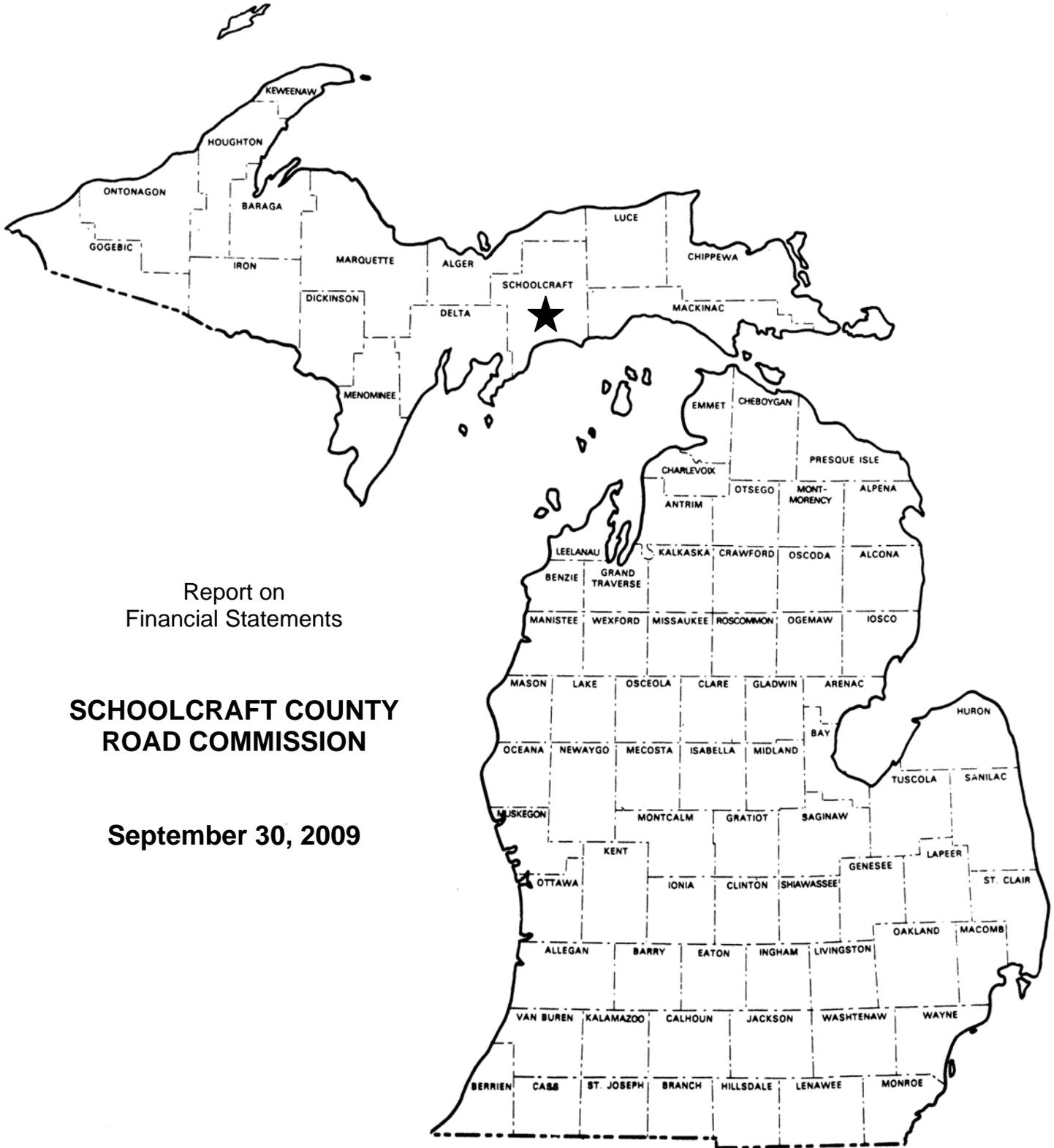


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY
Robert J. Kleine, Treasurer



Report on
Financial Statements

**SCHOOLCRAFT COUNTY
ROAD COMMISSION**

September 30, 2009

SCHOOLCRAFT COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

Thomas J. Klarich
Chairperson

Bernard J. Lund
Vice Chairperson

Gregory L. Hase
Member

Craig Kelso
Engineer / Manager

Lisa Kleeman
Finance Director

COUNTY POPULATION--2000
8,903

STATE EQUALIZED VALUATION--2009
\$481,318,032



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

February 18, 2010

Board of County Road Commissioners
Schoolcraft County Road Commission
P.O. Box 160
Manistique, Michigan 49854

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying financial statements of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, Michigan, as of and for the fiscal year ended September 30, 2009 as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission, as of September 30, 2009 and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 18, 2010, on our consideration of the Road Commission's internal control over financial reporting and 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 and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 8 and the budgetary comparison information in Exhibits G and H are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Road Commission's basic financial statements. The accompanying supplementary and related information in Exhibits I through K is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

SCHOOLCRAFT COUNTY ROAD COMMISSION

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SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2009

Using this Annual Report

The 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.

Overview of the Financial Statements

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

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the 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 assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2009

Reporting the Road Commission's Major Fund

The fund financial statements begin with Exhibit C and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operating Fund, in which all of the Road Commission's activities are accounted. The General Operating Fund is a governmental fund type.

- Governmental Fund--The governmental fund focuses 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 Assets 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 assets increased approximately 5.5% or \$411,052 from \$7,442,247 to \$7,853,299 for the fiscal year ended September 30, 2009. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$166,695. The primary reason for the increase in net assets was the significant increase in cash and investments, with revenues and expenditures remaining fairly consistent. The investment in capital assets-net of related debt increased by \$244,357. This was primarily due to the additions of \$1,139,853 being more than the depreciation of \$679,064, and an overall increase in debt related to capital assets of \$307,182, due to a new installment loan for trucks purchased in 2009.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2009

Net assets as of the year ended September 30, 2009, compared to the prior year are as follows:

	<u>Governmental Activities 09/30/08</u>	<u>Governmental Activities 09/30/09</u>	<u>Variance Increase (Decrease)</u>	<u>Percentage</u>
Assets				
Current and Other Assets	\$ 1,978,749	\$ 2,109,349	\$ 130,600	6.60%
Net Capital Assets	<u>8,096,290</u>	<u>8,557,079</u>	<u>460,789</u>	<u>5.69%</u>
Total Assets	<u>10,075,039</u>	<u>10,666,428</u>	<u>591,389</u>	<u>5.87%</u>
Liabilities				
Current Liabilities	682,883	334,688	(348,195)	-50.99%
Long-Term Liabilities	<u>1,949,909</u>	<u>2,478,441</u>	<u>528,532</u>	<u>27.11%</u>
Total Liabilities	<u>2,632,792</u>	<u>2,813,129</u>	<u>180,337</u>	<u>6.85%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	6,258,290	6,502,647	244,357	3.90%
Restricted	<u>1,183,957</u>	<u>1,350,652</u>	<u>166,695</u>	<u>14.08%</u>
Total Net Assets	<u>\$ 7,442,247</u>	<u>\$ 7,853,299</u>	<u>\$ 411,052</u>	<u>5.52%</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2009

Changes in Net Assets

A summary of changes in net assets for the fiscal year ended September 30, 2009, compared to the prior year follows:

	Governmental Activities 2008	Governmental Activities 2009	Increase (Decrease)	Percentage
Program Revenue				
Licenses and Permits	\$ 5,065	\$ 4,045	\$ (1,020)	-20.14%
Federal Grants		435,107	435,107	100.00%
State Grants	2,253,542	2,009,447	(244,095)	-10.83%
Contributions From Local Units	315,262	21,269	(293,993)	-93.25%
Charges for Services	1,451,885	1,533,405	81,520	5.61%
Investment Earnings	37,834	30,091	(7,743)	-20.47%
General Revenue				
Gain on Equipment Disposal	(1,484)	47,250	48,734	-3283.96%
Other	33,531		(33,531)	-100.00%
Total Revenue	4,095,635	4,080,614	(15,021)	-0.37%
Expenses				
Primary Road Maintenance	987,315	906,716	(80,599)	-8.16%
Local Road Maintenance	557,638	519,320	(38,318)	-6.87%
State Trunkline Maintenance	1,183,196	1,339,234	156,038	13.19%
Private Driveway Snow Plowing	25,096	31,155	6,059	24.14%
Net Equipment Expense	309,970	42,650	(267,320)	-86.24%
Net Administrative Expense	202,701	302,425	99,724	49.20%
Net Capital Outlay	(51,118)		51,118	-100.00%
Non-Road Project	43,337	3,372	(39,965)	-92.22%
Infrastructure Depreciation	383,895	447,161	63,266	16.48%
Compensated Absenses	17,439	(6,401)	(23,840)	-136.71%
Interest Expense	78,994	83,930	4,936	6.25%
Total Expenses	3,738,463	3,669,562	(68,901)	-1.84%
Change in Net Assets	\$ 357,172	\$ 411,052	\$ 53,880	15.09%
Ending Net Assets	\$ 7,442,247	\$ 7,853,299	\$ 411,052	5.52%

The total revenue decreased by .37% from \$4,095,635 in 2008 to \$4,080,614 in 2009. The most significant variances were increased in Federal grants offset by decreases in State grants and local contributions.

The total expenditures decreased by 1.84% from \$3,738,463 in 2008 to \$3,669,562 in 2009. The most significant decrease in expenses during 2009 was related to Net Equipment Expenses due to an increase in Equipment Rental Credits.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2009

We feel that Road Commission revenue and expenditures will always vary from year to year depending on many factors, such as level of State/Federal funding for capitalization projects, level of local contributions for both maintenance and preservation, weather conditions that may require more or less maintenance, and State Trunkline maintenance and nonmaintenance expenses and revenue which vary from year to year.

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 fiscal year ended September 30, 2009, the fund balance of the General Operations Fund increased by \$160,294 as compared to a decrease of \$185,514 in the fund balance for the year ended September 30, 2008. Total revenues were \$4,080,614, a decrease of \$21,014 as compared to last year. This change was due in part to a decrease in State aid funds and Contributions from Local Units offset by an increase in Federal Aid Funds.

Total expenditures were \$4,239,885, a decrease of \$195,257 compared to last year. This change in expenditures is primarily due to a decrease in Net Equipment Expenses.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2009

	<u>2008</u>	<u>2009</u>	<u>Variance</u>	<u>Percent</u>
Revenues				
Licenses and Permits	\$ 5,065	\$ 4,045	\$ (1,020)	-20.14%
Federal Grants		435,107	435,107	100.00%
State Grants	2,253,542	2,009,447	(244,095)	-10.83%
Contributions From Local Units	315,262	21,269	(293,993)	-93.25%
Charges for Services	1,451,885	1,528,389	76,504	5.27%
Interest and Rents	37,834	30,091	(7,743)	-20.47%
Other Revenue	38,040	52,266	14,226	37.40%
Total Revenues	<u>4,101,628</u>	<u>4,080,614</u>	<u>(21,014)</u>	<u>-0.51%</u>
Expenditures				
Public Works	4,043,778	3,883,144	(160,634)	-3.97%
Capital Outlay	146,882	169,678	22,796	15.52%
Debt Service	244,482	187,063	(57,419)	-23.49%
Total Expenditures	<u>4,435,142</u>	<u>4,239,885</u>	<u>(195,257)</u>	<u>-4.40%</u>
Excess of Expenditures Over Revenues	(333,514)	(159,271)	174,243	52.24%
Other Financing Sources				
Proceed From Lease Purchase		319,565	319,565	100.00%
Proceeds From Land Installment Purchase	148,000		(148,000)	-100.00%
Total Other Financing Sources	<u>148,000</u>	<u>319,565</u>	<u>171,565</u>	<u>216.00%</u>
Excess of Revenues and Other Financing Sources Over Expenditures	(185,514)	160,294	345,808	186.41%
Fund Balance--Beginning	<u>1,639,683</u>	<u>1,454,169</u>	<u>(185,514)</u>	<u>-11.31%</u>
Fund Balance--Ending	<u>\$ 1,454,169</u>	<u>\$ 1,614,463</u>	<u>\$ 160,294</u>	<u>11.02%</u>

Budgetary Highlights

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

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2009

The final revenue budget for 2009 was lower than the original budget by \$1,136,019. This was due, in part, to less borrowings than originally anticipated and less Federal aid. The actual revenue recognized during the current year was higher than the final amended budget by \$149,680, mainly due to utilizing more Forest Road Funds than anticipated.

The final amended expenditure budget for the current year was \$1,434,641 lower than the original budget, primarily due to less preservation / structural improvements on primary roads and less capital outlay than anticipated. The actual expenditures recognized during the current year were \$86,621 lower than the final amended budget. This was primarily due to less capital outlay expenditures.

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2009 the Road Commission had \$8,557,079 invested in capital assets as follows:

Capital Assets Not Being Depreciated	
Land	\$ 244,065
Land and Improvements	<u>1,272,270</u>
Subtotal	<u>1,516,335</u>
Other Capital Assets	
Land Improvements	50,519
Buildings and Improvements	3,513,712
Road Equipment	4,273,251
Shop Equipment	150,876
Office Equipment	36,652
Engineers' Equipment	16,865
Depletable Assets	69,508
Infrastructure--Bridges	33,678
Infrastructure--Roads	<u>5,860,803</u>
Subtotal	<u>14,005,864</u>
Total Capital Assets at Historic Cost	15,522,199
Total Accumulated Depreciation	<u>(6,965,120)</u>
Total Net Capital Assets	<u>\$ 8,557,079</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended September 30, 2009

Current year's major additions included the following:

Building Improvements	\$ 39,193
Local Road Construction	738,272
Equipment	<u>362,388</u>
Total Additions	<u>\$ 1,139,853</u>

Debt

The Road Commission currently has a debt of \$2,318,243 for the fiscal year ending September 30, 2009. Bonds on the building for \$1,635,000 will be paid off over a period of 25 years. The Road Commission currently owes \$307,182 for equipment that will be paid off over a period of 10 years. The Road Commission currently owes \$112,250 for land that will be paid off over a period of 10 years. Compensated absences long-term debt amounts to \$263,811.

Economic Factors and Next Year's Budget

The board considered many factors when setting the fiscal year 2009/10 budget. One of the factors is the economy. The Road Commission derives approximately 44% of its revenues from the fuel tax collected. The recent economic downturn and the increase in cost of fuel has resulted in less consumption of fuel and consequently less Michigan Transportation Funds tax to be distributed. It is estimated that Motor Vehicle Highway Funds will decline in the next fiscal year by 4% due to a slow down in the economy and vehicle traffic.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and or rebuild every road in Schoolcraft County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitable and in the best interest of the motoring public and the citizens of Schoolcraft 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 accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Schoolcraft County Road Commission administrative offices at Tannery Location, Manistique, Michigan 49854 (906) 341-5634.

**SCHOOLCRAFT COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
September 30, 2009**

EXHIBIT A

ASSETS

Cash	\$ 787,878
Accounts Receivable	
State Trunkline Maintenance	49,638
Michigan Transportation Fund	274,980
State--Other	127,019
Due From Other Units of Government	8,764
Due on County Road Agreements	405,262
Sundry Accounts	8,792
Inventories	
Road Materials	249,098
Equipment Parts and Materials	101,602
Prepaid Expenses	74,716
Discount on Bond Amortization	21,600
Capital Assets (Net of Accumulated Depreciation)	<u>8,557,079</u>
Total Assets	<u>10,666,428</u>

LIABILITIES

Current Liabilities	
Accounts Payable	63,302
Due to State of Michigan	1,242
Accrued Liabilities	108,074
Driveway Snow Plowing Deposits	6,376
Advances From Others	13,131
Deferred Revenue	
State Buy-Back Funds	100,659
Forest Road Funds	41,904
Noncurrent Liabilities	
Advance From State	160,198
Bonds Payable--Due in One Year	60,000
Bonds Payable--Due in More Than One Year	1,575,000
Installment Purchase Agreements Payable--Due in One Year	59,968
Installment Purchase Agreements Payable--Due in More Than One Year	359,464
Vested Employee Benefits Payable	<u>263,811</u>
Total Liabilities	<u>2,813,129</u>

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	6,502,647
Restricted for Roads	<u>1,350,652</u>
Total Net Assets	<u><u>\$7,853,299</u></u>

The Notes to Financial Statements are an integral part of this statement.

SCHOOLCRAFT COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2009

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 906,716
Local Road Maintenance	519,320
State Trunkline Maintenance	1,339,234
Private Driveway Plowing	31,155
Net Equipment Expense	42,650
Net Administrative Expense	302,425
Non-Road Project	3,372
Infrastructure Depreciation	447,161
Compensated Absences	(6,401)
Interest Expense	83,930
	<hr/>
Total Program Expenses	<u>3,669,562</u>
Program Revenue	
Charges for Services	
License and Permits	4,045
Charges for Services	1,533,405
Operating Grants and Contributions	
Michigan Transportation Funds	1,770,794
Investment Earnings	30,091
Capital Grants and Contributions	
Federal Grants	435,107
State Grants	238,653
Contributions	21,269
	<hr/>
Total Program Revenue	<u>4,033,364</u>
Net Program Revenue	<u>363,802</u>
General Revenue	
Gain on Equipment Disposal	47,250
	<hr/>
Total General Revenues and Transfers In	<u>47,250</u>
Change in Net Assets	411,052
Net Assets	
Beginning of Year	<u>7,442,247</u>
End of Year	<u><u>\$7,853,299</u></u>

The Notes to Financial Statements are an integral part of this statement.

**SCHOOLCRAFT COUNTY ROAD COMMISSION
BALANCE SHEET--GOVERNMENTAL FUND
September 30, 2009**

EXHIBIT C

	GOVERNMENTAL FUND TYPE
	<u>General Operating Fund</u>
<u>ASSETS</u>	
Cash	\$ 787,878
Receivables	
State Trunkline Maintenance	49,638
Michigan Transportation Fund	274,980
State Department of Transportation--Other	127,019
Due on County Road Agreements	135,867
Sundry Accounts	17,556
Inventories	
Road Materials	249,098
Equipment Parts and Materials	101,602
Prepaid Expenses	74,716
Long-Term Receivables--Due on County Road Agreements	269,395
Unamortized Bond Discount	<u>21,600</u>
Total Assets	<u>\$ 2,109,349</u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 63,302
Accrued Interest Payable	12,490
Accrued Liabilities	95,584
Due to State of Michigan	1,242
Advances	
Driveway Plowing	6,376
State of Michigan	160,198
Other	13,131
Deferred Revenue	
Forest Road Funds	41,904
State Buy-Back Program--Federal Aid Exchange	<u>100,659</u>
Total Liabilities	<u>494,886</u>
Fund Equity	
Fund Balance	
Reserved for Long-Term Receivables	269,395
Reserved for Inventory	350,700
Reserved for Prepaid Expenses	74,716
Unreserved and Undesignated	<u>919,652</u>
Total Fund Equity	<u>1,614,463</u>
Total Liabilities and Fund Equity	<u>\$ 2,109,349</u>

The Notes to Financial Statements are an integral part of this statement.

**SCHOOLCRAFT COUNTY ROAD COMMISSION
RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
For the Fiscal Year Ended September 30, 2009**

EXHIBIT D

Total Governmental Fund Balance \$ 1,614,463

Amounts reported for governmental activities in the Statement of Net Assets are
are different because:

Capital assets used in governmental activities are not financial resources and,
therefore, are not reported in the funds. 8,557,079

Long-term liabilities are not due and payable in the current period and
are not reported in the funds. (2,318,243)

Net Assets of Governmental Activities \$ 7,853,299

The Notes to Financial Statements are an integral part of this statement.

**SCHOOLCRAFT COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Fiscal Year Ended September 30, 2009**

EXHIBIT E

	General Operating Fund
Revenues	
Licenses and Permits	\$ 4,045
Federal Aid	435,107
State Grants	2,009,447
Contributions From Local Units	21,269
Charges for Services	1,528,389
Interest and Rents	30,091
Other Revenue	<u>52,266</u>
Total Revenues	<u>4,080,614</u>
Expenditures	
Public Works	3,651,241
Capital Outlay	401,581
Debt Service	<u>187,063</u>
Total Expenditures	<u>4,239,885</u>
Excess of Revenues Over (Under) Expenditures	<u>(159,271)</u>
Other Financing Sources	
Proceeds From Installment Purchase Agreements	<u>319,565</u>
Total Other Financing Sources	<u>319,565</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	160,294
Fund Balance--October 1, 2008	<u>1,454,169</u>
Fund Balance--September 30, 2009	<u><u>\$ 1,614,463</u></u>

The Notes to Financial Statements are an integral part of this statement.

**SCHOOLCRAFT COUNTY ROAD COMMISSION
RECONCILIATION OF THE GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2009**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ 160,294

Amounts reported for governmental activities 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 as depreciation expense. This is the amount
by which capital outlays exceeded depreciation in the current period. 460,789
Equipment retirement is recorded as an expenditure credit in governmental
funds, but not recorded as an expense in the Statement of Activities.

Lease proceeds provide current financial resources to governmental funds,
but entering into lease agreements increases long-term liabilities in the (216,432)
Statement of Net Assets. Repayment of notes/leases payable is an
expenditure in governmental funds, but reduces the long-term liabilities in the
Statement of Net Assets.

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 governmental funds. (Increase in compensated absences and decrease in
interest expense) 6,401

Change in Net Assets of Governmental Activities \$ 411,052

The Notes to Financial Statements are an integral part of this statement.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2009

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the 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 Road Commission.

Reporting Entity

The Road Commission, which is established pursuant to the County Road Law, Michigan Compiled Laws (MCL) 224.1, is governed by an elected 3-member board of county road commissioners. The Road Commission may not issue debt without the approval of the county board of commissioners and property taxes could be levied under the taxing authority of the county, as approved by the county electors. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors. The taxes would be included as part of the county's total tax levy as well as reported in the County Road Fund.

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

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

Basis of Presentation--Government-Wide Financial Statements

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

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

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

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2009

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. 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 customers or applicants for goods or services or privileges provided; 2) Michigan Transportation Funds (MTF), State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

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

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2009

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents and Investments

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

Inventories

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

Prepaid Expenses

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

Capital Assets

Capital assets, which include property, plant and equipment, and 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 Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of eight years and all equipment with a C-rate. Such assets are recorded at cost or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated be reported prospectively. The Road Commission, beginning with the fiscal year ended September 30, 2002, has capitalized each current year's infrastructure, as required by GASB Statement No. 34 and has reported the infrastructure in the Statement of Net Assets. The Road Commission has opted to not retroactively capitalize the major infrastructure assets prior to October 1, 2001, as permitted by GASB Statement No. 34 for phase 3 governments.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2009

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Compensated Absences (Vacation and Sick Leave)

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year; and a two year maximum accumulation is allowed.

Each regular employee shall earn sick leave with pay at the rate of one (1) day per month upon completion of one (1) year steady employment. Sick leave may be accumulated to a maximum of 105 days. The Road Commission's sick leave benefits policy provides for payment of 100% of the accumulated benefits, to a maximum of 105 days, when an employee takes regular retirement or a disability retirement.

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

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2009

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Deferred revenue represents amounts that do not meet the available criteria, such as grants received before the expenditure is incurred.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the board of county road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (engineer/manager) prepares and submits a proposed operating budget to the board of county road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year and is approved by the board. Also, the board has authorized the chief administrative officer to amend the Road Commission budget, when necessary, without increasing the overall budget, by transferring up to 15% from one line-item to another. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

Budget Violations

Public Act 2 of 1968, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. Although the actual 2009 expenditures were within the final amended budget by a total of \$86,621, some expenditure activities exceeded the amounts appropriated.

Expenditures by activity that exceeded appropriations are as follows:

	Final Amended <u>Budget</u>	<u>Actual</u>	Variance <u>(Unfavorable)</u>
Primary Road Preservation/Structural Improvement	\$ 565,226	\$ 635,288	\$(70,062)
Primary Road Routine and Preventive Maintenance	892,706	906,716	(14,010)
Local Road Preservation/Structural Improvement	80,879	97,337	(16,458)
Local Road Routine and Preventive Maintenance	505,228	519,320	(14,092)
State Trunkline Non-Maintenance	77,000	82,166	(5,166)
Private Drive Snow Removal	29,321	31,155	(1,834)
Equipment Expenses--Net	798	42,650	(41,852)
Other Non-Road Projects	1,195	3,372	(2,177)

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2009

NOTE C--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws 129.91, authorizes the county treasurer to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investments by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Road Commission deposits are in accordance with statutory authority.

The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end (and during the year), the Road Commission did not have any investments. The deposits were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposits)	<u>\$ 787,878</u>
Total	<u><u>\$ 787,878</u></u>

The bank balance of the Road Commission's deposits is \$793,025, of which \$250,000 is covered by Federal depository insurance. On October 3, 2008, FDIC deposit insurance temporarily increased from \$100,000 to \$250,000 per depositor through December 31, 2009; and on May 20, 2009, the temporary increase was extended through December 31, 2013.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy authorizes investment in all those that are authorized by law. As stated above, the Road Commission did not have any investments in the fiscal year ended September 30, 2009.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Road Commission's investment policy does not contain specific provisions to limit their exposure to credit risk.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2009

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Road Commission's investment policy does not contain specific provisions to limit their exposure to interest rate risk.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds (money market fund) do not have a rating provided by a nationally recognized statistical rating organization.

The Road Commission's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Road Commission's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law does not contain legal requirements that would limit the exposure to custodial credit risk for investments. However, the Road Commission's investment policy does contain a safekeeping and custody section that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The Road Commission is not exposed to custodial credit risk for investments.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2009

NOTE D--RESERVE FOR LONG-TERM RECEIVABLES

An estimated \$269,395 of the amount recorded as "Due on County Road Agreements" is not expected to be received within one year and, accordingly, is reserved from the fund balance available for current operations at September 30, 2009.

NOTE E--CAPITAL ASSETS

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

	Account Balances 10/01/08	Additions	Deductions	Account Balances 09/30/09
Capital Assets Not Being Depreciated				
Land	\$ 244,065			\$ 244,065
Infrastructure--Land Improvements	1,272,270			1,272,270
Subtotal	<u>1,516,335</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,516,335</u>
Capital Assets Being Depreciated				
Land Improvements	50,519			50,519
Buildings	3,474,519	39,193		3,513,712
Road Equipment	4,107,120	359,574	193,443	4,273,251
Shop Equipment	150,876			150,876
Office Equipment	33,838	2,814		36,652
Engineer's Equipment	16,865			16,865
Depletable Assets	69,508			69,508
Infrastructure--Bridges	28,031	5,647		33,678
Infrastructure--Roads	5,128,178	732,625		5,860,803
Total	<u>13,059,454</u>	<u>1,139,853</u>	<u>193,443</u>	<u>14,005,864</u>
Less Accumulated Depreciation				
Land Improvements	16,838	3,368		20,206
Building	892,955	103,017		995,972
Road Equipment	3,844,244	117,490	193,443	3,768,291
Shop Equipment	100,493	8,699		109,192
Office Equipment	25,205	2,697		27,902
Engineer's Equipment	16,865			16,865
Depletable Assets	22,403			22,403
Infrastructure--Bridges	14,016	2,336		16,352
Infrastructure--Roads	1,546,480	441,457		1,987,937
Total	<u>6,479,499</u>	<u>679,064</u>	<u>193,443</u>	<u>6,965,120</u>
Net Capital Assets Being Depreciated	<u>6,579,955</u>	<u>1,139,853</u>	<u>679,064</u>	<u>7,040,744</u>
Total Net Capital Assets	<u>\$ 8,096,290</u>	<u>\$ 1,139,853</u>	<u>\$ 679,064</u>	<u>\$ 8,557,079</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2009

NOTE E--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 117,490
Indirect Equipment	
Shop Building	103,017
Shop Equipment	8,699
Net Administrative Expenses	
Office Equipment and Furniture	2,697
Land Improvements	3,368
Infrastructure Depreciation Expense	<u>443,793</u>
 Total Depreciation Expense	 <u><u>\$ 679,064</u></u>

NOTE F--LONG-TERM DEBT

The general long-term debt obligations of the Road Commission, and changes therein, may be summarized as follows:

	<u>Balance</u> <u>10/01/08</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>09/30/09</u>	<u>Due in</u> <u>One Year</u>
Bonds Payable				
Michigan Transportation Fund Bonds Series 2002	\$ 1,690,000	\$ (55,000)	\$ 1,635,000	\$ 60,000
Installment Purchase Contract				
Land--Graves Pit	148,000	(35,750)	112,250	35,750
Installment Purchase Contract				
The State Savings Bank--2009 Equipment		319,565 (12,383)	307,182	24,218
Vested Employee Benefits				
Vacation and Sick Leave	<u>270,212</u>	<u>(6,401)</u>	<u>263,811</u>	
Totals	<u><u>\$ 2,108,212</u></u>	<u><u>\$ 210,031</u></u>	<u><u>\$ 2,318,243</u></u>	<u><u>\$ 119,968</u></u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2009

NOTE F--LONG-TERM DEBT (Continued)

Bonds Payable

Michigan Transportation Fund Bonds, Series 2002

The Road Commission financed the construction of a new building by issuing of Michigan Transportation Fund Bonds through Bank One Trust Company. The terms and annual principal and interest requirements are as follows:

Terms: Date of issue was July 1, 2002 in the amount of \$2,000,000 at variable interest rates paid semi-annually with interest ranging from 2% to 4.85% commencing on February 1, 2003 through August 1, 2027 and annual principal payments ranging from \$50,000 to \$135,000.

<u>Year</u>	<u>Principal 1-Aug</u>	<u>Interest</u>		<u>Annual Total</u>
		<u>1-Feb</u>	<u>1-Aug</u>	
2010	\$ 60,000	\$ 37,470	\$ 37,470	\$ 134,940
2011	60,000	36,390	36,390	132,780
2012	65,000	35,280	35,280	135,560
2013	65,000	34,045	34,045	133,090
2014	70,000	32,745	32,745	135,490
2015	75,000	31,310	31,310	137,620
2016	75,000	29,735	29,735	134,470
2017	80,000	28,122	28,122	136,244
2018	85,000	26,362	26,362	137,724
2019	90,000	24,450	24,450	138,900
2020	95,000	22,380	22,380	139,760
2021	100,000	20,171	20,171	140,342
2022	105,000	17,796	17,796	140,592
2023	110,000	15,250	15,250	140,500
2024	115,000	12,500	12,500	140,000
2025	120,000	9,625	9,625	139,250
2026	130,000	6,625	6,625	143,250
2027	135,000	3,375	3,375	141,750
Total	<u>\$ 1,635,000</u>	<u>\$423,631</u>	<u>\$ 423,631</u>	<u>\$ 2,482,262</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2009

NOTE F--LONG-TERM DEBT (Continued)

Loans Payable--Land Installment Purchase

In 2008, the Road Commission entered into a land installment purchase agreement to purchase property for \$198,000. The installment purchase agreement required a \$50,000 down payment and principal payments of \$35,750 until 2012, with a final payment of \$5,000 due in 2018, as follows:

<u>Year</u>	<u>Principal</u>
2010	\$ 35,750
2011	35,750
2012	35,750
2018	<u>5,000</u>
Total	<u>\$ 112,250</u>

Loans Payable--Equipment Purchases

The Road Commission financed the purchase of two trucks with the State Savings Bank of Manistique on July 9, 2009. The terms and annual principal and interest requirements are as follows:

Terms: Purchase price of \$319,565 at 4.5% interest from August 2009 to July 2019, requiring monthly payments of \$3,312.62 beginning August 9, 2009.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 24,218	\$ 12,221	\$ 36,439
2011	27,582	12,169	39,751
2012	28,850	10,902	39,752
2013	30,175	9,577	39,752
2014	31,561	8,190	39,751
2015	33,011	6,740	39,751
2016	34,527	5,224	39,751
2017	36,113	3,638	39,751
2018	37,773	1,979	39,752
2019	<u>23,372</u>	<u>360</u>	<u>23,732</u>
Total	<u>\$ 307,182</u>	<u>\$ 71,000</u>	<u>\$ 378,182</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2009

NOTE F--LONG-TERM DEBT (Continued)

Vested Employee Vacation Benefits

Vacation benefits are earned in varying amounts depending on the employee's years of service. Prior to January 1, 1993, the Road Commission's vacation policy required all vacation benefits to be used within the calendar year in which they were credited. New vacation policies provide for all employees to be credited on January 1, 1993 with the vacation benefits they earned for the year 1992, and the 1993 vacation benefits to be credited on a per month basis with employees permitted to accumulate up to a maximum of 2 years of vacation benefits. The liability recorded in the long-term debt for vacation earned but not used, as of September 30, 2009, totaled \$94,139.

Vested Employee Sick Leave Benefits

Sick leave benefits are earned at the rate of 1 day for each calendar month in which the employee has worked at least 12 days and the maximum accumulation will be 105 days. Upon retirement or death, an employee, or his estate, shall be paid for 100% of accumulated sick leave. The accumulated sick leave of \$169,672 recorded in the long-term debt consists of 100% of the maximum accumulated sick leave at September 30, 2009.

NOTE G--DEFERRED COMPENSATION PLAN

The Board of County Road Commissioners offers all Road Commission employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The assets of the plan are held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrator (PEBSCO) is an agent of the employer for purposes of providing direction to the custodian of the account regarding investment of funds, transfer of assets to or from the accounts, and all other matters. In accordance with the provisions of GASB Statement No. 32, the plan balances and activities are not reflected in the Road Commission's financial statements.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2009

NOTE H--EMPLOYEES' RETIREMENT SYSTEM

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), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final average compensation (FAC) with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the calendar year ended December 31, 2008.

MERS was established in 1946 under Public Act 135 of 1945 and granted independence from the State of Michigan pursuant to Public Act 220 of 1996, effective August 15, 1996. MERS is administered under Public Act 427 of 1984, as amended. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

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 does not require employees to contribute to the plan. The Road Commission is required to contribute at an actuarially determined rate. At December 31, 2007, a rate of 30.24% of annual compensation was actuarially determined to be applied to annual compensation for calendar year 2008.

Annual Pension Cost

For the calendar year ended December 31, 2008, the Road Commission's annual pension cost was \$372,983, which was equal to the Road Commission's actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006. 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 amortize the unfunded actuarial accrued liability over 30 years. The employer 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 or her projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2009

NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2006	\$ 301,221	100%	\$0
2007	328,590	100%	\$0
2008	372,983	100%	\$0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/06	\$ 6,660,345	\$ 10,501,104	\$ 3,840,759	63%	\$ 1,161,701	331%
12/31/07	6,894,218	11,136,841	4,242,623	62%	1,219,310	348%
12/31/08	6,870,765	11,646,615	4,775,850	59%	1,268,695	376%

NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission is a member of the Michigan County Road Commission Self Insurance Pool (Pool) established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

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

The Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, trunkline liability, errors and omissions and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2009

NOTE I--RISK MANAGEMENT (Continued)

The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund.

At September 30, 2009, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road Commission have not exceeded the amount of insurance coverage in any of the past 4 years.

NOTE J--CONTINGENT LIABILITIES

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

NOTE K--POST-EMPLOYMENT BENEFITS

The Road Commission provides post-employment health care benefits in accordance with the labor contract and personnel policy as follows:

Effective January 1, 2000, upon retirement or disability retirement, from age 55 to 65 each employee will receive single subscriber health insurance benefits at a cost of 100% paid by the Road Commission. In order to be eligible between the ages of 55 to 65, the retiree must have worked a minimum of 15 years with the Road Commission. After age 60, years of service is not an eligibility requirement. At age 65 or older, the Road Commission will pay \$50 towards retirees' supplemental insurance. There were 11 employees that qualified during the year ended September 30, 2009. The total cost was \$73,684 and the amount reimbursed by retirees was \$24,138 with a net cost to the Road Commission of \$49,546. The expenditures are recognized as the insurance premiums become due.

NOTE L--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2009, the Road Commission did not receive any Federal Grants for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2009

NOTE L--FEDERAL GRANTS (Continued)

During the fiscal year ended September 30, 2009, the Road Commission received and expended \$435,107 in Federal grants for negotiated (force account) projects. Negotiated projects are projects that are performed by the Road Commission and are subject to single audit requirements, if the amount expended is \$500,000 or more. A single audit was not performed during the fiscal year ended September 30, 2009.

NOTE M--CHANGE IN ACCOUNTING PRINCIPLE

In 2004, the Governmental Accounting Standards Board issued Statement No. 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions." The pronouncement provides guidance for local units of government in recognizing the cost of retiree healthcare, as well as any "other" post-employment benefits (other than pension). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare expenses over the working life of the employee, rather than at the time the healthcare expenses are paid. For the Road Commission, the pronouncement is effective for the fiscal year ending September 30, 2010.

**SCHOOLCRAFT COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL OPERATING FUND--SCHEDULE OF
REVENUES AND OTHER FINANCING SOURCES
BUDGETARY COMPARISON SCHEDULE
For the Fiscal Year Ended September 30, 2009**

EXHIBIT G

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 5,000	\$ 5,000	\$ 4,045	\$ (955)
Federal Aid--Negotiated Projects				
Surface Transportation Program	-	161,700	161,700	-
ARRA Funds	-	182,951	213,567	30,616
Economic Development D Funds	635,336	59,840	59,840	-
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,270,000	1,250,000	1,254,809	4,809
Local Road	400,000	364,629	380,512	15,883
Snow Removal	142,700	120,000	125,473	5,473
Economic Development Fund				
Rural Primary (D)	264,482	21,505	21,505	-
Forest Road Funds (E)	220,000	90,286	217,148	126,862
Urban Area (F)	-	71,600	-	(71,600)
State Buyback--Federal Aid Exchange	100,000	-	-	-
Contributions--Local Units				
Townships	10,000	10,000	21,269	11,269
Charges for Services				
State Trunkline Maintenance	1,050,000	1,394,222	1,414,221	19,999
State Trunkline Non-Maintenance	82,000	82,000	82,146	146
Private Drive Snow Removal	25,000	30,000	31,155	1,155
Salvage Sales	2,000	2,000	867	(1,133)
Interest and Rents				
Interest Earned	15,000	9,000	10,163	1,163
Rents and Royalties	55,000	18,000	19,928	1,928
Other Revenue				
Refunds/Rebates	-	1,700	1,767	67
Gain on Sale of Timber	-	3,000	3,249	249
Gain on Equipment Disposal	190,000	43,500	47,250	3,750
Total Revenue	<u>4,476,518</u>	<u>3,930,933</u>	<u>\$ 4,080,614</u>	<u>\$ 149,681</u>
Other Financing Sources				
Proceeds From Installment Purchase Agreement	910,000	319,566	319,565	(1)
Total Other Financing Sources	<u>910,000</u>	<u>319,566</u>	<u>319,565</u>	<u>(1)</u>
Total Revenue and Other Financing Sources	5,386,518	4,250,499	<u>\$ 4,400,179</u>	<u>\$ 149,680</u>
Fund Balance--October 1, 2008	<u>1,454,169</u>	<u>1,454,169</u>		
Total Budget	<u>\$ 6,840,687</u>	<u>\$ 5,704,668</u>		

The Notes to Financial Statements are an integral part of this statement

**SCHOOLCRAFT COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL OPERATING FUND
SCHEDULE OF EXPENDITURES
BUDGETARY COMPARISON SCHEDULE
For the Fiscal Year Ended September 30, 2009**

EXHIBIT H

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvement	\$ 1,092,615	\$ 565,226	\$ 635,288	\$ (70,062)
Routine and Preventive Maintenance	780,000	892,706	906,716	(14,010)
Local Road				
Preservation/Structural Improvement	195,000	80,879	97,337	(16,458)
Routine and Preventive Maintenance	503,953	505,228	519,320	(14,092)
Primary Road Structure				
Preservation/Structural Improvement	-	6,000	5,647	353
State Trunkline Maintenance	960,000	1,259,180	1,257,068	2,112
State Trunkline Non-Maintenance	82,000	77,000	82,166	(5,166)
Private Drive Snow Removal	25,000	29,321	31,155	(1,834)
Equipment Expense--Net	(182,078)	798		
Direct			\$ 827,894	
Indirect			414,705	
Operating			244,002	
Less: Equipment Rentals			(1,443,951)	(41,852)
Distributive Expense	1,060,000	-		-
Administrative Expense--Net	60,000	351,973		
Administrative Expense			439,227	
Less: Overhead--State			(132,096)	
Overhead--State Non-Maintenance			(929)	
Overhead--Other			(3,773)	
Purchase Discounts			(4)	49,548
Other Non-Road Projects		1,195	3,372	(2,177)
Capital Outlay--Net	950,000	363,000		
Capital Outlay			401,581	
Less: Depreciation Credits			(231,903)	
Equipment Retirements			-	193,322
Debt Service				
Principal	134,657	105,000	103,133	1,867
Interest	100,000	89,000	83,930	5,070
Total Expenditures	5,761,147	4,326,506	<u>\$ 4,239,885</u>	<u>\$ 86,621</u>
Fund Balance--September 30, 2009	<u>1,079,540</u>	<u>1,378,162</u>		
Total Budget	<u>\$ 6,840,687</u>	<u>\$ 5,704,668</u>		

The Notes to Financial Statements are an integral part of this statement.

**SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF CHANGES IN FUND BALANCES
For the Fiscal Year Ended September 30, 2009**

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$1,931,938	\$ 563,090	\$1,905,151	\$ 4,400,179
Total Expenditures	<u>1,790,551</u>	<u>710,540</u>	<u>1,738,794</u>	<u>4,239,885</u>
Excess of Revenues Over (Under) Expenditures	<u>141,387</u>	<u>(147,450)</u>	<u>166,357</u>	<u>160,294</u>
Other Financing Sources (Uses) Optional Transfers	<u>(100,000)</u>	<u>100,000</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(100,000)</u>	<u>100,000</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	41,387	(47,450)	166,357	160,294
Fund Balance--October 1, 2008	<u>460,670</u>	<u>101,476</u>	<u>892,023</u>	<u>1,454,169</u>
Fund Balance--September 30, 2009	<u><u>\$ 502,057</u></u>	<u><u>\$ 54,026</u></u>	<u><u>\$1,058,380</u></u>	<u><u>\$ 1,614,463</u></u>

**SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND--ANALYSIS OF
REVENUES AND OTHER FINANCING SOURCES
For the Fiscal Year Ended September 30, 2009**

EXHIBIT J

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Licenses and Permits				
Permits			\$ 4,045	\$ 4,045
Federal Aid--Negotiated Projects				
Surface Transportation Program	\$ 161,700			161,700
Economic Development D Funds	59,840			59,840
ARRA	213,567	-		213,567
State Grants				
Michigan Transportation Fund				
Engineering	7,700	\$ 2,300		10,000
Allocation	1,254,809	380,512		1,635,321
Snow Removal		125,473		125,473
Economic Development Fund				
Rural Primary (D)	21,505			21,505
Forest Road Funds (E)	184,323	32,825		217,148
Contributions--Local Units				
Townships		21,269	-	21,269
Charges for Services				
State Trunkline Maintenance			1,414,221	1,414,221
State Trunkline Non-Maintenance			82,146	82,146
Private Drive Snow Removal			31,155	31,155
Salvage Sales			867	867
Interest and Rents				
Interest Earned	3,252	711	6,200	10,163
Rents and Royalties			19,928	19,928
Other Revenue				
Refunds/Rebates			1,767	1,767
Sale of Timber			3,249	3,249
Gain on Equipment Disposal	25,242		22,008	47,250
Total Revenue	<u>1,931,938</u>	<u>563,090</u>	<u>1,585,586</u>	<u>4,080,614</u>
Other Financing Sources				
Proceeds From Installment Purchase Agreement	-		319,565	319,565
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>319,565</u>	<u>319,565</u>
Total Revenue and Other Financing Sources	<u>\$ 1,931,938</u>	<u>\$ 563,090</u>	<u>\$ 1,905,151</u>	<u>\$ 4,400,179</u>

**SCHOOLCRAFT COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
ANALYSIS OF EXPENDITURES
For the Fiscal Year Ended September 30, 2009**

EXHIBIT K

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Primary Road				
Preservation/Structural Improvement	\$ 635,288			\$ 635,288
Routine and Preventive Maintenance	906,716			906,716
Local Road				
Preservation/Structural Improvement		\$ 97,337		97,337
Routine and Preventive Maintenance		519,320		519,320
Primary Road Structures				
Preservation/Structural Improvement	5,647			5,647
State Trunkline Maintenance			\$ 1,257,068	1,257,068
State Trunkline Non-Maintenance			82,166	82,166
Private Snow Plowing			31,155	31,155
Equipment Expense--Net (Per Exhibit H)	17,482	7,716	17,452	42,650
Administrative Expense--Net (Per Exhibit H)	216,258	86,167		302,425
Other Non-Road Projects			3,372	3,372
Capital Outlay--Net (Per Exhibit H)	(123,887)		293,565	169,678
Debt Service				
Principal	55,000		48,133	103,133
Interest	78,047		5,883	83,930
Total Expenditures	<u>\$ 1,790,551</u>	<u>\$ 710,540</u>	<u>\$ 1,738,794</u>	<u>\$ 4,239,885</u>



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

February 18, 2010

Board of County Road Commissioners
Schoolcraft County Road Commission
P.O. Box 160
Manistique, Michigan 49854

RE: Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of the Financial Statements Performed
in Accordance With Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, as of and for the year ended September 30, 2009, and have issued our report thereon dated February 18, 2010. 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.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial

reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting, listed as Findings 2009-1, 2009-2 and 2009-3. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance and other matters that are required to be reported under Government Auditing Standards, and which are described in the accompanying Schedule of Findings and Responses as Finding 2009-4 and 2009-5.

The Road Commission's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Road Commission's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information of the Schoolcraft County Board of Road Commissioners, management and others within the Road Commission, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

ROBERT J. KLEINE
STATE TREASURER

February 18, 2010

Board of County Road Commissioners
Schoolcraft County Road Commission
P.O. Box 160
Manistique, Michigan 49854

RE: Report to Those Charged With Governance

Dear Commissioners:

We have audited the financial statements of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, Michigan, for the year ended September 30, 2009, and have issued our report thereon dated February 18, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in the engagement letter dated March 31, 2009, 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 Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the 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.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures to specifically identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on January 18, 2010.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Road Commission are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ending September 30, 2009. 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.

Difficulties Encountered in Performing the Audit

We encountered no 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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, except for a few uncorrected misstatements that were immaterial and were corrected in the current fiscal year. 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 the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 18, 2010.

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 application of an accounting principle to the Road Commission’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 Road Commission’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of County Road Commissioners and management of the Road Commission and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

SCHOOLCRAFT COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended September 30, 2009

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 Road Commission's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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.

SIGNIFICANT DEFICIENCIES

Preparation of Financial Statements in Accordance with GAAP

Finding 2009-1

Condition: As many small and medium-sized governmental entities do, the Road Commission has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements, fund financial statements, and notes to financial statements as part of its external financial reporting process. Accordingly, the Road Commission's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered to be a part of the Road Commission's internal controls.

Cause: This condition was caused by the Road Commission's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for Road Commission personnel to prepare them internally.

Effect: The Road Commission lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this duty.

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both: 1) recording, processing and summarizing accounting data (maintaining internal accounting books and records); and 2) reporting government-wide and fund financial statements, including the related notes to financial statements (external financial reporting).

SCHOOLCRAFT COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended September 30, 2009

SIGNIFICANT DEFICIENCIES (Continued)

Recommendation: We recommend that the Road Commission board evaluate the cost versus benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determine if it is in the best interests of the Road Commission to outsource this duty to its external auditors. If the Road Commission continues to rely on its external auditors to prepare the financial statements, we recommend the board designate a responsible Road Commission official to carefully review the draft financial statements including the notes, prior to approving them and accepting responsibility for their content and presentation.

Management Response: The Road Commission has chosen their independent auditor to prepare these financial statements and required footnote disclosures on their behalf.

Inventory

Finding 2009-2

Condition: We randomly selected 23 various stock items from the Equipment Parts and Materials and 2 items from the Road Materials inventory account. We compared the inventory status report (computerized perpetual records) with the actual counts to determine the accuracy of the inventory status reports. We also compared the distribution report with the inventory status report at September 30, 2009.

Findings: We found variations in 2 of the 25 items counted. The parts inventory procedures are very strong with the exception of blades. Blades are not consistently written down on the inventory requisition sheet and are not charged out during the year. Blades are counted at year end and missing or used blades are allocated equally to all vehicles. We also found that the inventory status report was not in balance with the distribution report for the road materials inventory or the parts and equipment inventory.

Criteria: All assets must be safeguarded and detailed records must be reconciled to control totals. Each individual withdrawal made for equipment materials, parts or supplies, should be accomplished by a stores requisition voucher signed and approved by proper personnel and the amount credited to the parts inventory account and debited to the proper expenditure or vehicle.

Recommendation: We recommend that the Road Commission use a requisition sheet to track blades similar to all other inventory parts and that these sheets be turned in with the remaining parts requisition sheets to accounting. Blade counts should be reconciled on a regular basis (weekly, monthly or after each major snow storm) to maintain accurate records for inventory and equipment. We also recommend that all inventory accounts in the distribution report be reconciled with the stock status.

SCHOOLCRAFT COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended September 30, 2009

SIGNIFICANT DEFICIENCIES (Continued)

Management's Response: The Road Commission will follow the same procedure for blades as used for the rest of the inventory in that they will be charged out to the respective vehicle as they are used and posted on a monthly basis. Monthly, inventory status reports will be reconciled to the inventory accounts in the distribution report for accuracy.

Old Outstanding Accounts Receivables

Finding 2009-3

Condition: There is one account receivable which has been outstanding over one year and is not expected to be collected within 60 days of year end. This is the balance of \$8,763.88 from Lakeshore Oil for fuel taxes paid in 2002.

Criteria: According to the modified accrual basis of accounting, revenue is recognized when it is both measurable and available. The amount recorded in this situation is not available.

Recommendation: The Road Commission should investigate the old account receivable and either collect, write-off, or defer the revenue and adjust the receivable accordingly.

Management's Response: The Road Commission will thoroughly review this account during fiscal year 2010 and determine if collection is feasible or if it needs to be written off.

NONCOMPLIANCE WITH STATE STATUTES

Our review and study for compliance with State statutes and regulations revealed the following noncompliance procedures:

Violation of Public Act 2 of 1968, as Amended

Finding 2009-4

Condition: During the fiscal year ended September 30, 2009, expenditures were incurred in excess of amounts appropriated in the amended budgets as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road Structure Preservation/Structural Improvements	\$565,226	\$ 635,288	\$ (70,062)
Primary Road Structure Routine & Preventive Maintenance	892,706	906,716	(14,010)
Local Road Structure Preservation/Structural Improvements	80,879	97,337	(16,458)
Local Road Structure Routine & Preventive Maintenance	505,228	519,320	(14,092)
State Trunkline Non-Maintenance	77,000	82,166	(5,166)
Driveway Plowing	29,321	31,155	(1,834)
Equipment Expenses--Net	798	42,650	(41,852)
Other Non-Road Projects	1,195	3,372	(2,177)

SCHOOLCRAFT COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended September 30, 2009

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Criteria: The expenditure of funds in excess of appropriations is contrary to the provisions of Section 17 of Public Act 2 of 1968, as amended.

Directive: We direct that the Road Commission develop budgetary control procedures which will ensure that expenditures will not exceed amounts authorized in the General Appropriations Act or amendments thereof.

Management's Response: The Road Commission will continue to develop budgetary control procedures to make sure that amendments are made to cover expenditures that may exceed amounts authorized in the General Appropriations Act. However, invariably situations come up in the year end closing process that will cause expenditures to be recorded which will exceed the final amended budgeted amounts on a few of the line-items.

OTHER MATTERS

Investment Policy

Finding 2009-5

Condition: The Road Commission does not have an updated investment policy that contains credit risk assessments and disclosures for investments.

Criteria: For years beginning after June 30, 2004, GASB Statement No. 40 requires governmental units to have an investment policy that contains investment risk assessments and additional disclosure requirements for investments.

Recommendation: We recommend that the Road Commission contact the county treasurer's office and formulate an updated investment policy that includes the requirements for GASB Statement No. 40 and have the board adopt the new policy.

Management's Response: The Road Commission has contacted the county treasurer and requested an updated investment policy that includes the requirements for GASB Statement No. 40. When this policy is received it will be submitted to the board for adoption.