Montmorency County Road Commission

BASIC FINANCIAL STATEMENTS

December 31, 2014

MONTMORENCY COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

Ted Orm
Chairperson

Joe LaFleche
Vice Chairperson

Ken Werner
Member

Steve Wicks
Superintendent

Todd Behring
Secretary/Manager

Tina Whitt
Payroll Clerk/Secretary

TABLE OF CONTENTS

ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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AMBER N. MACK, CPA, PRINCIPAL
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MEMBER AICPA
DIVISION FOR CPA FIRMS
MEMBER MACPA
OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Montmorency County Road Commission
11445 M-32
Atlanta, Michigan 49709

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Montmorency County Road Commission (a component unit of Montmorency 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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Board of County Road Commissioners
Montmorency County Road Commission

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Montmorency 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, and budgetary comparison schedules on pages 4 through 9, page 29 and pages 30 through 31, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chippewa 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.

Board of County Road Commissioners
Montmorency County Road Commission

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2015 on our consideration of the Montmorency 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 Montmorency 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 8, 2015

Management’s Discussion and Analysis

Using This Annual Report

Our discussion and analysis of Montmorency 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 allocation 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 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 $18,531,166 at December 31, 2014 a .10% 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 investment in capital assets was $18,350,142 at December 31, 2014. The increase in net position is primarily the result of reporting infrastructure of $177,682. The Road Commission has retroactively reported infrastructure assets (assets acquired after 1980) as required by Governmental Accounting Standards Board (GASB) Statement No. 34 in a previous year.

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

	2014	2013
Current and Other Assets	$ 1,960,795	$ 1,520,334
Capital Assets	18,350,142	18,929,544
Total Assets	$ 20,310,937	$ 20,449,878

The Road Commission as a Whole (Continued)

	2014	2013
Current Liabilities	$ 180,228	$ 250,657
Other Liabilities and Inflows	1,599,543	1,686,443
Total Liabilities	1,779,771	1,937,100
Net Position:		
Net Investment in Capital Assets	18,008,651	18,421,029
Restricted for County Road	522,515	91,749
Total Net Position	$ 18,531,166	$ 18,512,778

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

	2014	2013
Program Revenues:		
Charges for Services	$ 21,362	$ 19,136
Operating Grants and Contributions	2,691,175	1,935,038
Capital Grants and Contributions	177,682	1,243,955
Other Revenue	13,218	12,461
General Revenues:		
Property Taxes	523,271	492,642
Gain on Equipment Disposal	5,075	-
Total Revenues	3,418,565	3,703,232
Expenses:		
Programs	3,390,670	3,158,320
Interest Expense	9,507	18,722
Total Expenses	3,400,177	3,177,042
Change in Net Position	18,388	526,190
Beginning, Net Position	18,512,778	17,986,588
Ending, Net Position	$ 18,531,166	$ 18,512,778

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:		
County Wide Tax Millage	$ 523,271	$ 492,642
Licenses and Permits	21,362	19,136
Federal Sources	8,253	529,430
State Sources	2,550,786	2,400,232
Contributions from Local Units	197,911	249,331
Reimbursements/Miscellaneous	9,345	9,165
Interest and Royalties	3,873	3,296
Gain on Sale of Capital Assets	5,075	-
Total Revenues	3,319,876	3,703,232
Expenditures:		
Public Works	2,841,097	3,682,294
Capital Outlay	(65,434)	(96,974)
Debt Service	177,448	299,933
Total Expenditures	2,953,111	3,885,253
Excess of Revenues Over (Under) Expenditures	366,765	(182,021)
Fund Balance – January 1	932,322	1,114,343
Fund Balance – December 31	$ 1,299,087	$ 932,322

Budgetary Highlights

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

The final amended expenditure budget for 2014 was $464,921 lower than the original budget primarily due to the Road Commission decreasing the budget for primary road preservation and maintenance. The actual expenditures incurred during 2014 were more than the final amended budget by $147,032.

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2014 and December 31, 2013, the Road Commission had invested $18,350,142 and $18,929,544 respectively in net capital assets.

As of December 31, 2014 and 2013 the Road Commission had invested in capital assets as follows:

	2014	2013
Capital Assets Not Being Depreciated		
Land and Improvements	$ 47,476	$ 47,476
Infrastructure and Land Improvements	10,778,980	10,727,471
Total Capital Assets Not Being Depreciated	10,826,456	10,774,947
Capital Assets Being Depreciated		
Buildings	1,999,378	1,999,378
Road Equipment	3,523,566	3,531,007
Other Equipment and Assets	246,492	228,186
Infrastructure and Improvements	15,393,047	15,266,874
Total Capital Assets Being Depreciated	21,162,483	21,025,445
Total Accumulated Depreciation	(13,638,797)	(12,870,848)
Total Net Capital Assets	$ 18,350,142	$ 18,929,544
Prior and current year's major additions included the following:		
Various Resurfacing Projects	$ 177,682	$ 1,243,955
Equipment	$ 72,259	$ 58,595

Debt Administration

Details of debt are shown in Note 9 to the financial statements.

At the year end, the Road Commission paid off the bonds and had $341,491 in installment debt, a decrease of $167,024 from 2013. Other long-term debt includes accrued vacation and sick pay leave and OPEB debt.

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 the economy, township contributions, interest rates and various other items. We are projecting a slight increase in Act 51 revenue over the year 2014; however, the millage renewal passed in November of 2014 will be received for the sixth time in 2015. Expenses are budgeted to increase by $637,341 primarily due to increases in heavy maintenance expense.

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 Montmorency County Road Commission's administrative offices at 11445 M-32, Atlanta, MI 49709 or call 989-785-3334.

Basic Financial Statements

Statement of Net Position
December 31, 2014

ASSETS		
Cash and Equivalents	$	607,544
Accounts Receivable:		
Taxes		428,697
Michigan Transportation Fund		486,829
Sundry		105
Inventories:		
Road Materials		255,916
Equipment, Parts and Materials		153,818
Prepaid Items		27,886
Capital Assets (Not Depreciated)		10,826,456
Capital Assets (Net of Accumulated Depreciation)		7,523,686
Total Assets	$	20,310,937
LIABILITIES		
Accounts Payable	$	35,243
Accrued Liabilities		30,418
Note Payable - Due within one year		114,567
Note Payable - Due in more than one year		226,924
Vested Employee Benefits - Due in more than one year		185,110
OPEB Obligation - Due in more than one year		690,151
Total Liabilities		1,282,413
DEFERRED INFLOWS OF RESOURCES		
Taxes Levied for Subsequent Period		497,358
NET POSITION		
Net Investment in Capital Assets		18,008,651
Restricted		522,515
Total Net Position	$	18,531,166

Montmorency County Road Commission

Statement of Activities
For the Year Ended December 31, 2014

Program Expenses:	
Primary Road Maintenance	
and Preventive Maintenance	$ 1,303,791
Local Road Maintenance	
and Preventive Maintenance	1,813,731
Net Equipment Expense	11,010
Net Administrative Expense	262,138
Interest Expense	9,507
Total Program Expenses	3,400,177
Program Revenues:	
Charges for Services	21,362
Operating Grants and Contributions:	
State Grants	2,628,458
Contributions from Local Units	49,499
Interest and Other	13,218
Capital Grants and Contributions:	
Federal Grants	8,253
State Grants	21,017
Contributions from Local Units	148,412
Total Program Revenues	2,890,219
Net Program Revenues (Expenses)	(509,958)
General Revenues:	
Property Taxes	523,271
Gain on Equipment Disposal	5,075
Total General Revenues	528,346
Change in Net Position	18,388
Net Position - Beginning Balance	18,512,778
Net Position - Ending Balance	$ 18,531,166

See accompanying notes to financial statements.

Balance Sheet
December 31, 2014

	Governmental Fund Type General Operating Fund
ASSETS	
Cash and Equivalents	$ 607,544
Accounts Receivable:	
Property Taxes	428,697
Michigan Transportation Fund	486,829
Sundry	105
Inventories:	
Road Materials	255,916
Equipment, Parts and Materials	153,818
Prepaid Items	27,886
Total Assets	$ 1,960,795
LIABILITIES	
Accounts Payable	$ 35,243
Accrued Liabilities	30,418
Total Liabilities	65,661
DEFERRED INFLOWS OF RESOURCES	
Other State Grants	98,689
Taxes Levied for Subsequent Period	497,358
Total Deferred Inflows of Resources	596,047
FUND BALANCE	
Nonspendable	437,620
Restricted	861,467
Total Fund Balance	1,299,087
Total Liabilities, Deferred Inflows of Resources and Fund Balance	$ 1,960,795

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	$ 1,299,087
Amounts reported 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.	18,350,142
Installment debt - not due and payable in current year and is not reported in the funds.	(341,491)
Deferred Inflows of Other State Revenue for PA 252 is recorded as deferred inflows on the balance sheet but in revenue on the government-wide statements.	98,689
Vested Employee Benefits Payable are not due and payable in the current period and are not reported in the funds.	(185,110)
Other Post Employment Benefits (OPEB) are not due and payable in the current period and are not reported in the fund statements.	(690,151)
Net Position of Governmental Activities	$ 18,531,166

Montmorency County Road Commission

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

	Governmental Fund Type General Operating Fund
Revenues	
Property Taxes	$ 523,271
Licenses and Permits	21,362
Federal Sources	8,253
State Sources	2,550,786
Contributions from Local Units	197,911
Interests and Royalties	3,873
Other Revenue	14,420
Total Revenues	3,319,876
Expenditures	
Public Works	2,841,097
Capital Outlay	(65,434)
Debt Service	177,448
Total Expenditures	2,953,111
Excess of Revenues Over (Under) Expenditures	366,765
Fund Balance - Beginning of Year	932,322
Fund Balance - End of Year	$ 1,299,087

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	$	366,765
Amounts reported in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Add - Capital outlay		249,941
Deduct - Depreciation expense		(829,343)
Repayment of installment loan principal and bonded debt is an expenditure in the governmental fund but reduces long-term liabilities in the statement of Net Position.		
Repayment of installment loan principal		112,024
Repayment of bonded debt		55,000
Deferred Inflows of Other State Revenue is recorded as deferred inflows on the balance sheet but in revenue on the government-wide statements.		98,689
Vested employee benefits payable do not require the current use of financial resources and are not reported as expenditures in the fund statements.		
Less - increase in vested employee benefits		(10,771)
Accrued interest on bonded debt does not require the current use of financial resources and is not reported as an expenditure in the fund statements.		
Add - decrease in accrued interest payable		917
Increase in other post employment benefits (OPEB) does not require the current use of financial resources and is not reported as expenditures in the fund statements.		
Deduct - increase in OPEB		(24,834)
Net Change in Net Position of Governmental Activities	$	18,388

See accompanying notes to financial statements.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Montmorency 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 Montmorency County Road Commission.

A. Reporting Entity

The Montmorency 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 elected by the voters of the County. The Road Commission may not issue debt without the County's approval and property tax levies for road purposes are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board Number. 61, "The Financial Reporting Entity," as amended 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 Montmorency County Road Commission, as a discretely presented component unit of Montmorency County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

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 Montmorency County Road Commission. There is only one governmental fund reported in the government-wide financial statements.

The statement of net position presents the Road Commission's assets and liabilities and inflows with the difference being reported as either invested 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. Under the terms of grant agreements, the Road Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Road Commission's policy to first apply restricted grant resources to such programs, and then general revenues.

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

Cash and 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. All deposits are stated 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. Prepaid insurance is the item recorded for 2014.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes Receivable

The property tax is levied each December 1st on the taxable valuation of property located in the County as of the preceding December 31st and is available for road maintenance purposes. The 2014 taxable valuation of $497,357,995 for the Road Millage amounted to $497,358 less $0 for cities and villages of which ad valorum taxes of 1.0 mill was levied. This resulted in a taxes receivable amount of $428,697.

In the government-wide financial statements, the tax is recorded as revenue when the tax is levied in the current year. Although the County’s 2014 ad valorem tax is levied and collectible December 1, 2014, it is the Road Commission’s policy to recognize revenues from the current tax levy in the subsequent year, when the proceeds of this levy are budgeted and made available for the financing of the Road Commission’s operations in the governmental fund financial statements. The taxes receivable amount is offset to deferred inflows.

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 Montmorency County Road Commission as assets with an initial individual cost of more than $500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Depreciation

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 the governmental fund 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 and so will not be recognized as an inflow of resources (revenue) until that time. The Road Commission has property taxes and State Act 252 funds that qualify for reporting in this category.

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.

Budgets and Budgetary Accounting - The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 2 of 1968, as amended, in the preparation and execution of its annual general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law. The budgets are amended as appropriate throughout the year and lapse at year end.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the 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 Road 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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 Road Commission's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Road Commission 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 Road Commission 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 - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 2 of 1968, as amended, Section 16 provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2014 the County Road Commission incurred expenditures in certain areas which were in excess of the amounts budgeted as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
Primary Road:			
Preservation – Structural Improvement	$ 15,000	$ 29,269	$ (14,269)
Maintenance	780,000	799,112	(19,112)
Local Road:			
Maintenance	1,531,000	1,594,847	(63,847)
Equipment Expense - Net	(38,000)	11,010	(49,010)
Administrative Expense - Net	245,000	258,446	(13,446)

NOTE 3 - CASH AND EQUIVALENTS

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

Balance Sheet Account		Cash Items	
Cash and Equivalents	$ 607,544	Imprest Cash	$ 200
		Checking & Savings	607,344
	$ 607,544		$ 607,544

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.

(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.

NOTE 3 - CASH AND EQUIVALENTS (Continued)

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 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, $351,345 of the Road Commission's bank balance of $641,663 was exposed to credit risk because it was uninsured or uncollateralized.

NOTE 4 - EQUIPMENT LEASES

The Road Commission has entered into cancelable operating equipment leases as follows:

Equipment Item	Lease Date	Lease Maturity Date	Monthly Lease Payment	Guaranteed Purchase Amount
CAT 928HZ Wheel Loader	08/26/11	08/26/17	$ 1,156	$ 62,000
CAT 950H Wheel Loader	08/26/11	08/26/17	1,246	105,000
CAT 930H Wheel Loader	09/26/11	09/26/17	1,259	72,000
CAT 120M Motor Grader	12/01/11	12/01/17	1,432	120,000
CAT 140M2 Motor Grader	12/01/11	12/01/17	1,709	156,041
CAT 140M2 Motor Grader	12/01/11	12/01/17	1,729	156,041
			$ 8,531	

Subsequent Maturities are as follows for lease commitments.

2015	$ 102,372
2016	102,372
2017	88,987

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Montmorency 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 Not Being Depreciated				
Land and Improvements	$ 47,476	$ -	$ -	$ 47,476
Infrastructure and Land Improvements	10,727,471	51,509	-	10,778,980
Subtotal	10,774,947	51,509	-	10,826,456

NOTE 5 - CAPITAL ASSETS (Continued)

	Beginning Balances 01/01/14	Additions	Adjustments/ Deductions	Ending Balances 12/31/14
Capital Assets Being Depreciated				
Buildings	1,999,378	-	-	1,999,378
Equipment - Road	3,531,007	53,554	60,995	3,523,566
Equipment - Shop	84,918	17,640	-	102,558
Equipment - Office	52,393	1,065	399	53,059
Equipment - Engineering	7,235	-	-	7,235
Depletable Assets	83,640	-	-	83,640
Infrastructure – Bridges	2,098,789	-	-	2,098,789
Infrastructure - Roads	13,168,085	126,173	-	13,294,258
Subtotal	21,025,445	198,432	61,394	21,162,483
Less Accumulated Depreciation				
Buildings	614,120	36,791	-	650,911
Equipment - Road	2,949,981	88,180	60,995	2,977,166
Equipment - Shop	51,370	9,829	-	61,199
Equipment - Office	40,233	2,892	399	42,726
Equipment - Engineering	7,235	-	-	7,235
Depletable Assets	27,940	-	-	27,940
Infrastructure – Bridges	841,875	50,877	-	892,752
Infrastructure – Roads	8,338,094	640,774	-	8,978,868
Subtotal	12,870,848	829,343	61,394	13,638,797
Net Capital Assets Being Depreciated	8,154,597	(630,911)	-	7,523,686
Total Net Capital Assets	$ 18,929,544	$ (579,402)	$ -	$ 18,350,142

Depreciation expense was charged to programs of the Montmorency County Road Commission as follows:

Primary	$ 492,410
Local	199,241
Equipment and Buildings	134,800
Administration	2,892
Total Depreciation Expense	$ 829,343

NOTE 6 - RISK MANAGEMENT

The Montmorency County 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. 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 Commission at December 31, 2014.

Montmorency 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 coverages, vehicle liability coverages, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Montmorency 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 Road Commission was unable to provide an estimate of additional potential assessments under those arrangements.

NOTE 7 - FEDERAL REVENUE

The accompanying financial statements reports federal revenue for the year ended December 31, 2014 as $8,253. A single audit compliance report is not required for the Montmorency County Road Commission for the fiscal year ended December 31, 2014 because there was not $500,000 in federal annual revenue subject to OMB Circular A-133 requirements at the Road Commission level. All of the Federal revenue was for contracts administered by MDOT and the compliance audit will be performed at the State level.

NOTE 8 - PENSION PLAN

Plan Description - Montmorency County Road Commission has established a defined contribution pension plan with the John Hancock Life Insurance Company covering substantially all employees. Participating employees contribute a portion of their compensation annually and the Commission contributes the remaining amounts necessary to fund the plan according to requirements. The Commission is obligated for 5% of an employees base salary computed as of January 1 each year. The total contribution to the plan for 2014 was $46,151.

Funding Status and Progress - Not all of the information required by the Governmental Accounting Standards Board disclosure requirements is included below because the year end reports did not contain the necessary information. The following information was provided, however.

NOTE 8 - PENSION PLAN (Continued)

Account Value at January 1, 2014	$	2,021,473
Employer Contributions		46,151
Employee Contributions		41,916
Net Investment Earnings and Market Value Increase		103,633
Administrative Fees		(15,891)
Distributions / Withdrawals		(8,220)
Total Plan Assets at December 31, 2014	$	2,189,062

NOTE 9 - LONG-TERM DEBT

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

	Balance 01/01/14	Increases	Decreases	Balance 12/31/14	Due Within One Year
Notes Payable					
Citizens Bank	$ 250,946	$ -	$ 61,987	$ 188,959	$ 63,394
Citizens Bank	202,569	-	50,037	152,532	51,173
Series 2008 Bond Issue	55,000	-	55,000	-	-
Vested Employee Benefits Payable (1)	174,339	10,771	-	185,110	-
Total Long-Term Debt	$ 682,854	$ 10,771	$ 167,024	$ 526,601	$ 114,567

(1) Record as a net addition or deduction.

Annual debt service requirements for long-term debt:

	2015	2016	2017	Total
Principal	$ 114,567	$ 117,171	$ 109,753	$ 341,491
Interest	6,506	3,902	1,225	11,633
Total	$ 121,073	$ 121,073	$ 110,978	$ 353,124

On November 15, 2012 the Road Commission purchased three Western Star trucks and related equipment. Citizens Bank financed the transaction in two parts. One part financed the trucks and the other portion of the note purchased the attached equipment. Monthly payments of $5,583 and $4,507 were due beginning December 15, 2012 with a final payment due November 15, 2017. Interest is charged at a rate of 2.25% per annum.

	2015	2016	2017	Total
Principal	$ 63,394	$ 64,835	$ 60,730	$ 188,959
Interest	3,600	2,159	678	6,437
Total	$ 66,994	$ 66,994	$ 61,408	$ 195,396

NOTE 9 - LONG-TERM DEBT (Continued)

	2015	2016	2017	Total
Principal	$ 51,173	$ 52,336	$ 49,023	$ 152,532
Interest	2,906	1,743	547	5,196
Total	$ 54,079	$ 54,079	$ 49,570	$ 157,728

Michigan Transportation Fund Bond Issues

During 2008, $250,000 was borrowed to finance improvements and maintenance on the County Road system. These are Michigan Transportation Fund Bonds and are a Limited Tax General Obligation Bond. The final payment of $55,000 was paid in 2014 and the obligation has been paid in full.

Vested Employee Benefits

Road Commission policies provide for the payment of vacation, sick and personal days accumulated. Accrued sick pay at December 31, 2014 was $121,372 and vacation and personal days accumulated created a liability of $63,738 for a total of $185,110.

Regular employees may accumulate up to eight hundred (800) hours of sick leave of which fifty (50) hours may be used as personal time, if the employee has an accumulated sick leave balance of more than 750 hours. The employer will pay each employee one hundred percent (100%) for each sick leave hour which he/she would have accumulated in excess of the eight hundred (800) hour limit, such payment to be made in the pay period following the pay period in which such sick leave hours would have accumulated.

A regular employee may accumulate up to two hundred forty (240) hours of vacation credits. The employer will pay each employee one hundred percent (100%) for each vacation credit which he would have accumulated in excess of the 240 hour limit except as follows: Employees with at least 4 months but less than 10 years may accumulate up to 240 hours, employees with at least 10 years but less than 15 years may accumulate up to 264 hours, employees with at least 15 years but less than 20 years may accumulate up to 280 hours, employees with 20 or more years may accumulate up to 296 hours.

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS

Effective for the 2008 calendar year, the Road Commission was required to implemented Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits other than Pensions, for certain health care reimbursements provided by the Road Commission to retired employees. The requirements of this statement are being implemented prospectively, using the alternative calculation provision of the statement for employers with less than 100 employees, with the accrued liability for benefits amortized over future years. No liability is reported at the transition date. The 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 Road Commission provides post retirement health care benefits to all employees who retire from the Road Commission. There were 7 retirees receiving benefits with an approximate annual cost of $29,274. There were 20 active employees at December 31, 2014.

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (Continued)

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

Annual required contribution	$ 61,508
Interest on net OPEB obligation	21,955
Annual pension cost	83,463
Contributions made	(29,274)
Increase in net OPEB obligation	54,189
Net OPEB obligation beginning of year	665,317
Net pension obligation – end of year	719,506
Less: Fair market value of assets in Section 115 trust	(29,355)
Net OPEB obligation end of year	$ 690,151

Funded Status and Funding Progress: As of December 31, 2014, the actuarial accrued liability for benefits was $1,077,598, a portion of which is funded. The covered payroll (annual payroll of active employees covered by the plan) was $757,830, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 138%.

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 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 45 to 75 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.

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (Continued)

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 one percent.

Other Assumptions and Methods: The inflation rate was assumed to be 2.5 percent. Based on expected returns of the investments, the investment rate of return was assumed to be 7.0 percent. 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 - POLLUTION REMEDIATION OBLIGATION

In February 1995, the Road Commission reported a confirmed release of contaminants. Since that time underground storage tanks have been removed, two excavations of impacted soils have occurred, natural attenuation of impacted ground water has been occurring, and the site has been regularly sampled and monitored. The Road Commission has regularly provided reports to the Michigan Department of Environmental Quality and has purchased the adjacent property, upon which the contamination was identified.

Management and their attorneys expect to obtain site closure in the future. Management expects the well monitoring process to again occur in the early fall of 2015 at a cost of approximately $6,000 and to have the site formally closed at an additional cost of approximately $20,000 in the near future. Future liabilities related to this obligation are not determinable in the opinion of legal counsel.

NOTE 12 - DEFERRED INFLOW – TAX LEVY

A millage request for one mill for five years for maintenance and repair of roads was passed by the voters of Montmorency County on August 5, 2008 for the years 2009 through 2014 and was renewed for five more years in November of 2014. The first levy was made on December 1, 2009 with the taxes due and payable without penalty on or before February 14, 2010. Taxes receivable and offsetting deferred inflow have been recorded in the fund statements for the 2014 levy to be collected in 2015, which is estimated to be $497,358. The County Treasurer prepaid $68,661 of the 2014 levy prior to December 31, 2014 so the receivable has been reduced by that amount.

NOTE 13 - SUBSEQUENT EVENT

During January 2015, the Road Commission canceled health insurance coverages for retirees. A fixed payment benefit plan was enacted as well which requires monthly payments of $275 per month until death or plan termination.

Required Supplementary Information

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

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	$ 24,132	$ 2,461,072	$ 2,436,940	1.0%	Unavailable	-%
2013	$ 28,129	$ 2,048,336	$ 2,020,207	1.4%	Unavailable	-%
2014	$ 29,355	$ 1,077,598	$ 1,048,243	2.8%	$ 757,830	138%

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)
Property Taxes	$ 501,000	$ 505,291	$ 523,271	$ 17,980
Licenses and Permits	15,000	23,000	21,362	(1,638)
Federal Sources				
STP Funds	57,200	-	8,253	8,253
TED Funds	285,800	-	-	-
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Allocation	2,120,000	2,170,000	2,171,305	1,305
Snow Removal	30,000	30,000	31,684	1,684
Forest Road	98,500	98,500	98,554	54
Other	-	187,707	239,243	51,536
Contributions from Local Units				
Townships	90,000	195,910	195,910	-
Other	53,000	4,094	2,001	(2,093)
Charges for Services				
Salvage Sales	8,000	5,700	9,345	3,645
Interest and Royalties	2,500	3,900	3,873	(27)
Other Revenue				
Gain on Equipment Disposal	-	513	5,075	4,562
Total Revenues	$ 3,271,000	$ 3,234,615	$ 3,319,876	$ 85,261

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	$ 450,000	$ 15,000	$ 29,269	$ (14,269)
Maintenance	860,000	780,000	799,112	(19,112)
Local Road				
Preservation - Structural Improvement	130,000	152,000	148,413	3,587
Maintenance	1,402,180	1,531,000	1,594,847	(63,847)
Equipment Expense - Net	-	(38,000)	11,010	(49,010)
Administrative Expense - Net	270,000	245,000	258,446	(13,446)
Capital Outlay - Net	(20,000)	(57,741)	(65,434)	7,693
Debt Service	178,820	178,820	177,448	1,372
Total Expenditures	$ 3,271,000	$ 2,806,079	$ 2,953,111	$ (147,032)

Other Information

Montmorency County Road Commission

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	$ 1,406,888	$ 1,115,053	$ 797,935	$ 3,319,876
Total Expenditures	1,000,203	1,926,205	26,703	2,953,111
Excess of Revenues Over (Under) Expenditures	406,685	(811,152)	771,232	366,765
Optional Transfers	(395,000)	395,000	-	-
Fund Balance - January 1, 2014	248,650	442,343	241,329	932,322
Fund Balance - December 31, 2014	$ 260,335	$ 26,191	$ 1,012,561	$ 1,299,087

Montmorency County Road Commission

Analysis of Revenues
For the Year Ended December 31, 2014

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Property Taxes	$ -	$ -	$ 523,271	$ 523,271
Licenses and Permits	-	-	21,362	21,362
Federal Sources				
STP Funds	8,253	-	-	8,253
State Sources				
Michigan Transportation Fund				
Engineering	5,934	4,066	-	10,000
Allocation	1,288,411	882,894	-	2,171,305
Snow Removal	-	31,684	-	31,684
Forest Road	98,554	-	-	98,554
Other	2,064	-	237,179	239,243
Contributions from Local Units				
Townships	-	195,910	-	195,910
Other	-	-	2,001	2,001
Charges for Services				
Interest	280	499	272	1,051
Salvage Sales	-	-	9,345	9,345
Interest and Royalties:				
Royalties	-	-	2,822	2,822
Gain on Equipment Disposal	3,392	-	1,683	5,075
Total Revenues	$ 1,406,888	$ 1,115,053	$ 797,935	$ 3,319,876

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	$ 29,269	$ -	$ -	$ 29,269
Maintenance	799,112	-	-	799,112
Local Road				
Preservation - Structural Improvements	-	148,413	-	148,413
Maintenance	-	1,594,847	-	1,594,847
Equipment Expense - Net	3,157	7,750	103	11,010
Administrative Expense - Net	83,251	175,195	-	258,446
Capital Outlay - Net	(92,034)	-	26,600	(65,434)
Debt Service				
Debt Principal Payments	167,024	-	-	167,024
Interest Expense	10,424	-	-	10,424
Total Expenditures	$ 1,000,203	$ 1,926,205	$ 26,703	$ 2,953,111

Report on Compliance

ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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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
Montmorency County Road Commission
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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 Montmorency County Road Commission (a component unit of Montmorency County, Michigan), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Montmorency County Road Commission's basic financial statements and have issued our report thereon dated May 8, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Montmorency 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 Montmorency County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Montmorency 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.

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Board of County Road Commissioners
Montmorency County Road Commission

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Montmorency County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 item 2014-001.

Montmorency County Road Commission's Response to Findings

The Montmorency County Road Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Montmorency 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 8, 2015

Significant Deficiencies – Noncompliance with State Statutes

Expenditures in Excess of Appropriations—Budgetary Funds ***Finding 2014-001***

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 31 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:*
  Todd Behring, Manager

Significant Deficiency - Internal Control

Segregation of Duties ***Finding 2014-002***

Condition/Criteria: The Road Commission Clerk 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:*
  Todd Behring, Manager

ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of County Road Commissioners
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We have audited the financial statements of the governmental activities and major fund of the Montmorency County Road Commission (a component unit of the County of Montmorency, Michigan) for the year ended December 31, 2014, and have issued our reports thereon dated May 8, 2015. 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 15, 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 Montmorency 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 Montmorency 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(s) 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 letter about planning matters on December 15, 2014.

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 Montmorency 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 OPEB Obligations, 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 8, 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

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.

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.

Check Copies

Due to changes in bank practices, the Road Commission does not receive canceled checks. The Road Commission should contact the bank to obtain "imaged" checks to assure compliance with state retention policies and to assure proper clearing of amounts by the bank.

Employee Files

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

Invoices

It was noted during our testing of controls over disbursements that most 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.

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.

Policies

The 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 Commission adopt a policy regarding these items.

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.

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 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."

Capital Asset Listing

During our testing of capital assets, we noted that the capital asset activity listing does not agree to reported amounts for land and road and office equipment cost and accumulated depreciation. We recommend that the listing be reviewed and updated to reflect reported amounts of capital assets.

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.

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 Montmorency 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

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May 8, 2015