (9.25%) than the current rate:

	1% Decrease (7.25%)	**Current Discount Rate (8.25%)**	**1% Increase (9.25%)**
Road Commission's net pension liability as of 12/31/2015:	$7,990,456	$6,712,315	$5,612,558

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued MERS financial report.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, the Road Commission recognized pension expense of $757,878. At December 31, 2015, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Difference between expected and actual experience	$ -	$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	472,240	-
Total	$ 472,240	$ -

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recorded in pension expense as follows:

Year Ended December 31:	
2016	$ 118,060
2017	118,060
2018	118,060
2019	118,060

NOTE 7 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Annual Pension Costs – For the year ended December 31, 2015, the Antrim County Road Commission's pension cost of $662,974 for the plan was equal to the required contribution. The annual contribution was determined as part of an actuarial valuation as of December 31, 2013, 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 25 years.

NOTE 8 - 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. 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	$ 143,106	$ 7,623	$ 150,729
Other Post Employment Benefits	309,367	(5,364)	304,003
Total	$ 452,473	$ 2,259	$ 454,732

Vested employee benefits are for accumulated personal, sick and vacation days. At December 31, 2015 the total accumulated liability was $150,729.

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	$ 101,651
Interest on net OPEB obligation	10,209
Annual pension cost	111,860
Contributions made	(117,224)
Decrease in net OPEB obligation	(5,364)
Net OPEB obligation beginning of year	309,367
Net OPEB obligation end of year	$ 304,003

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 39 retirees receiving benefits with an approximate annual cost of $117,224. 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
2013	$ 106,909	46%	$ 286,095
2014	$ 101,651	77%	$ 309,367
2015	$ 111,860	105%	$ 304,003

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress: As of December 31, 2015, the actuarial accrued liability for benefits was not funded. The covered payroll (annual payroll of active employees covered by the plan) was $1,283,199.

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 - COMMITMENTS AND CONTINGENCIES

Grants – The Road Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and 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 Commission.

The Road Commission from time to time is named as a defendant in accident claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. Insurance coverage related to these claims and lawsuits, if any, is categorized under the general liability insurance program. It is the opinion of management and legal counsel that reasonable estimates of the Road Commission's current liability for these matters, if any, have been recorded.

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

There are nonaccident liability and condemnation lawsuits currently pending against the Road Commission claiming amounts for damages and relief without stated limitations. It is the opinion of management and legal counsel that reasonable estimates of the Road Commission's current liability for these matters, if any, have been recorded.

NOTE 12 - SUBSEQUENT EVENT

During January 2016, the Road Commission authorized and executed equipment and vehicle purchases in the amount of $602,000. During February 2016, the Board authorized equipment purchases of approximately $57,000.

NOTE 13 - RESTATEMENT

	Governmental Activities
Beginning net position as previously reported at January 1, 2015	$ 31,557,915
Restatement of beginning net position – implementation of GASB 68: Net pension liability (measurement date)	(6,145,171)
Beginning net position as restated, January 1, 2015	$ 25,412,744

Required Supplementary Information

Employee Retirement and Benefit Systems
Schedule of Funding Progress
For the Year Ended December 31, 2015

	2015
Total pension liability	
Service cost	$ 150,184
Interest	987,193
Other changes	(12,464)
Benefit payments, including refund of member contributions	(819,043)
Net change in total pension liability	305,870
Total pension liability - beginning	12,300,402
Total pension liability - ending	$ 12,606,272
Plan fiduciary net position	
Contributions - employer	$ 662,974
Contributions - employee	(2,306)
Net investment income	(89,576)
Benefit payments, including refunds of member contributions	(819,043)
Administrative expense	(13,323)
Net change in plan fiduciary net position	(261,274)
Plan fiduciary net position - beginning	6,155,231
Plan fiduciary net position - ending	$ 5,893,957
Net pension liability - ending	$ 6,712,315
Plan fiduciary net position as a percentage of the total pension liability	47%
Covered - employee payroll	$ 1,429,116
Net pension liability as a percentage of covered-employee payroll	470%
Annual money-weighted rate of return, net of investment expense	6%

Employee Retirement and Benefit Systems
Schedule of Funding Progress
For the Year Ended December 31, 2015

	2015
Actuarially determined contribution	$ 479,544
Contributions in relation to the actuarially determined contribution	(662,974)
Contribution deficiency (excess)	$ (183,430)
Covered - employee payroll	$ 1,316,387
Contributions as a percentage of covered-employee payroll	50%

Notes to Schedule:

Actuarially determined contribution rates are calculated as of December 31st, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	24 years
Asset valuation method	5-years smoothed market
Inflation	4.50%
Salary increases	4.5%, average, including inflation
Investment rate of return	8.00%
Retirement age	In the 2014 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience
Mortality	Assumptions were based on the 1994 Group Annuity Mortality Table - Blended 50% Male / 50% Female

Required Supplementary Information
Employee Retirement and Benefit Systems
Schedule of Funding Progress
December 31, 2015

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, 2015

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits	$ -	$ -	$ 31,914	$ 31,914
Federal Sources	300,000	577,770	407,439	(170,331)
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Allocation	3,110,000	3,200,000	3,274,382	74,382
Snow Removal	300,000	314,964	314,966	2
Other	215,000	129,000	401,354	272,354
Rural Primary	345,000	-	121,133	121,133
Forest Road	50,000	-	51,104	51,104
Contributions from Local Units	1,200,000	1,821,000	1,828,313	7,313
Charges for Services	560,000	680,000	701,721	21,721
Interest Earnings and Rent	-	-	4,601	4,601
Other Revenue				
Gain (Loss) on Disposal	40,000	34,000	256,869	222,869
Total Revenues	$ 6,130,000	$ 6,766,734	$ 7,403,796	$ 637,062

Required Supplementary Information
Budgetary Comparison Schedule
Statement of Expenditures - Budget and Actual
For the Year Ended December 31, 2015

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation	$ 650,000	$ 1,150,000	$ 1,164,072	$ (14,072)
Maintenance	1,400,000	1,150,000	1,247,589	(97,589)
Local Road				
Preservation	950,000	840,000	835,868	4,132
Maintenance	1,950,000	2,450,000	2,493,424	(43,424)
Trunkline Maintenance	560,000	680,000	611,292	68,708
Trunkline Nonmaintenance	-	-	89,001	(89,001)
Administrative Expense - Net	400,000	450,000	418,116	31,884
Equipment Expense - Net	100,000	-	200,302	(200,302)
Capital Outlay - Net	600,000	650,000	656,659	(6,659)
Total Expenditures	$ 6,610,000	$ 7,370,000	$ 7,716,323	$ (346,323)

Other Information

Analysis of Changes in Fund Balance
For the Year Ended December 31, 2015

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	$ 3,112,213	$ 2,888,453	$ 1,403,130	$ 7,403,796
Total Expenditures	2,635,827	3,690,333	1,390,163	7,716,323
Excess of Revenues Over (Under) Expenditures	476,386	(801,880)	12,967	(312,527)
Optional Transfers and Adjustments	(800,000)	800,000	-	-
Fund Balance - January 1, 2015	1,519,273	5,949	1,116,091	2,641,313
Fund Balance - December 31, 2015	$ 1,195,659	$ 4,069	$ 1,129,058	$ 2,328,786

Analysis of Revenues
For the Year Ended December 31, 2015

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	$ -	$ -	$ 31,914	$ 31,914
Federal Sources				
Surface Transportation Program	244,173	-	-	244,173
D Funds	163,266	-	-	163,266
State Sources				
Michigan Transportation Fund				
Engineering	5,905	4,095	-	10,000
Allocation	1,933,559	1,340,823	-	3,274,382
Snow Removal	156,475	158,491	-	314,966
Other	-	-	401,354	401,354
Rural Primary	121,133	-	-	121,133
Forest Road	-	51,104	-	51,104
Contributions from Local Units				
Townships	487,467	1,333,940	-	1,821,407
Other	-	-	6,906	6,906
Charges for Services				
Trunkline Maintenance	-	-	611,292	611,292
Trunkline Nonmaintenance	-	-	89,002	89,002
Salvage Sales	-	-	1,427	1,427
Interest and Rents				
Interest Earnings	235	-	172	407
Property Rental	-	-	4,194	4,194
Other Revenue				
Gain on Equipment Disposals	-	-	256,869	256,869
Total Revenues	$ 3,112,213	$ 2,888,453	$ 1,403,130	$ 7,403,796

Analysis of Expenditures
For the Year Ended December 31, 2015

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation	$ 1,164,072	$ -	$ -	$ 1,164,072
Maintenance	1,247,589	-	-	1,247,589
Local Road				
Preservation	-	835,868	-	835,868
Maintenance	-	2,493,424	-	2,493,424
Trunkline Maintenance	-	-	611,292	611,292
Trunkline Nonmaintenance	-	-	89,001	89,001
Administrative Expense - Net	175,643	242,473	-	418,116
Equipment Expense - Net	48,523	118,568	33,211	200,302
Capital Outlay - Net	-	-	656,659	656,659
Total Expenditures	$ 2,635,827	$ 3,690,333	$ 1,390,163	$ 7,716,323

Report on Compliance

ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA

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, 2015, 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 March 23, 2016.

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 2015-001 and 2015-002.

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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 2015-002.

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

March 23, 2016

Significant Deficiency - Internal Control

<u>Segregation of Duties</u> ***Finding 2015-001***

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 2015-002***

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 2015 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2015 expenditures exceeded the board's approved budget allocations for some general fund activities.

During the fiscal year ended December 31, 2015, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 35 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