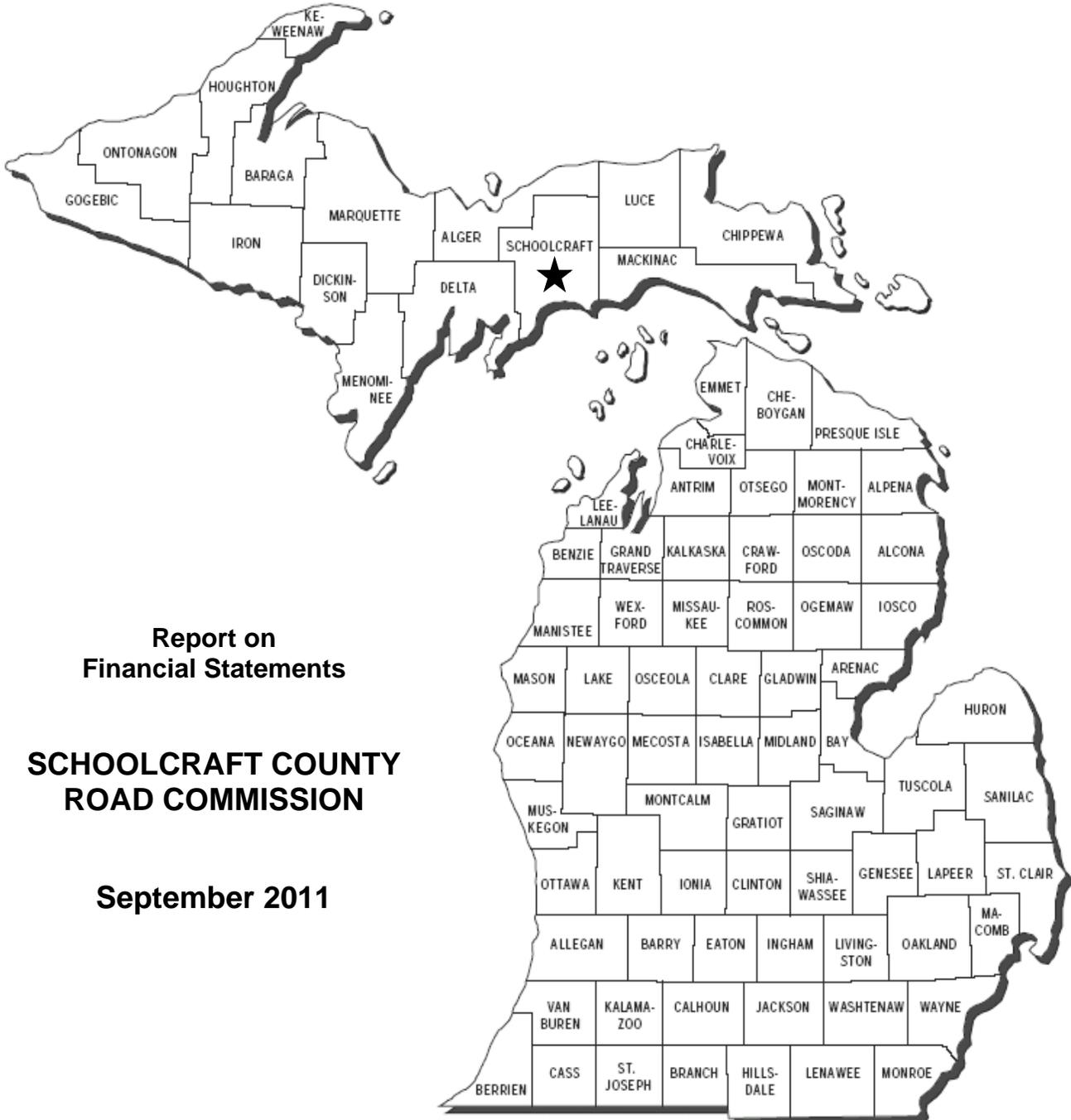


# STATE OF MICHIGAN

Rick Snyder, Governor

## DEPARTMENT OF TREASURY

Andy Dillon  
State Treasurer



Report on  
Financial Statements

SCHOOLCRAFT COUNTY  
ROAD COMMISSION

September 2011

SCHOOLCRAFT COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

Bernard J. Lund  
Chairperson

Gregory L. Hase  
Vice Chairperson

Dale J. DuFour  
Member

Craig Kelso  
Engineer / Manager

Lisa Kleeman  
Finance Director

COUNTY POPULATION--2010  
8,485

STATE EQUALIZED VALUATION--2011  
\$498,404,579



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

ANDY DILLON  
STATE TREASURER

February 2, 2012

Board of County Road Commissioners  
Schoolcraft County Road Commission  
332 N. East Road  
Manistique, Michigan 49854

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, Michigan, as of and for the year ended September 30, 2011, which collectively comprise the Road Commission's basic financial statements 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 respective financial position of the governmental activities, the major fund and aggregate remaining fund information of the Road Commission, as of September 30, 2011, and the changes in financial position 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 2, 2012 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 9 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 presented in Exhibits I through K are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied 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, 2011

### Using this Annual Report

The Schoolcraft 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.

### 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, 2011

### 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 7.41% or \$630,533 from \$8,504,464 to \$9,134,997 for the fiscal year ended September 30, 2011. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$162,964 or approximately 10.63%. The primary reasons for the increase in net assets were the significant increase in cash and investments, with a larger increase in revenues than in expenditures. The investment in capital assets-net of related debt increased approximately 6.71% or \$467,569 from the prior fiscal year. This was primarily due to the capital asset additions of \$1,225,508 being more than the depreciation of \$880,656 during fiscal year 2011.

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the Fiscal Year Ended September 30, 2011**

Net assets as of the fiscal year ended September 30, 2011, compared to the prior fiscal year end are as follows:

	Governmental Activities 09/30/10	Governmental Activities 09/30/11	Variance Increase (Decrease)	Percentage
Assets				
Current and Other Assets	\$ 2,275,896	\$ 2,474,337	\$ 198,441	8.72%
Net Capital Assets	<u>8,863,223</u>	<u>9,207,938</u>	<u>344,715</u>	<u>3.89%</u>
Total Assets	<u>11,139,119</u>	<u>11,682,275</u>	<u>543,156</u>	<u>4.88%</u>
Liabilities				
Current Liabilities	237,232	206,331	(30,901)	-13.03%
Long-Term Liabilities	<u>2,397,423</u>	<u>2,340,947</u>	<u>(56,476)</u>	<u>-2.36%</u>
Total Liabilities	<u>2,634,655</u>	<u>2,547,278</u>	<u>(87,377)</u>	<u>-3.32%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	6,971,393	7,438,962	467,569	6.71%
Restricted	<u>1,533,071</u>	<u>1,696,035</u>	<u>162,964</u>	<u>10.63%</u>
Total Net Assets	<u>\$ 8,504,464</u>	<u>\$ 9,134,997</u>	<u>\$ 630,533</u>	<u>7.41%</u>

## SCHOOLCRAFT COUNTY ROAD COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

**For the Fiscal Year Ended September 30, 2011**

#### Changes in Net Assets

A summary of changes in net assets for the fiscal year ended September 30, 2011, compared to the prior year follows:

	Governmental Activities 2010	Governmental Activities 2011	Increase (Decrease)	Percentage
Program Revenue				
Licenses and Permits	\$ 1,655	\$ 2,825	\$ 1,170	70.69%
Federal Grants	531,963	619,573	87,610	16.47%
State Grants	2,053,862	2,225,797	171,935	8.37%
Contributions From Local Units	107,246	-	(107,246)	-100.00%
Charges for Services	1,541,934	1,565,152	23,218	1.51%
Investment Earnings	112,888	134,531	21,643	19.17%
General Revenue				
Gain on Equipment Disposal	-	5,863	5,863	100.00%
<b>Total Revenue</b>	<b>4,349,548</b>	<b>4,553,741</b>	<b>204,193</b>	<b>4.69%</b>
Expenses				
Primary Road Maintenance	808,906	841,336	32,430	4.01%
Local Road Maintenance	531,250	524,925	(6,325)	-1.19%
State Trunkline Maintenance	1,386,177	1,485,269	99,092	7.15%
Private Driveway Snow Plowing	14,010	17,881	3,871	27.63%
Net Equipment Expense	69,039	109,437	40,398	58.51%
Net Administrative Expense	290,607	244,548	(46,059)	-15.85%
Non-Road Project	12,811	11,983	(828)	-6.46%
Infrastructure Depreciation	516,994	607,016	90,022	17.41%
Compensated Absenses	(19,580)	(16,945)	2,635	-13.46%
Other Post-Employment Benefits	-	94,407	94,407	100.00%
Other Net Pension Obligations	-	(79,820)	(79,820)	-100.00%
Interest Expense	88,169	83,171	(4,998)	-5.67%
<b>Total Expenses</b>	<b>3,698,383</b>	<b>3,923,208</b>	<b>224,825</b>	<b>6.08%</b>
<b>Change in Net Assets</b>	<b>\$ 651,165</b>	<b>\$ 630,533</b>	<b>\$ (20,632)</b>	<b>-3.17%</b>
<b>Ending Net Assets</b>	<b>\$ 8,504,464</b>	<b>\$ 9,134,997</b>	<b>\$ 630,533</b>	<b>7.41%</b>

The total revenue increased by \$204,193 or 4.69% from \$4,349,548 in fiscal year 2010 to \$4,553,741 in fiscal year 2011. The most significant variances were increases in Federal grants and State grants, offset by a decrease in local contributions.

## **SCHOOLCRAFT COUNTY ROAD COMMISSION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the Fiscal Year Ended September 30, 2011**

The total expenditures increased by \$224,825 or 6.08% from \$3,698,383 in fiscal year 2010 to \$3,923,208 in fiscal year 2011. The most significant increase in expenses during fiscal year 2011 was related to State Trunkline Maintenance, Other Post-Employment Benefits and Infrastructure Depreciation, which increased due to prior year infrastructure additions. These increases were offset by a decrease in Other Net Pension Obligations for the amount prepaid toward the underfunded pension obligation.

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 non-maintenance 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 (MTF) monies distributed to the county which are earmarked by law for road and highway purposes.

For the fiscal year ended September 30, 2011, the fund balance of the General Operations Fund increased by \$160,606 as compared to an increase of \$162,839 in the fund balance for the year ended September 30, 2010. Total revenues were \$4,553,741, an increase of \$204,193 as compared to last year. This change was due in part to an increase in Federal and State aid funds, offset by a decrease in Contributions from Local Units.

Total expenditures were \$4,448,265, an increase of \$261,556 compared to last year. This change in expenditures is primarily due to an increase in road projects as a result of the increase in Federal and State aid funds.

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the Fiscal Year Ended September 30, 2011**

	<u>2010</u>	<u>2011</u>	<u>Variance</u>	<u>Percent</u>
Revenues				
Licenses and Permits	\$ 1,655	\$ 2,825	\$ 1,170	70.69%
Federal Grants	531,963	619,573	87,610	100.00%
State Grants	2,053,862	2,225,797	171,935	8.37%
Contributions From Local Units	107,246	-	(107,246)	-100.00%
Charges for Services	1,526,729	1,559,826	33,097	2.17%
Interest and Rents	112,888	134,531	21,643	19.17%
Other Revenue	15,205	11,189	(4,016)	-26.41%
Total Revenues	<u>4,349,548</u>	<u>4,553,741</u>	<u>204,193</u>	<u>4.69%</u>
Expenditures				
Public Works	3,816,685	4,083,870	267,185	7.00%
Capital Outlay	119,253	103,240	(16,013)	-13.43%
Debt Service	250,771	261,155	10,384	4.14%
Total Expenditures	<u>4,186,709</u>	<u>4,448,265</u>	<u>261,556</u>	<u>6.25%</u>
Excess of Expenditures Over Revenues	162,839	105,476	(57,363)	35.23%
Other Financing Sources				
Proceed From Lease Purchase	<u>0</u>	<u>55,130</u>	<u>55,130</u>	<u>100.00%</u>
Total Other Financing Sources	<u>0</u>	<u>55,130</u>	<u>55,130</u>	<u>100.00%</u>
Net Change in Fund Balance	162,839	160,606	(2,233)	1.37%
Fund Balance--Beginning	<u>1,614,463</u>	<u>1,777,302</u>	<u>162,839</u>	<u>10.09%</u>
Fund Balance--Ending	<u>\$ 1,777,302</u>	<u>\$1,937,908</u>	<u>\$ 160,606</u>	<u>9.04%</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.

The final revenue budget for fiscal year ended September 30, 2011 was higher than the original budget by \$647,719. This was due, in part, to more State and Federal aid than originally anticipated and more state trunkline revenues and proceeds from an installment purchase, offset by lower contributions from private sources.

## SCHOOLCRAFT COUNTY ROAD COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

**For the Fiscal Year Ended September 30, 2011**

The actual revenue recognized during the current fiscal year was lower than the final amended budget by \$72,033, mainly due to more State Maintenance revenues than anticipated, offset by less contributions and less Federal aid revenues.

The final amended expenditure budget for the current fiscal year was \$524,342 higher than the original budget, primarily due to higher preservation / structural improvements on primary and local roads than anticipated. The actual expenditures recognized during the current fiscal year were \$109,262 lower than the final amended budget. This was primarily due to less primary road preservation and structural improvements and lower net equipment expense, offset by higher routine and preventive maintenance on primary and local roads and higher state trunkline maintenance.

#### Capital Assets and Debt Administration

##### Capital Assets

As of September 30, 2011 the Road Commission had \$9,207,938 invested in capital assets as follows:

	<u>09/30/10</u>	<u>09/30/11</u>	<u>Percentage Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 244,065	\$ 244,065	0.00%
Infrastructure--Land and Improvements	<u>1,272,270</u>	<u>1,272,270</u>	<u>0.00%</u>
Subtotal	<u>1,516,335</u>	<u>1,516,335</u>	<u>0.00%</u>
Capital Assets Being Depreciated			
Land Improvements	50,519	50,519	0.00%
Buildings	3,514,987	3,531,203	0.46%
Road Equipment	4,361,974	4,416,492	1.25%
Shop Equipment	169,349	174,052	2.78%
Office Equipment	37,276	39,961	7.20%
Engineer's Equipment	27,023	28,439	5.24%
Depletable Assets	69,508	69,508	0.00%
Infrastructure--Bridges	69,762	500,242	617.07%
Infrastructure--Roads	<u>6,849,501</u>	<u>7,541,289</u>	<u>10.10%</u>
Subtotal	<u>15,149,899</u>	<u>16,351,705</u>	<u>7.93%</u>
Total Capital Assets	16,666,234	17,868,040	7.21%
Total Accumulated Depreciation	<u>(7,803,011)</u>	<u>(8,660,102)</u>	<u>10.98%</u>
Total Net Capital Assets	<u>\$ 8,863,223</u>	<u>\$ 9,207,938</u>	<u>3.89%</u>

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the Fiscal Year Ended September 30, 2011**

The Road Commission reported infrastructure current year asset additions in the amount of \$1,122,268. Infrastructure assets are financed through Federal, State and local contributions.

Current year's major additions included the following:

Building Improvements	\$ 16,216
Local Road Construction	1,122,268
Equipment	<u>87,024</u>
Total Additions	<u>\$ 1,225,508</u>

Debt

The Road Commission currently has a debt of \$1,768,976 for the fiscal year ending September 30, 2011. Bonds on the building for \$1,515,000 will be paid off over a period of 25 years. The Road Commission currently owes \$213,226 for equipment that will be paid off over a period of 10 years. The Road Commission currently owes \$40,750 for land that will be paid off over a period of 10 years. Compensated absences long-term debt amounts to \$227,286.

Economic Factors and Next Year's Budget

The Board considered many factors when setting the fiscal year 2011/12 budget. One of the factors is the economy. The Road Commission derives approximately 44% of its revenues from the fuel tax and vehicle registration fees collected. The stagnant economy and the increase in cost of fuel have 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 remain flat in the next fiscal year due to a slow recovery in the economy and increased fuel prices. During 2012, we expect to receive \$597,060 (NOT including Forest Funds Allocation or MTF Allocation) in Federal and State Aid for road projects.

The above items were considered when adopting the budget for 2012. Amounts available for appropriation in the 2012 budget for projected revenues are \$4,063,161 and projected expenditures are \$4,063,161.

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.

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the Fiscal Year Ended September 30, 2011**

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, 2011**

**EXHIBIT A**

**ASSETS**

Cash	\$1,263,759
Accounts Receivable	
State Trunkline Maintenance	46,721
Michigan Transportation Fund	295,591
State--Other	94,900
Due From Other Units of Government	9,173
Due on County Road Agreements	140,054
Inventories	
Road Materials	284,338
Equipment Parts and Materials	142,540
Prepaid Expenses	98,241
Prepaid Net Pension Obligation	79,820
Discount on Bond Amortization	19,200
Capital Assets (Net of Accumulated Depreciation)	<u>9,207,938</u>
Total Assets	<u>11,682,275</u>

**LIABILITIES**

Current Liabilities	
Accounts Payable	144,498
Due to State of Michigan	845
Accrued Liabilities	33,176
Driveway Snow Plowing Deposits	20,536
Advances From Others	523
Deferred Revenue	
Forest Road Funds	6,753
Noncurrent Liabilities	
Advance From State	250,278
Deferred Revenue--Township Road Bonds	
Bonds Payable--Due in One Year	65,000
Bonds Payable--Due in More Than One Year	1,450,000
Installment Purchase Agreements Payable--Due in One Year	108,699
Installment Purchase Agreements Payable--Due in More Than One Year	145,277
Vested Employee Benefits Payable	227,286
Other Post-Employment Benefits Payable	<u>94,407</u>
Total Liabilities	<u>2,547,278</u>

**NET ASSETS**

Investment in Capital Assets	
Net of Related Debt	7,438,962
Restricted for Roads	<u>1,696,035</u>
Total Net Assets	<u>\$9,134,997</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, 2011**

**EXHIBIT B**

Program Expenses	
Primary Road Maintenance	\$ 841,336
Local Road Maintenance	524,925
State Trunkline Maintenance	1,485,269
Private Driveway Plowing	17,881
Net Equipment Expense	109,437
Net Administrative Expense	244,548
Non-Road Project	11,983
Infrastructure Depreciation	607,016
Compensated Absences	(16,945)
Other Post-Employment Benefits	94,407
Other Net Pension Obligations	(79,820)
Interest Expense	83,171
	<hr/>
Total Program Expenses	3,923,208
Program Revenue	
Charges for Services	
License and Permits	2,825
Charges for Services	1,565,152
Operating Grants and Contributions	
Michigan Transportation Funds	1,796,304
Investment Earnings	134,531
Capital Grants and Contributions	
Federal Grants	619,573
State Grants	417,389
Contributions	12,104
	<hr/>
Total Program Revenue	4,547,878
	<hr/>
Net Program Revenue	624,670
General Revenue	
Gain on Equipment Disposal	5,863
	<hr/>
Total General Revenues	5,863
	<hr/>
Change in Net Assets	630,533
Net Assets	
Beginning of Year	8,504,464
	<hr/>
End of Year	\$9,134,997
	<hr/> <hr/>

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

**SCHOOLCRAFT COUNTY ROAD COMMISSION  
BALANCE SHEET--GOVERNMENTAL FUND  
September 30, 2011**

**EXHIBIT C**

	<b>GOVERNMENTAL FUND TYPE</b>
	<u>General Operating Fund</u>
<b><u>ASSETS</u></b>	
Cash	\$ 1,263,759
Receivables	
State Trunkline Maintenance	46,721
Michigan Transportation Fund	295,591
State Department of Transportation--Other	94,900
Due on County Road Agreements	73,947
Sundry Accounts	9,173
Inventories	
Road Materials	284,338
Equipment Parts and Materials	142,540
Prepaid Expenses	98,241
Long-Term Receivables--Due on County Road Agreements	66,107
Unamortized Bond Discount	<u>19,200</u>
Total Assets	<u><u>\$ 2,394,517</u></u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>	
Liabilities	
Accounts Payable	\$ 144,498
Accrued Interest Payable	11,760
Accrued Liabilities	21,416
Due to State of Michigan	845
Advances	
Driveway Plowing	20,536
State of Michigan	250,278
Other	523
Deferred Revenue	
Forest Road Funds	6,753
State Buy-Back Program--Federal Aid Exchange	<u>-</u>
Total Liabilities	<u>456,609</u>
Fund Equity	
Fund Balance	
Nonspendable:	
Long-Term Receivables	66,107
Inventory	426,878
Prepaid Expenses	98,241
Restricted for Road Operations	<u>1,346,682</u>
Total Fund Equity	<u>1,937,908</u>
Total Liabilities and Fund Equity	<u><u>\$ 2,394,517</u></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, 2011**

**EXHIBIT D**

Total Governmental Fund Balance \$ 1,937,908

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 9,207,938

Long-term liabilities are not due and payable in the current period and are not reported in the funds. (2,090,669)

Payments toward underfunded pension liabilities is an expenditure in the governmental funds, but not in the Statement of Activities (where it is recorded as a prepaid). 79,820

Net Assets of Governmental Activities \$ 9,134,997

**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, 2011**

**EXHIBIT E**

	General Operating Fund
Revenues	
Licenses and Permits	\$ 2,825
Federal Grants	619,573
State Grants	2,213,693
Contributions From Local Units	12,104
Charges for Services	1,559,826
Interest and Rents	134,531
Other Revenue	11,189
	<hr/>
Total Revenues	4,553,741
	<hr/>
Expenditures	
Public Works	4,083,870
Capital Outlay	103,240
Debt Service	261,155
	<hr/>
Total Expenditures	4,448,265
	<hr/>
Excess of Revenues Over (Under) Expenditures	105,476
	<hr/>
Other Financing Sources	
Proceeds From Installment Purchase Agreements	55,130
	<hr/>
Total Other Financing Sources	55,130
	<hr/>
Net Change in Fund Balance	160,606
	<hr/>
Fund Balance--October 1, 2010	1,777,302
	<hr/>
Fund Balance--September 30, 2011	\$ 1,937,908
	<hr/> <hr/>

**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, 2011**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Funds \$ 160,606

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. 344,715  
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 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. 122,854

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, change in net pension obligation, OPEB) 2,358

Change in Net Assets of Governmental Activities \$ 630,533

**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, 2011

### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Schoolcraft 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 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 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.

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2011

### 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, 2011

### 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, 2011

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, 2011

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 2011 expenditures were within the final amended budget by a total of \$109,262, some expenditure activities exceeded the amounts appropriated.

Expenditures by activity that exceeded appropriations are as follows:

	Final Amended Budget	Actual	Variance (Unfavorable)
Primary Road Routine and Preventive Maintenance	\$ 793,000	\$ 841,336	\$ (48,336)
Local Road Routine and Preventive Maintenance	485,000	524,925	(39,925)
State Trunkline Maintenance	1,257,392	1,282,717	(25,325)
Private Drive Snow Removal	16,500	17,881	(1,381)
Capital Outlay--Net	(185,700)	(170,537)	(15,163)
Debt Service--Interest	58,500	83,171	(24,671)

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2011

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>\$ 1,263,759</u>
Total	<u><u>\$ 1,263,759</u></u>

The bank balance of the Road Commission's deposits is \$1,359,159, of which \$357,399 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. In addition, per the FDIC, from December 31, 2010 through December 31, 2012, all non-interest bearing transaction accounts are fully insured, regardless of the account balance and the ownership capacity of the funds. The unlimited coverage is separate from, and in addition to, the insurance coverage provided for a depositor's other accounts held at an FDIC-insured bank.

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, 2011.

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2011

### NOTE C--DEPOSITS AND INVESTMENTS (Continued)

#### 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.

#### 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.

#### 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, 2011

### NOTE D--RESERVE FOR LONG-TERM RECEIVABLES

An estimated \$66,107 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, 2011.

### NOTE E--FUND BALANCE CLASSIFICATION

In accordance with Government Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Road Commission classifies governmental fund balances as follows:

- Non-Spendable – includes fund balance amounts that cannot be spent either because (a) it is not in spendable form or (b) because it is legally or contractually required to be maintained intact.
- Restricted – includes fund balance amounts that can be spent only for specific purposes stipulated by the Constitution, external resource providers, or through enabling legislation.
- Committed – includes fund balance amounts that can be used only for specific purposes determined by a formal action of the government's highest level of decision making authority.
- Assigned – includes fund balance amounts that are intended to be used by the government for specific purposes but do not meet the criteria to classified as restricted or committed. Fund balance may be assigned by the Engineer / Manager or his/her/their designee.
- Unassigned – is to be used only to report a deficit balance from overspending for specific purposes for which amounts have been restricted, committed or assigned.

When the Road Commission incurs an expenditure for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the policy of the Road Commission to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, the Road Commission's policy would first use committed amounts, followed by assigned amounts and then unassigned amounts.

The Road Commission does not have a formal minimum balance policy.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2011

NOTE F--CAPITAL ASSETS

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

	Account Balances 10/01/10	Additions	Deductions	Account Balances 09/30/11
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	3,514,987	16,216		3,531,203
Road Equipment	4,361,974	78,220	23,702	4,416,492
Shop Equipment	169,349	4,703		174,052
Office Equipment	37,276	2,685		39,961
Engineer's Equipment	27,023	1,416		28,439
Depletable Assets	69,508			69,508
Infrastructure--Bridges	69,762	430,480		500,242
Infrastructure--Roads	6,849,501	691,788		7,541,289
Total	<u>15,149,899</u>	<u>1,225,508</u>	<u>23,702</u>	<u>16,351,705</u>
Less Accumulated Depreciation				
Land Improvements	23,574	3,368		26,942
Building	1,118,260	103,805		1,222,065
Road Equipment	3,953,728	153,910	23,565	4,084,073
Shop Equipment	117,886	10,843		128,729
Office Equipment	30,517	2,962		33,479
Engineer's Equipment	18,727	2,120		20,847
Depletable Assets	22,403			22,403
Infrastructure--Bridges	19,394	7,552		26,946
Infrastructure--Roads	2,498,522	596,096		3,094,618
Total	<u>7,803,011</u>	<u>880,656</u>	<u>23,565</u>	<u>8,660,102</u>
Net Capital Assets Being Depreciated	<u>7,346,888</u>	<u>1,225,508</u>	<u>880,793</u>	<u>7,691,603</u>
Total Net Capital Assets	<u>\$ 8,863,223</u>	<u>\$ 1,225,508</u>	<u>\$ 880,793</u>	<u>\$ 9,207,938</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2011

NOTE F--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 153,910
Indirect Equipment	
Shop Building	103,805
Shop Equipment	10,843
Net Administrative Expenses	
Office Equipment and Furniture	2,120
Engineer Equipment	2,962
Land Improvements	3,368
Infrastructure Depreciation Expense	<u>603,648</u>
Total Depreciation Expense	<u><u>\$ 880,656</u></u>

NOTE G--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>10/01/10</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>09/30/11</u>	<u>Due in</u> <u>One Year</u>
Bonds Payable				
Michigan Transportation Fund Bonds				
Series 2002	\$1,575,000	\$ (60,000)	\$ 1,515,000	\$ 65,000
Installment Purchase Contract				
Land--Graves Pit	76,500	(35,750)	40,750	35,750
Installment Purchase Contract		-		
The State Savings Bank--2009 Equipment	240,330	(70,079)	170,251	29,974
Installment Purchase Contract		55,130		
The State Savings Bank--2011 Equipment	-	(12,155)	42,975	42,975
Vested Employee Benefits				
Vacation and Sick Leave	<u>244,231</u>	<u>(16,945)</u>	<u>227,286</u>	<u>          </u>
Totals	<u><u>\$2,136,061</u></u>	<u><u>\$ (139,799)</u></u>	<u><u>\$ 1,996,262</u></u>	<u><u>\$ 173,699</u></u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2011

NOTE G--LONG-TERM DEBT (Continued)

Annual Debt Service Requirements to maturity for long-term debt are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2012	\$ 173,699	\$ 77,498	\$ 251,197
2013	99,137	73,704	172,841
2014	105,706	69,536	175,242
2015	112,346	65,026	177,372
2016	108,088	60,170	168,258
2017-2021	455,000	242,970	697,970
2022-2026	580,000	123,592	703,592
2027	<u>135,000</u>	<u>6,750</u>	<u>141,750</u>
Total	<u>\$1,768,976</u>	<u>\$719,246</u>	<u>\$ 2,488,222</u>

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>	
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
2017-2021	450,000	121,485	121,485	692,970
2022-2026	580,000	61,796	61,796	703,592
2027	<u>135,000</u>	<u>3,375</u>	<u>3,375</u>	<u>141,750</u>
Total	<u>\$1,515,000</u>	<u>\$349,771</u>	<u>\$ 349,771</u>	<u>\$ 2,214,542</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2011

NOTE G--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>
2012	\$ 35,750
2018	<u>5,000</u>
Total	<u>\$ 40,750</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. The Road Commission has been making extra payments every month. Therefore, the loan will be paid off in fiscal year 2018 under the required payment terms.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 29,974	\$ 6,465	\$ 36,439
2013	34,137	5,614	39,751
2014	35,706	4,046	39,752
2015	37,346	2,406	39,752
2016	<u>33,088</u>	<u>700</u>	<u>33,788</u>
Total	<u>\$170,251</u>	<u>\$19,231</u>	<u>\$ 189,482</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2011

NOTE G--LONG-TERM DEBT (Continued)

Loans Payable--Vehicle Purchases

The Road Commission financed the purchase of two pickup trucks with the State Savings Bank of Manistique on July 18, 2011. The terms and annual principal and interest requirements are as follows:

Terms: Purchase price of \$55,130 at 2.5% interest from August 2011 to July 2012, requiring monthly payments of \$5,068.36 beginning August 18, 2011.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	<u>\$ 42,975</u>	<u>\$ 473</u>	<u>\$ 43,448</u>
Total	<u>\$ 42,975</u>	<u>\$ 473</u>	<u>\$ 43,448</u>

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, 2011, totaled \$76,044.

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 \$151,242 recorded in the long-term debt consists of 100% of the maximum accumulated sick leave at September 30, 2011.

NOTE H--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

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2011

### NOTE H--DEFERRED COMPENSATION PLAN (Continued)

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.

### NOTE I--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, non-duty-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, 2010.

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, 2009, a rate of 34.10% of annual compensation was actuarially determined to be applied to annual compensation for calendar year 2010.

#### Annual Pension Cost

For the calendar year ended December 31, 2010, the Road Commission's annual pension cost was \$414,827, 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, 2008. 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 26 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

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2011

NOTE I--EMPLOYEES' RETIREMENT SYSTEM (Continued)

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.

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>
2008	\$ 372,983	100%	\$0
2009	394,541	100%	\$0
2010	414,827	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>
12/31/08	\$ 6,870,765	\$ 11,646,615	\$ 4,775,850	59%	\$ 1,268,695	376%
12/31/09	6,805,000	11,826,061	5,021,061	58%	1,258,977	399%
12/31/10	6,746,576	12,316,229	5,569,653	55%	1,145,011	486%

NOTE J--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 has purchased commercial insurance for medical benefit claims and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. The Road Commission's maximum deductible for property and liability coverage and automobile coverage is \$1,000 per occurrence. The maximum liability, per occurrence, for property and liability is \$10,500,000. The automobile coverage provides for limits of liability of \$250,000 each person, \$500,000 each accident and \$1,000,000 total. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

County road commissions in the State of Michigan established and created a trust fund known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities within the State. The Road Commission became a member of the Pool on March 1, 1986.

## SCHOOLCRAFT COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2011

#### NOTE J--RISK MANAGEMENT (Continued)

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

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

At September 30, 2011, 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 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 December 23, 2009, upon retirement or disability retirement, from age 55 to 65 each employee will receive single subscriber health insurance benefits at a cost of \$224.10 each week paid by the Road Commission. The retiree will be required to reimburse to the Road Commission any costs incurred in excess of this amount. In order to be eligible retirees must be at least 55 years of age and have worked a minimum of 15 years with the Road Commission. The benefit will cease when the retiree reaches 65 years of age. There were 11 employees that qualified during the year ended September 30, 2011. The total cost was \$137,868 and the amount reimbursed by retirees was \$43,855 with a net cost to the Road Commission of \$94,013. The expenditures are recognized as the insurance premiums become due.

#### Funding Status and Funding Progress

For the year ended September 30, 2011, the Road Commission has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of September 30, 2011. The Road Commission's annual other post-employment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer based on the alternate method of actuarial, as provided in accordance with the parameters of GASB Statement No. 45. The valuation 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 amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The valuation computed required contribution and actual funding are summarized as follows:

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2011

NOTE K--OTHER POST-EMPLOYMENT BENEFITS (Continued)

	2011
Annual Required Contribution	\$ 188,420
Amount Contributed	
Payments of Current Premiums	(94,013)
Advance Funding	
	94,407
Increase in Net OPEB Obligation	94,407
Adjustment for Interest and Amortization	-
OPEB Obligation--Beginning of Year	-
OPEB Obligation--End of Year	\$ 94,407

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the year ended September 30, 2011 were as follows:

Annual OPEB Costs	\$188,420
Percentage Contributed	49.90%
Net OPEB Obligation	\$94,407

The schedule of funding progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. This is the first year of implementation for GASB Statement No. 45, so only one actuarial valuation is available. The Road Commission expects to have an actuarial valuation performed every three years.

Funding Status

The funding status as of September 30, 2011, the most recent actuarial valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
09/30/11	\$0	\$ 1,982,238	\$1,982,238	0.00%	\$ 1,392,816	142%

Significant actuarial assumptions used include:

- 1) Discount rate of 4.00%
- 2) Annual salary increases of 3.00%
- 3) Post-Retirement Interest rate of 7.00%
- 4) Healthcare inflation rate is based on NIH National Health Expenditure Projections, 2008-2018.

## SCHOOLCRAFT COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2011

#### 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, 2011, the Road Commission received \$275,093 in 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.

During the fiscal year ended September 30, 2011, the Road Commission received and expended \$344,480 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 required during the fiscal year ended September 30, 2011.

#### NOTE M--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 N--CHANGE IN ACCOUNTING PRINCIPLE

In March 2009, the Government Accounting Standards Board (GASB) issued statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved have been replaced with five new classifications: non-spendable, restricted, committed, assigned, and unassigned.

**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, 2011**

**EXHIBIT G**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 2,000	\$ 2,795	\$ 2,825	\$ 30
Federal Grants--Negotiated Projects				
Critical Bridge Funds	-	350,000	301,619	(48,381)
Surface Transportation Program	156,416	226,900	189,168	(37,732)
Economic Development D Funds	223,344	126,000	120,335	(5,665)
U.S Forest Service	-		8,451	8,451
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,250,000	1,280,000	1,284,065	4,065
Local Road	350,000	379,000	384,729	5,729
Snow Removal	108,200	113,509	117,510	4,001
Economic Development Fund				
Rural Primary (D)	253,800	140,900	136,525	(4,375)
Forest Road Funds (E)	177,000	193,600	191,898	(1,702)
State Critical Bridge	146,739	59,747	56,554	(3,193)
State Buyback--Federal Aid Exchange	-	32,412	32,412	-
Contributions--Local Units				
Other	-	12,103	12,104	1
County	-	15,000		(15,000)
Charges for Services				
State Trunkline Maintenance	1,100,000	1,313,068	1,338,393	25,325
State Trunkline Non-Maintenance	70,500	204,570	202,552	(2,018)
Private Drive Snow Removal	30,000	16,500	17,881	1,381
Salvage Sales	3,000	2,000	1,000	(1,000)
Interest and Rents				
Interest Earned	10,000	12,000	12,821	821
Rents and Royalties	50,000	110,000	121,710	11,710
Other Revenue				
Contributions from Private Sources	89,186	13,300	-	(13,300)
Refunds/Rebates	-	-	4,297	4,297
Gain on Sale of Timber	3,000	1,000	1,029	29
Gain on Equipment Disposal	-	6,500	5,863	(637)
Total Revenue	<u>4,033,185</u>	<u>4,620,904</u>	<u>4,553,741</u>	<u>(67,163)</u>
Other Financing Sources				
Proceeds From Installment Purchase Agreement	-	60,000	55,130	(4,870)
Total Other Financing Sources	-	60,000	55,130	(4,870)
Total Revenue and Other Financing Sources	<u>4,033,185</u>	<u>4,680,904</u>	<u>\$ 4,608,871</u>	<u>\$ (72,033)</u>
Fund Balance--October 1, 2010	<u>1,524,761</u>	<u>1,524,761</u>		
Total Budget	<u>\$ 5,557,946</u>	<u>\$ 6,205,665</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, 2011**

**EXHIBIT H**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvement	\$ 575,000	\$ 703,000	\$ 669,695	\$ 33,305
Routine and Preventive Maintenance	545,000	793,000	841,336	(48,336)
Local Road				
Preservation/Structural Improvement	-	41,000	22,093	18,907
Routine and Preventive Maintenance	321,000	485,000	524,925	(39,925)
Primary Road Structure				
Preservation/Structural Improvement	-	500,000	390,776	109,224
Local Road Structure				
Preservation-Structural Improvement	-	66,000	39,704	26,296
State Trunkline Maintenance	1,150,000	1,257,392	1,282,717	(25,325)
State Trunkline Non-Maintenance	70,500	204,570	202,552	2,018
Private Drive Snow Removal	30,000	16,500	17,881	(1,381)
Equipment Expense--Net	(50,000)	160,000		
Direct			\$ 834,156	
Indirect			397,610	
Operating			309,693	
Less: Equipment Rentals			<u>(1,432,022)</u>	50,563
Distributive Expense	968,449	-		-
Administrative Expense--Net	136,050	246,265		
Administrative Expense	-		387,077	
Less: Overhead--State			(140,392)	
Overhead--State Non-Maintenance			-	
Overhead--Other			(2,137)	
Purchase Discounts			-	1,717
Other Non-Road Projects	37,186	12,000	11,983	17
Capital Outlay--Net	-	(185,700)		
Capital Outlay			103,240	
Less: Depreciation Credits			(273,640)	
Equipment Retirements			<u>(137)</u>	(15,163)
Debt Service				
Principal	200,000	200,000	177,984	22,016
Interest	50,000	58,500	83,171	(24,671)
Total Expenditures	4,033,185	4,557,527	<u>\$ 4,448,265</u>	<u>\$ 109,262</u>
Fund Balance--September 30, 2011	<u>1,524,761</u>	<u>1,648,138</u>		
Total Budget	<u>\$ 5,557,946</u>	<u>\$ 6,205,665</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, 2011**

**EXHIBIT I**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$2,393,843	\$ 450,452	\$1,764,576	\$ 4,608,871
Total Expenditures	<u>2,118,531</u>	<u>662,888</u>	<u>1,666,846</u>	<u>4,448,265</u>
Excess of Revenues Over (Under) Expenditures	<u>275,312</u>	<u>(212,436)</u>	<u>97,730</u>	<u>160,606</u>
Other Financing Sources (Uses) Optional Transfers	<u>(225,000)</u>	<u>225,000</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(225,000)</u>	<u>225,000</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	50,312	12,564	97,730	160,606
Fund Balance--October 1, 2010	<u>578,481</u>	<u>10,315</u>	<u>1,188,506</u>	<u>1,777,302</u>
Fund Balance--September 30, 2011	<u>\$ 628,793</u>	<u>\$ 22,879</u>	<u>\$1,286,236</u>	<u>\$ 1,937,908</u>

**SCHOOLCRAFT COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND--ANALYSIS OF  
REVENUES AND OTHER FINANCING SOURCES  
For the Fiscal Year Ended September 30, 2011**

**EXHIBIT J**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Licenses and Permits				
Permits			\$ 2,825	\$ 2,825
Federal Grants--Negotiated Projects				
Critical Bridge Funds	\$ 275,093	\$ 26,526		301,619
Surface Transportation Program	189,168			189,168
Economic Development D Funds	120,335			120,335
U.S. Forest Service	-	-	8,451	8,451
State Grants				
Michigan Transportation Fund				
Engineering	7,695	2,305		10,000
Allocation	1,284,065	384,729		1,668,794
Snow Removal	90,483	27,027		117,510
Economic Development Fund				
Rural Primary (D)	136,525			136,525
Forest Road Funds (E)	187,082	4,816		191,898
State Critical Bridge Funds	51,580	4,974		56,554
State Buyback--Federal Aid Exchange	32,412			32,412
Contributions--Local Units				
Other	12,104	-	-	12,104
Charges for Services				
State Trunkline Maintenance			1,338,393	1,338,393
State Trunkline Non-Maintenance			202,552	202,552
Private Drive Snow Removal			17,881	17,881
Salvage Sales			1,000	1,000
Interest and Rents				
Interest Earned	4,173	75	8,573	12,821
Rents and Royalties			121,710	121,710
Other Revenue				
Refunds/Rebates			4,297	4,297
Sale of Timber			1,029	1,029
Gain on Equipment Disposal	3,128		2,735	5,863
Total Revenue	<u>2,393,843</u>	<u>450,452</u>	<u>1,709,446</u>	<u>4,553,741</u>
Other Financing Sources				
Proceeds From Installment Purchase Agreement	-		55,130	55,130
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>55,130</u>	<u>55,130</u>
Total Revenue and Other Financing Sources	<u>\$ 2,393,843</u>	<u>\$ 450,452</u>	<u>\$ 1,764,576</u>	<u>\$ 4,608,871</u>

**SCHOOLCRAFT COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND  
ANALYSIS OF EXPENDITURES  
For the Fiscal Year Ended September 30, 2011**

**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	\$ 669,695			\$ 669,695
Routine and Preventive Maintenance	841,336			841,336
Local Road				
Preservation/Structural Improvement		\$ 22,093		22,093
Routine and Preventive Maintenance		524,925		524,925
Primary Road Structures				
Preservation/Structural Improvement	390,776			390,776
Local Road Structures				
Preservation-Structural Improvement		39,704		39,704
State Trunkline Maintenance			\$ 1,282,717	1,282,717
State Trunkline Non-Maintenance			202,552	202,552
Private Snow Plowing			17,881	17,881
Equipment Expense--Net (Per Exhibit H)	43,483	18,509	47,445	109,437
Administrative Expense--Net (Per Exhibit H)	186,891	57,657		244,548
Other Non-Road Projects			11,983	11,983
Capital Outlay--Net (Per Exhibit H)	(146,060)		(24,477)	(170,537)
Debt Service				
Principal	60,000		117,984	177,984
Interest	72,410		10,761	83,171
Total Expenditures	<u>\$ 2,118,531</u>	<u>\$ 662,888</u>	<u>\$ 1,666,846</u>	<u>\$ 4,448,265</u>



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

ANDY DILLON  
STATE TREASURER

February 2, 2012

Board of County Road Commissioners  
Schoolcraft County Road Commission  
332 N. East Road  
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 basic financial statements of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, Michigan, as of and for the year ended September 30, 2011, and have issued our report thereon dated February 2, 2012. 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

Management of the Schoolcraft County Road Commission is responsible for establishing and maintaining effective 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 opinions 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 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.

Our consideration of 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. 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 Schoolcraft County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or 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 2011-1.

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.



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



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

ANDY DILLON  
STATE TREASURER

February 2, 2012

Board of County Road Commissioners  
Schoolcraft County Road Commission  
332 N. East Road  
Manistique, Michigan 49854

RE: Report to Those Charged With Governance

Dear Commissioners:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, Michigan, for the fiscal year ended September 30, 2011, and have issued our report thereon dated February 2, 2012. 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 August 8, 2011, 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 December 15, 2011.

#### Significant Accounting Policies

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. During the fiscal year, the Road Commission implemented Government Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions to enhance the usefulness of the fund balance information. The changes implemented by the Road Commission are explained in Notes E and N to the financial statements. 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.

Management's estimate of depreciation is based on the straight-line method. We evaluated the key factors and assumptions used to develop the depreciation in determining that it is reasonable in relation to the financial statements, taken as a whole.

#### 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. 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 2, 2012.

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 Schoolcraft 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, 2011

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 2011-1*

*Condition:* During the fiscal year ended September 30, 2011, 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 Routine & Preventive Maintenance	\$ 793,000	\$ 841,336	\$ (48,336)
Local Road Routine & Preventive Maintenance	485,000	524,925	(39,925)
State Trunkline Maintenance	1,257,392	1,282,717	(25,325)
Private Drive Snow Removal	16,500	17,881	(1,381)
Capital Outlay--Net	(185,700)	(170,537)	(15,163)
Debt Service--Interest	58,500	83,171	(24,671)

*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.