

**Otsego County Road Commission**

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**BASIC FINANCIAL STATEMENTS**

**December 31, 2015**

**OTSEGO COUNTY ROAD COMMISSION**

**BOARD OF COUNTY ROAD COMMISSIONERS**

Dave Matelski  
Chairman

William Holewinski  
Vice Chairman

Roberta Tholl  
Member

Tom Deans  
Engineer/Manager

Rebecca Jerry  
Board Secretary/  
Finance Director

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

Board of County Road Commissioners  
Otsego County Road Commission  
669 West McCoy Road  
Gaylord, Michigan 49734

***Report on the Financial Statements***

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

***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 Otsego 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 8, 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 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 Otsego 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 basic financial statements.

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2016 on our consideration of the Otsego 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 Otsego County Road Commission's internal control over financial reporting and compliance.



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

May 10, 2016

## **Management's Discussion and Analysis**

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### **Using This Annual Report**

The Otsego County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the Road Commission's financial activity; (c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

### **Reporting the Road Commission as a Whole**

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 of a result of the year's activities. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net position and the changes in them. The reader can think of the Road Commission's net position (the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources) 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 are one indicator of whether its financial health is improving or deteriorating.

### **Reporting the Road Commission's Major Fund**

Our analysis of the Road Commission's major fund begins on page 11. The fund financial statements begin on page 36 and provide detailed information about the major fund. The Road Commission currently has only one fund, the general operations fund, in which all of the Road Commission's activities are accounted. The general operations fund is a governmental fund type.

- 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 increased 7.5% from \$17,287,989 to \$18,588,688 for the year ended December 31, 2015. The Net Position and Change in Net Position are summarized below.

Unrestricted Net Position decreased \$3,272,582. The primary reasons were restatement for pension liabilities and infrastructure.

Net Position as of the years ended December 31, 2014 and 2015 follows:

	Governmental Activities	
	2014	2015
Current Assets	\$ 3,247,873	\$ 4,142,798
Capital Assets	<u>24,996,205</u>	<u>30,337,653</u>
Total Assets	<u>28,244,078</u>	<u>34,480,451</u>
Deferred Outflows of Resources	<u>-</u>	<u>476,174</u>
Current Liabilities	551,261	840,144
Noncurrent Liabilities	<u>9,178,431</u>	<u>14,466,927</u>
Total Liabilities	<u>9,729,692</u>	<u>15,307,071</u>
Deferred Inflows of Resources	<u>1,226,397</u>	<u>1,060,866</u>
Net Position		
Net Investment in Capital Assets	24,047,671	28,620,952
Unrestricted (Deficit)	<u>(6,759,682)</u>	<u>(10,032,264)</u>
Total Net Position	<u>\$ 17,287,989</u>	<u>\$ 18,588,688</u>

A summary of Changes in Net Position for the years ended December 31, 2014 and 2015 follows:

	Governmental Activities	
	2014	2015
Program Revenues		
Charges for Services	\$ 1,219,039	\$ 1,174,267
Grants and Contributions	6,394,224	6,150,794
Interest Earnings	3,302	8,754
General Revenues		
Gain (Loss) on Equipment Disposal	23,470	96,147
Taxes and Other	<u>155,509</u>	<u>975,450</u>
Total Revenues	<u>7,795,544</u>	<u>8,405,412</u>
Program Expenses		
Primary Roads	1,390,174	1,064,573
Local Roads	1,617,090	1,716,669
State Trunkline	1,025,521	918,587
Equipment Expense	431,735	407,439
Administrative	400,320	557,322
Depreciation	2,209,578	1,808,645
Interest Expense and Other	<u>999,656</u>	<u>194,338</u>
Total Expenses	<u>8,074,074</u>	<u>6,667,573</u>
Change in Net Position	(278,530)	1,737,839
Net Position – Beginning (as Restated)	<u>17,566,519</u>	<u>16,850,849</u>
Net Position – Ending	<u>\$ 17,287,989</u>	<u>\$ 18,588,688</u>

**The Road Commission's Fund**

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

For the year ended December 31, 2015, the fund balance of the general operations fund increased \$907,814 as compared to a decrease of \$124,607 in the fund balance for the prior year. Total revenues were \$9,169,038, an increase of \$1,613,696 as compared to last year. This change in revenues resulted primarily from taxes and financing.

Total expenditures were \$8,261,224, an increase of \$581,275. The increase is largely due to capital outlay expenditures during the year.

**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 revenue budget for 2015 was \$605,098 more than the actual receipts. This was due, in part, to the projection of federal and local contributions. The Road Commission budgets for the receipt of funds for projects on primary and local roads as earned.

Road Commission expenditures were projected at \$9,163,184 while actual expenditures were \$8,261,224. This resulted in total expenditures being under budget by \$901,960. There were several items that account for the variance in the projection of the budget.

**Capital Assets**

As of December 31, 2014 and 2015, the Road Commission had invested in capital assets as follows:

	<u>2014</u>	<u>2015</u>
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 170,157	\$ 9,263,228
Other Capital Assets		
Buildings	3,934,836	3,934,836
Road Equipment	6,049,367	6,345,386
Other Equipment and Assets	215,286	184,083
Infrastructure	<u>49,669,816</u>	<u>33,665,279</u>
Total Capital Assets at Historic Cost	60,039,462	53,392,812
Total Accumulated Depreciation	<u>(35,043,257)</u>	<u>(23,055,159)</u>
Total Net Capital Assets	<u>\$ 24,996,205</u>	<u>\$ 30,337,653</u>

Major additions included the following:

Land Improvements	<u>\$ -</u>	<u>\$ 1,006,867</u>
Various Resurfacing Projects and Bridges	<u>\$ 2,760,905</u>	<u>\$ 1,938,820</u>
Trucks/Equipment/Other	<u>\$ 222,043</u>	<u>\$ 848,430</u>

**Debt**

The Road Commission currently has long-term debt in the amount of \$14,830,935 which represents bank loans, equipment financing, pension and benefit obligations, and compensated absences. Additionally, due to provisions of applicable GASB Statements, the Commission recorded a \$8,148,256 and \$4,747,171 liability for other post employment benefits and pension, respectively.

**Economic Factors and Next Year's Budget**

The Board of County Road Commissioner's considered many factors when setting the fiscal year 2016 budget. One of the factors is the economy. The Road Commission derives approximately 60% of its revenues from the fuel tax collected. The economic changes have resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed. If a decrease in funding occurs, road projects may be reduced. Additionally, management may consider reducing labor costs through attrition and adjusting health care benefits.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Otsego County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of the County.

**Contacting the Road Commission's Financial Management**

This financial report is designed to provide the motoring 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 Otsego County Road Commission administrative offices at 669 W. McCoy Road, P.O. Box 537, Gaylord MI 49734.

## **Basic Financial Statements**

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# Otsego County Road Commission

## Statement of Net Position December 31, 2015

### ASSETS

Cash and Equivalents	\$ 1,453,310
Receivables:	
Taxes	975,757
Michigan Transportation Fund	580,995
State Trunkline Maintenance	123,508
State Transportation - Other	442,257
Sundry Accounts	5,086
Inventories:	
Road Materials	345,862
Equipment, Parts and Materials	216,023
Capital Assets (Not Depreciated)	9,263,228
Capital Assets (Net of Accumulated Depreciation)	21,074,425
Total Assets	<u>34,480,451</u>

### DEFERRED OUTFLOWS OF RESOURCES

Pension investment experience and contributions	<u>476,174</u>
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### LIABILITIES

Accounts Payable	91,337
Due to State	43,381
Accrued Liabilities	66,991
Performance Bonds Payable	10,000
Advances	255,456
Interest Payable	8,971
Notes Payable - Due within one year	329,008
Notes Payable - Due in more than one year	627,693
Bonds Payable - Due in more than one year	35,000
Bonds Payable - Due in more than one year	725,000
Vested Employee Benefits- Due in more than one year	218,807
Other Post Employment Benefits - Due in more than one year	8,148,256
Net Pension Liability - Due in more than one year	<u>4,747,171</u>
Total Liabilities	<u>15,307,071</u>

### DEFERRED INFLOWS OF RESOURCES

Other State Grants	85,109
Taxes Levied for Subsequent Period	<u>975,757</u>
Total Deferred Inflows of Resources	<u>1,060,866</u>

### NET POSITION

Net Investment in Capital Assets	28,620,952
Unrestricted (Deficit)	<u>(10,032,264)</u>
Total Net Position	<u>\$ 18,588,688</u>

# Otsego County Road Commission

## Statement of Activities For the Year Ended December 31, 2015

Program Expenses:	
Primary Road Maintenance and Preventive Maintenance	\$ 1,064,573
Local Road Maintenance and Preventive Maintenance	1,716,669
State Trunkline	918,587
Net Equipment Expense	407,439
Net Administrative Expense	557,322
Depreciation - Unallocated	1,808,645
Interest Expense	55,066
Other	139,272
	<hr/>
Total Program Expenses	6,667,573
Program Revenues:	
Charges for Services:	
Licenses and Permits	52,151
Charges for Services	1,122,116
Operating Grants and Contributions:	
State Grants	3,205,107
Interest Earnings	8,754
Capital Grants and Contributions:	
Federal Grants	1,160,648
State Grants	1,385,828
Contributions from Local Units	399,211
	<hr/>
Total Program Revenues	7,333,815
Net Program Revenues (Expenses)	<hr/> 666,242 <hr/>
General Revenues:	
Taxes - Real Property	975,450
Gain (Loss) on Disposal	96,147
	<hr/>
Total General Revenues	1,071,597
Change in Net Position	1,737,839
Net Position - Beginning Balance as Restated (See Note 11)	<hr/> 16,850,849 <hr/>
Net Position - Ending Balance	<hr/> <u>\$ 18,588,688</u> <hr/>

# Otsego County Road Commission

## Balance Sheet December 31, 2015

	Governmental Fund Type
	<u>General</u>
	<u>Operating Fund</u>
<b>ASSETS</b>	
Cash and Equivalents	\$ 1,453,310
Receivables:	
Taxes	975,757
Michigan Transportation Fund	580,995
State Trunkline Maintenance	123,508
State Transportation - Other	442,257
Sundry Accounts	5,086
Inventories:	
Road Materials	345,862
Equipment, Parts and Materials	216,023
Total Assets	<u>\$ 4,142,798</u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 91,337
Due to State	43,381
Accrued Liabilities	66,991
Performance Bonds	10,000
Advances	255,456
Total Liabilities	<u>467,165</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Other State Grants	373,515
Taxes Levied for Subsequent Period	975,757
Total Deferred Inflows of Resources	<u>1,349,272</u>
<b>FUND BALANCE</b>	
Nonspendable	561,885
Unassigned	1,764,476
Total Fund Balance	<u>\$ 2,326,361</u>



## Otsego County Road Commission

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

<b>Total Governmental Fund Balance</b>	\$ 2,326,361
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.	30,337,653
Net pension liability requirement.	(4,747,171)
Other Postemployment benefits liability.	(8,148,256)
Deferred outflows resulting from pension assumptions and contributions.	476,174
Deferred inflows resulting from other state grants under full accrual.	288,406
Other liabilities are not available to pay in the current period and therefore are not reported in the funds.	<u>(1,944,479)</u>
<b>Net Position of Governmental Activities</b>	<u><u>\$ 18,588,688</u></u>

# Otsego County Road Commission

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

	Governmental Fund Type
	General Operating Fund
Revenues	
Property Taxes	\$ 975,450
License and Permits	52,151
Federal Sources	1,160,648
State Sources	4,542,733
Contributions form Local Units	399,211
Charges for Services	1,026,971
Interest Earnings and Rent	8,754
Other Revenue	191,292
Other Financing Sources	811,828
Total Revenues	<u>9,169,038</u>
Expenditures	
Public Works	7,610,277
Capital Outlay	405,810
Debt Service	245,137
Total Expenditures	<u>8,261,224</u>
Excess of Revenues Over (Under) Expenditures	907,814
Fund Balance - Beginning of Year	<u>1,418,547</u>
<b>Fund Balance - End of Year</b>	<u><u>\$ 2,326,361</u></u>

## Otsego County Road Commission

### 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** \$ 907,814

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 1,542,852

Increase in state revenue related to local agency payments which is not considered available under modified accrual. 48,202

Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net position. Note proceeds provide current financial resources to governmental funds, but entering into loan agreements increases long-term liabilities in the statement of net position. (612,786)

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. (148,243)

**Net Change in Net Position of Governmental Activities** \$ 1,737,839

## **Notes to Financial Statements**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Otsego 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 Otsego County Road Commission.

**A. Reporting Entity**

The Otsego County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is operated under and elected board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. A different Road Commissioner is elected biannually to serve a six year term.

The criteria established by the Governmental Accounting Standards Board 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 Otsego County Road Commission, a discretely presented component unit of Otsego 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 Otsego 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, deferred outflows of resources, liabilities and deferred inflows of resources 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. Major individual governmental funds are reported as separate columns in the fund financial statements. The operating fund is the only major fund of the Commission.

**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.

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 compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government. Under the terms of grant agreements, the 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 Commission's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

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

Cash, Equivalents and Investments

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

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. The 2015 taxable valuation of \$1,137,047,405 for Road Millage amounted to \$1,137,047 less \$161,290 for cities and villages, (on which ad valorem taxes of 1.0000 mills were levied) for road construction purposes resulted in a net total of \$975,757.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 2015 ad valorem tax is levied and collectible December 1, 2015, 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 tax receivable 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 Otsego County Road Commission as assets with an initial individual cost of more than \$1,000 and/or 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.

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
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineers’ Equipment	3 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years
Depletable Assets	10 to 50 years

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. The Road Commission has property taxes and other state grants that qualify for reporting in this category.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

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.

Vested Employee Benefits (Vacation and Sick Leave)

Substantially all employees of the Road Commission can accumulate vacation hours based on years of service from 40 hours to 200 hours of paid time off. Sick leave is paid up to 600 hours upon retirement or upon death. Sick leave is earned at 8 hours per month for union employees. Vacation leave and sick leave amounted to \$60,147 and \$158,660 respectively.

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, and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Fund Balance Classification

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

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Road Commission has classified inventories 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 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 2 of 1968, as amended, 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. Any violations of the Act are indicated on page 35.

**NOTE 3 - CASH AND EQUIVALENTS**

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker’s acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

**NOTE 3 - CASH AND EQUIVALENTS (Continued)**

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

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>	<u>Fair Value</u>	<u>S&amp;P Rating</u>
Petty Cash	\$ 200	\$ -	\$ -	-
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	912,881	1,024,595	-	-
Investments – U.S. Government Agencies	<u>540,229</u>	-	505,110	AA+
Total Cash and Equivalents	<u>\$ 1,453,310</u>			

*Interest rate risk.* The Road Commission does 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 an investment policy that could 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, \$524,595 of the Road Commission’s bank balance of \$1,024,595 was exposed to credit risk because it was uninsured and uncollateralized.

*Custodial investment credit risk.* Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Commission invests with the County of Otsego and would receive its proportional share of holdings.

**NOTE 4 - CAPITAL ASSETS**

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

	<u>Beginning Balances 01/01/15</u>	<u>Additions</u>	<u>Adjustments/ Deductions</u>	<u>Ending Balances 12/31/15</u>
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 125,501	\$ -	\$ -	\$ 125,501
Land Improvements – Infrastructure	<u>44,656</u>	<u>1,006,867</u>	<u>(8,086,204)</u>	<u>9,137,727</u>
Subtotal	<u>170,157</u>	<u>1,006,867</u>	<u>(8,086,204)</u>	<u>9,263,228</u>

**NOTE 4 - CAPITAL ASSETS (Continued)**

	Beginning Balances 01/01/15	Additions	Adjustments/ Deductions	Ending Balances 12/31/15
<i>Capital Assets Being Depreciated</i>				
Buildings	3,934,836	-	-	3,934,836
Road Equipment	6,049,367	829,035	533,016	6,345,386
Shop Equipment	101,193	8,572	1,082	108,683
Office Equipment	49,215	10,823	-	60,038
Engineers' Equipment	13,562	-	-	13,562
Yard and Storage Equipment	1,800	-	-	1,800
Depletable Assets	4,760	-	4,760	-
Traffic Signals	44,756	4,801	-	49,557
Infrastructure – Bridges	1,780,315	-	668,014	1,112,301
Infrastructure – Roads	<u>47,889,501</u>	<u>1,934,019</u>	<u>17,320,099</u>	<u>32,503,421</u>
Subtotal	<u>59,869,305</u>	<u>2,787,250</u>	<u>18,526,971</u>	<u>44,129,584</u>
<i>Less Accumulated Depreciation</i>				
Buildings	1,636,779	87,495	-	1,724,274
Road Equipment	5,382,720	343,510	280,298	5,445,932
Shop Equipment	92,131	3,411	1,082	94,460
Office Equipment	42,469	7,083	-	49,552
Engineers' Equipment	12,320	468	-	12,788
Yard and Storage Equipment	1,800	-	-	1,800
Traffic Signals	37,997	2,904	359	40,542
Infrastructure – Bridges	695,022	14,043	461,635	247,430
Infrastructure – Roads	<u>27,142,019</u>	<u>1,791,698</u>	<u>13,495,336</u>	<u>15,438,381</u>
Subtotal	<u>35,043,257</u>	<u>2,250,612</u>	<u>14,238,710</u>	<u>23,055,159</u>
Net Capital Assets Being Depreciated	<u>24,826,048</u>	<u>536,638</u>	<u>4,288,261</u>	<u>21,074,425</u>
Total Net Capital Assets	<u>\$ 24,996,205</u>	<u>\$ 1,543,505</u>	<u>\$ 3,797,943</u>	<u>\$ 30,337,653</u>

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

Infrastructure - unallocated	\$ 1,808,645
Equipment Expense	343,510
Administrative	7,549
Other Allocated	<u>90,908</u>
Total Depreciation Expense	<u>\$ 2,250,612</u>

**NOTE 5 - EMPLOYEE RETIREMENT AND BENEFITS 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](http://www.mersofmich.com).

<b>01 – General: Closed Division</b>	
	<b><u>2014 Valuation</u></b>
<b>Benefit Multiplier:</b>	2.50% Multiplier (80% max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	55/25
<b>Early Retirement (Reduced):</b>	50/25
	55/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions</b>	1.5%
<b>Act 88:</b>	Yes (Adopted 11/23/1970)
<b>02 – General: Open Division</b>	
	<b><u>2014 Valuation</u></b>
<b>Benefit Multiplier:</b>	2.00% Multiplier (no max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	-
<b>Early Retirement (Reduced):</b>	50/25
	55/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions</b>	1.50%
<b>Act 88:</b>	Yes (Adopted 11/23/1970)

**NOTE 5 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

<b>NonUnion: Open Division</b>	
	<b>2014 Valuation</b>
<b>Benefit Multiplier:</b>	2.50% Multiplier (no max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	55/25
<b>Early Retirement (Reduced):</b>	50/25
	55/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions</b>	1.50%
<b>Act 88:</b>	Yes (Adopted 11/23/1970)

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	48
Inactive employees entitled to but not yet receiving benefits	4
Active employees	31
	83

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 blended rate for 2015 of 26.69% of payroll.

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.)

**NOTE 5 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

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:

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 will 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:**

	<b>Increases (Decreases)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
<b>Balances at December 31, 2014</b>	\$ 10,431,989	\$ 6,196,251	\$ 4,235,738
Service cost	137,944	-	137,944
Interest on total pension liability	835,847	-	835,847
Changes in benefits	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions	-	-	-
Employer contributions	-	498,792	(498,792)
Employee contributions	-	77,134	(77,134)
Net investment income	-	(91,306)	91,306
Benefit payments, including employee refunds	(738,956)	(738,956)	-
Administrative expense	-	(13,449)	13,449
Other changes	8,813	-	8,813
<b>Net changes</b>	<b>243,648</b>	<b>(267,785)</b>	<b>511,433</b>
<b>Balances as of December 31, 2015</b>	<b>\$ 10,675,637</b>	<b>\$ 5,928,466</b>	<b>\$ 4,747,171</b>

**NOTE 5 - 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:

	<b>1% Decrease (7.25%)</b>	<b>Current Discount Rate (8.25%)</b>	<b>1% Increase (9.25%)</b>
Road Commission’s net pension liability	\$5,857,983	\$4,747,171	\$3,793,577

*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 \$534,051. At December 31, 2015, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	476,174	-
<b>Total</b>	<b>\$ 476,174</b>	<b>\$ -</b>

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

<u>Year Ended December 31:</u>	
2016	\$ 119,043
2017	119,043
2018	119,044
2019	119,044

**NOTE 5 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)**

Annual Pension Cost

During the year ended December 31, 2015, the Road Commission’s contributions totaling \$376,152 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2013. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member’s retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases. The unfunded actuarial liability is amortized as a level percent of payroll on a closed basis. The remaining amortization period is 25 years.

**NOTE 6 - FEDERAL GRANTS**

The Michigan Department of Transportation (MDOT) requires that all Road Commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2015, the federal aid received and expended by the Road Commission was \$1,160,648 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT’s single audit). Local administered projects are projects where the Road Commissions perform the work and would be subject to single audit requirements if they expended \$750,000 or more. Local projects amounted to \$0.

**NOTE 7 - STATE EQUIPMENT PURCHASE ADVANCE**

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

**NOTE 8 - LONG-TERM DEBT**

The long-term debt of the Road Commission is summarized as follows:

	<u>Balance 01/01/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/15</u>	<u>Due Within One Year</u>
Otsego County Building Authority Bonds Payable – 2011 Series, payable general obligation, serial maturity, 3.25% to 5.00% interest, due June 2031.	\$ 795,000	\$ -	\$ 35,000	\$ 760,000	\$ 35,000
Installment payable secured by trucks, payable in annual principal installments of \$69,578 plus interest of 2.20%, due 2016.	139,156	-	69,578	69,578	69,578
Installment payable secured by equipment, payable in annual installments of \$87,691 including interest of 2.20%, due 2016.	169,759	-	83,956	85,803	85,803



**NOTE 8 - LONG-TERM DEBT (Continued)**

	<u>Balance 01/01/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/15</u>	<u>Due Within One Year</u>
Installment payable secured by equipment, payable in monthly installments of \$80,455 including interest of 1.59%, due 2018.	-	245,000	-	245,000	80,382
Installment payable secured by equipment, payable in monthly installments of \$1,748 including interest of 2.19%, due 2020.	-	242,180	10,013	232,167	16,052
Installment payable secured by equipment, payable in monthly installments of \$80,455 including interest of 1.59%, due 2018.	-	235,280	-	235,280	77,193
Installment payable secured by equipment, payable in monthly installments of \$113 including interest of 2.69%, due 2020.	-	89,368	495	88,873	-
Subtotal	1,103,915	811,828	199,042	1,716,701	<u>\$ 364,008</u>
Vested Employee Benefits (1)	<u>124,319</u>	<u>94,488</u>	-	<u>218,807</u>	
TOTAL LONG-TERM DEBT	<u>\$ 1,228,234</u>	<u>\$ 906,316</u>	<u>\$ 199,042</u>	<u>\$ 1,935,508</u>	

(1) Net increase.

<u>Year End December 31</u>	<u>Bonds Payable</u>		<u>Installments Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 35,000	\$ 32,938	\$ 329,008	\$ 16,230
2017	35,000	31,713	176,487	12,167
2018	35,000	30,488	179,395	9,286
2019	40,000	29,175	17,141	6,355
2020	40,000	27,775	254,670	1,849
2021-2025	225,000	112,313	-	-
2026-2030	285,000	53,500	-	-
2031	<u>65,000</u>	<u>1,625</u>	-	-
Total	<u>\$ 760,000</u>	<u>\$ 319,527</u>	<u>\$ 956,701</u>	<u>\$ 45,887</u>

**NOTE 9 - OTHER POST EMPLOYMENT BENEFITS**

The Otsego County Road Commission provides hospitalization and medical coverage for eligible retirees and their spouses through the Road Commission’s group health insurance plan, which covers both active and retired members. The following are the Governmental Accounting Standards Board Statement #45 required disclosures which have been implemented prospectively by the Road Commission.

- Employees hired prior to December 31, 2008, and retire with 20 years of employment and age 55 years, or greater, will receive health insurance comparable to that provided to the current employees until age 65 years and supplemental health insurance for the employee and spouse for their lifetimes.

The plan does not issue a separate stand-alone financial statement.

*Annual OPEB Cost and Net OPEB Obligation.* The Road Commission’s annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The Road Commission has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The Road Commission has no obligation to make contributions in advance of when the premiums are due for payment (i.e., may be financed on a “pay-as-you-go” basis). The only current contributions made are to pay the actual current premiums of the retirees. That amount was less than the annual required contribution and is reflected in the schedule that follows. Administrative costs of the plan are paid for by the Road Commission.

*Funding Progress.* For the year ended December 31, 2015, the Road Commission has determined an estimated cost of providing post employment benefits through the alternative measurement method of calculation as of December 31, 2015. The calculation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed 30 years.

The Road Commission’s computed contribution and actual funding is summarized as follows:

Annual required contribution/Annual OPEB cost (ARC)	\$ 307,622
Interest on net OPEB obligation	325,549
Adjustments to ARC	<u>(314,020)</u>
Annual OPEB cost (expense)	319,151
Contributions made	<u>(309,626)</u>
Increase in net OPEB obligation	9,525
Net OPEB obligation – beginning of year	<u>8,138,731</u>
Net OPEB obligation – end of year	<u><u>\$ 8,148,256</u></u>

The Road Commission’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2013, 2014 and 2015 are as follows:

**NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (Continued)**

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$ 1,588,361	21.68%	\$ 7,231,810
2014	1,221,411	25.75%	8,138,731
2015	319,151	97.02%	8,148,256

Information related to funding progress with multi-year trend information indicating whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits is not presented since there currently are no plan assets.

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.

Assumptions About Employees and Members: Based on historical average retirement age of the covered group, active plan members were assumed to retire at various ages between 55 and 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 in the 1994 Group Annuity Mortality Table. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using specific age-based turnover data.

Assumptions About Healthcare Costs: The 2014 health insurance premiums for retirees were used to calculate the present value of total benefits to be paid. The expected rate of increase in health insurance premiums were based on the 2013 version of the National Health Expenditures (NHE) released in 2014, Centers for Medicare & Medicaid Services, Office of the Actuary.

Other Assumptions and Methods: The inflation rate was assumed to be 4.0%. Based on the historical and expected returns of the Commission's investments, the investment rate of return was assumed to be 4%. The value of 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 10 - 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.

**NOTE 10 - COMMITMENTS AND CONTINGENCIES (Continued)**

Risk Management – The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 (\$2,000 for errors and omissions) for each insured event. The maximum limit of liability for each occurrence is \$10,500,000.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

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.

There are nonaccident liability and condemnation lawsuits sometimes are 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 11 - RESTATEMENT**

	<u>Governmental Activities</u>
Beginning net position as previously reported at January 1, 2015	\$ 17,287,989
Restatement of beginning net position – implementation of GASB 68: Net pension liability (measurement date)	(4,235,738)
Restatement of beginning net position for the correction of capitalized- nondepreciable Land Improvements of infrastructure	<u>3,798,598</u>
Beginning net position as restated, January 1, 2015	<u>\$ 16,850,849</u>

**NOTE 12 - SUBSEQUENT EVENTS**

After fiscal year end, the Road Commission executed and authorized purchase orders for three single axle trucks for approximately \$547,000 and equipment purchases amounting to approximately \$26,000.

## **Required Supplementary Information**

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

	2015
<b>Total pension liability</b>	
Service cost	\$ 137,944
Interest	835,847
Other changes	8,813
Benefit payments, including refund of member contributions	(738,956)
<b>Net change in total pension liability</b>	243,648
<b>Total pension liability - beginning</b>	10,431,989
<b>Total pension liability - ending</b>	\$ 10,675,637
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 498,792
Contributions - employee	77,134
Net investment income	(91,306)
Benefit payments, including refunds of member contributions	(738,956)
Administrative expense	(13,449)
<b>Net change in plan fiduciary net position</b>	(267,785)
<b>Plan fiduciary net position - beginning</b>	6,196,251
<b>Plan fiduciary net position - ending</b>	\$ 5,928,466
<b>Net pension liability - ending</b>	\$ 4,747,171
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	56%
<b>Covered - employee payroll</b>	\$ 1,409,673
<b>Net pension liability as a percentage of covered-employee payroll</b>	337%
<b>Annual money-weighted rate of return, net of investment expense</b>	6%

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

	2015
Actuarially determined contribution	\$ 376,152
Contributions in relation to the actuarially determined contribution	(537,850)
Contribution deficiency (excess)	\$ (161,698)
Covered - employee payroll	\$ 1,399,784
Contributions as a percentage of covered-employee payroll	38%

**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:**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percent of Covered Payroll ((b - a) / c)</u>
2008	\$	- \$ 13,237,628	\$ 13,237,628	0.0%	\$ 1,593,543	830%
2011	\$	- \$ 13,009,780	\$ 13,009,780	0.0%	\$ 1,397,173	931%
2014	\$	- \$ 9,281,304	\$ 9,281,304	0.0%	\$ 1,526,387	608%
2015	\$	- \$ 6,088,899	\$ 6,088,899	0.0%	\$ 1,103,398	552%



# Otsego County Road Commission

## 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)
Taxes	\$ 970,000	\$ 980,000	\$ 975,450	\$ (4,550)
Licenses and Permits	40,000	56,000	52,151	(3,849)
Federal Sources				
Surface Transportation Program	1,168,840	1,582,524	1,160,648	(421,876)
State Sources				
Michigan Transportation Fund				
Engineering	-	10,000	10,000	-
Allocation	3,800,517	3,500,000	3,338,731	(161,269)
Snow Removal	-	230,000	229,195	(805)
Urban Road	-	250,000	347,472	97,472
Forest Road	85,109	171,000	85,109	(85,891)
Other	240,000	390,000	532,226	142,226
Contributions from Local Units				
Townships	743,112	743,112	399,211	(343,901)
Charges for Services				
Trunkline Maintenance	1,334,097	1,000,000	918,423	(81,577)
Trunkline Nonmaintenance	-	8,000	7,108	(892)
Salvage Sales	-	6,000	3,498	(2,502)
Other	36,823	85,000	97,942	12,942
Interest Earnings and Rent	2,110	7,300	8,754	1,454
Other Revenue				
Gain (Loss) on Disposal	-	97,000	96,147	(853)
Private Contributions and Other	63,532	82,200	95,145	12,945
Other Financing Sources	-	576,000	811,828	235,828
Total Revenues	<u>\$ 8,484,140</u>	<u>\$ 9,774,136</u>	<u>\$ 9,169,038</u>	<u>\$ (605,098)</u>

# Otsego County Road Commission

**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 - Structural Improvements	\$ 1,508,232	\$ 2,478,232	\$ 2,333,012	\$ 145,220
Maintenance	1,135,243	1,135,243	1,064,573	70,670
Local Road				
Preservation - Structural Improvements	900,000	888,000	612,675	275,325
Maintenance	1,497,416	1,790,000	1,716,669	73,331
Trunkline Maintenance	1,334,097	1,334,097	911,479	422,618
Trunkline Nonmaintenance	-	7,000	7,108	(108)
Administrative Expense - Net	540,000	540,000	557,322	(17,322)
Equipment Expense - Net	286,482	600,000	407,439	192,561
Capital Outlay - Net	40,000	145,700	405,810	(260,110)
Debt Service				
Principal	192,268	200,000	199,042	958
Interest	44,912	44,912	46,095	(1,183)
Other	1,005,490	-	-	-
Total Expenditures	8,484,140	9,163,184	<u>\$ 8,261,224</u>	<u>\$ 901,960</u>
Fund Balance - January 1, 2015	1,418,547	1,418,547		
Total Budget	<u>\$ 9,902,687</u>	<u>\$ 10,581,731</u>		

## **Other Information**

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# Otsego County Road Commission

## 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	\$ 3,953,239	\$ 1,617,127	\$ 3,598,672	\$ 9,169,038
Total Expenditures	3,825,561	2,752,273	1,683,390	8,261,224
Excess of Revenues Over (Under) Expenditures	127,678	(1,135,146)	1,915,282	907,814
Optional Transfers and Adjustments	(127,678)	1,135,146	(1,007,468)	-
Fund Balance - January 1, 2015	-	-	1,418,547	1,418,547
Fund Balance - December 31, 2015	\$ -	\$ -	\$ 2,326,361	\$ 2,326,361

# Otsego County Road Commission

## Analysis of Revenues For the Year Ended December 31, 2015

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes	\$ -	\$ -	\$ 975,450	\$ 975,450
Licenses and Permits	-	-	52,151	52,151
Federal Sources				
Surface Transportation Program	1,160,648	-	-	1,160,648
State Sources				
Michigan Transportation Fund				
Engineering	6,212	3,788	-	10,000
Allocation	2,074,051	1,264,680	-	3,338,731
Snow Removal	-	229,195	-	229,195
Urban Road	228,008	119,464	-	347,472
Forest Road	85,109	-	-	85,109
Other	-	-	532,226	532,226
Contributions from Local Units				
Townships	399,211	-	-	399,211
Charges for Services				
Trunkline Maintenance	-	-	918,423	918,423
Trunkline Nonmaintenance	-	-	7,108	7,108
Salvage Sales	-	-	3,498	3,498
Other	-	-	97,942	97,942
Interest and Rents				
Interest Earnings	-	-	4,854	4,854
Property Rentals	-	-	3,900	3,900
Other Revenue				
Gain on Equipment Disposals	-	-	96,147	96,147
Other	-	-	95,145	95,145
Other Financing Sources				
Installment Purchases	-	-	811,828	811,828
Total Revenues	<u>\$ 3,953,239</u>	<u>\$ 1,617,127</u>	<u>\$ 3,598,672</u>	<u>\$ 9,169,038</u>

# Otsego County Road Commission

## Analysis of Expenditures For the Year Ended December 31, 2015

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation - Structural Improvements	\$ 2,333,012	\$ -	\$ -	\$ 2,333,012
Maintenance	1,064,573	-	-	1,064,573
Local Road				
Preservation - Structural Improvements	-	612,675	-	612,675
Maintenance	-	1,716,669	-	1,716,669
Trunkline Maintenance	-	-	911,479	911,479
Trunkline Nonmaintenance	-	-	7,108	7,108
Administrative Expense - Net	330,639	226,683	-	557,322
Equipment Expense - Net	97,337	196,246	113,856	407,439
Capital Outlay - Net	-	-	405,810	405,810
Debt Service				
Debt Principal Payments	-	-	199,042	199,042
Interest Expense	-	-	46,095	46,095
Total Expenditures	<u>\$ 3,825,561</u>	<u>\$ 2,752,273</u>	<u>\$ 1,683,390</u>	<u>\$ 8,261,224</u>

# **Report on Compliance**

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**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  
Otsego County Road Commission  
669 West McCoy Road  
Gaylord, Michigan 49734

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 Otsego County Road Commission (a component unit of Otsego County, Michigan), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Otsego County Road Commission's basic financial statements and have issued our report thereon dated May 10, 2016.

**Internal Control over Financial Reporting**

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



**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Otsego 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 instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and responses as items 2015-003 and 2015-004.

**Otsego County Road Commission’s Response to Findings**

The Otsego County Road Commission’s responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Otsego 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 & Company, PLC**  
**Certified Public Accountants**  
**Kincheloe, Michigan**

May 10, 2016

***Significant Deficiency - Internal Control***

***Preparation of the Financial Statements in Accordance  
with Generally Accepted Accounting Principles***

***Finding 2015-001***

*Specific Requirement:* Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 115 requires management to prepare annual audit statements in accordance with GASB Statement Number 34. (Audit report format)

*Criteria:* Internal controls should be in place to provide reasonable assurance to the Commission that management reports financial statements (with GASB Statement number 34 formats) necessary to monitor and report annual financial activity without auditor intervention.

*Condition:* Auditor modifies financial statements and footnotes to comply with governmental generally accepted accounting principles.

*Effect:* The effect of this condition places a reliance on the independent auditor as part of the Commission's internal controls over financial reporting.

*Cause:* Change in application of auditing standard.

*Recommendation:* The Commission should consider subcontracting financial statement preparation activities to monitor and report annual financial activity in accordance with GASB Statement Number 34 or train staff to accomplish this element.

*Planned Corrective Action:* In the past, the Board has relied on the auditors for this type of reporting for cost effectiveness. Due to limited resources, management does not wish to allocate additional funds to change this process. Management reviews adjustments for accuracy upon completion and reconciles discrepancies and other disclosures.

- Contact Person(s) Responsible for Correction:  
Tom Deans, Manager

*Significant Deficiency - Internal Control*

*Segregation of Duties*

*Finding 2015-002*

*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:  
Tom Deans, Manager

*Significant Deficiencies – Noncompliance with State Statutes*

**Expenditures in Excess of Appropriations—Budgetary Funds**

***Finding 2015-003***

*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 may violate State Law.

*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:  
Tom Deans, Manager

*Significant Deficiencies – Noncompliance with State Statutes*

**Procurement Procedures**

***Finding 2015-004***

*Criteria:* The State of Michigan, Uniform Accounting Procedures Manual for County Road Commissions and Act 51, Public Acts of 1951, as amended require road commissions to obtain bids for purchases over \$15,000.

*Condition:* The Road Commission purchased two items under certain installment agreements which were not bid in accordance provisions of the state statute, nor were the bids advertised or submitted in a sealed envelope.

*Effect:* The Road Commission could have selected a more cost effective or efficient equipment item if it had bid these purchases and would have not violated specific provisions of the law.

*Cause:* Unknown.

*Recommendation:* Future equipment purchases, whether or not under an installment agreement, should be bid and documented according to provisions of the Act and accounting manual. This would assure compliance with state regulations and laws.

*Planned Corrective Action:* Future purchases will follow the required bidding procedures stated.

- Contact Person(s) Responsible for Correction:  
Tom Deans, Manager