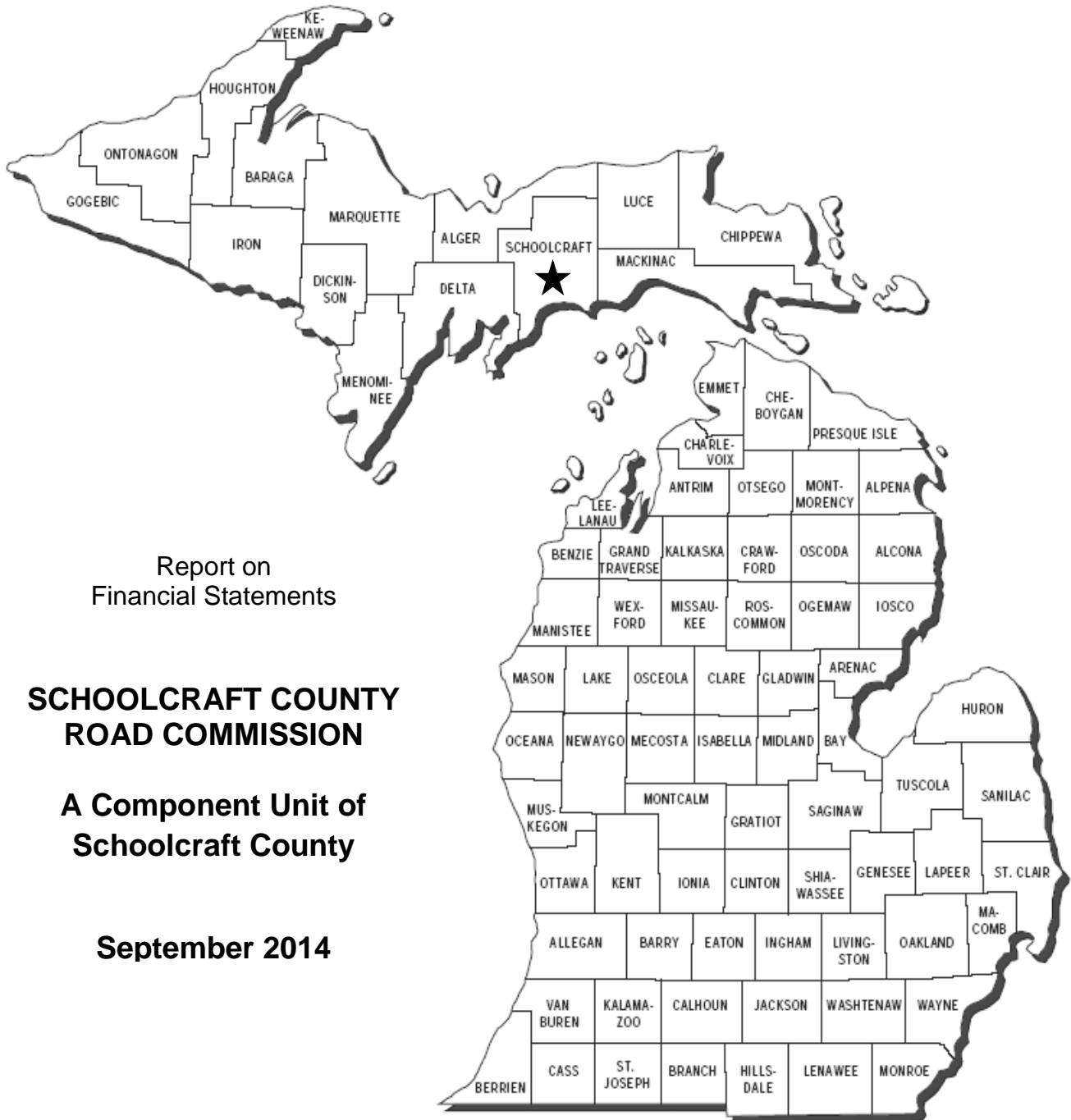


# STATE OF MICHIGAN

Rick Snyder, Governor

## DEPARTMENT OF TREASURY

R. Kevin Clinton  
State Treasurer



Report on  
Financial Statements

### SCHOOLCRAFT COUNTY ROAD COMMISSION

A Component Unit of  
Schoolcraft County

September 2014

SCHOOLCRAFT COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

Gregory L. Hase  
Chairperson

Dale J. DuFour  
Vice Chairperson

Bernard J. Lund  
Member

Craig Kelso  
Engineer / Manager

Lisa Kleeman  
Finance Director

COUNTY POPULATION--2010  
8,485

STATE EQUALIZED VALUATION--2014  
\$450,876,546



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

R. KEVIN CLINTON  
STATE TREASURER

February 17, 2015

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

Independent Auditor's Report

Dear Commissioners:

**Report on the Financial Statements**

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 fiscal year ended September 30, 2014, and related notes to the financial statements, which collectively comprise the Schoolcraft County Road Commission's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence supporting the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the Schoolcraft County Road Commission, as of September 30, 2014, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 9 and the budgetary comparison information in Exhibits I and J and the schedule of funding progress for pensions and other post employee benefits be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with the sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Schoolcraft County Road Commission's basic financial statements. The accompanying supplementary and related information in Exhibits K through M are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2015, on our consideration of Schoolcraft County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Schoolcraft County Road Commission's internal control over financial reporting and compliance.



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

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## TABLE OF CONTENTS

	<u>Page</u>
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b> .....	1
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
EXHIBIT A--Statement of Net Position .....	10
EXHIBIT B--Statement of Activities .....	11
EXHIBIT C--Balance Sheet--Governmental Fund.....	12
EXHIBIT D--Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position.....	13
EXHIBIT E--Statement of Revenues, Expenditures and Changes in Fund Balance--Governmental Fund .....	14
EXHIBIT F--Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities .....	15
EXHIBIT G—Statement of Plan Net Position .....	16
EXHIBIT H-- Statement of Changes in Plan Net Position .....	17
NOTES TO FINANCIAL STATEMENTS .....	18
<b><u>REQUIRED SUPPLEMENTARY INFORMATION</u></b>	
Schedule of Funding Progress—Employees’ Retirement System (Pension) and Other Post Employee Benefits.....	38
EXHIBIT I--General Operating Fund--Schedule of Revenues and Other Financing Sources-Budgetary Comparison Schedule .....	39
EXHIBIT J--General Operating Fund--Schedule of Expenditures Budgetary Comparison Schedule.....	40
<b><u>SUPPLEMENTARY INFORMATION AND SCHEDULES</u></b>	
EXHIBIT K--General Operating Fund--Analysis of Changes in Fund Balances .....	41
EXHIBIT L.--General Operating Fund--Analysis of Revenues and Other Financing Sources.....	42
EXHIBIT M-General Operating Fund--Analysis of Expenditures.....	43
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 <u>Government Auditing Standards</u> .....	44
Report to Those Charged With Governance .....	46
Schedule of Findings and Responses .....	49

# **SCHOOLCRAFT COUNTY ROAD COMMISSION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2014**

### **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 Position 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 position and how it has 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 Position and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. 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 position and changes in them. The reader can think of the Road Commission's net position (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 position 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, 2014**

### **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.

The governmental fund focuses on how money flows into and out of the Road Commission and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

### **The Road Commission as a Whole**

The Road Commission's net position increased approximately 21.65% or \$2,494,680 from \$11,521,666 to \$14,016,346 for the fiscal year ended September 30, 2014. The net position and change in net position are summarized below.

Restricted net position, those restricted mainly for Act 51 purposes, increased \$68,736 or approximately 2.85%. The primary reason for the increase in net position was due to a larger increase in revenues than in expenditures. The net investment in capital assets increased approximately 26.63% or \$2,425,944 from the prior fiscal year. This was primarily due to the capital asset additions of \$3,814,216 being more than the depreciation of \$1,114,202 during fiscal year 2014.



**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended September 30, 2014**

Net position as of the fiscal year ended September 30, 2014, compared to the prior fiscal year end are as follows:

	Governmental Activities 9/30/13	Governmental Activities 9/30/14	Variance Increase (Decrease)	Percentage
<b>Assets</b>				
Current and Other Assets	\$ 3,143,088	\$ 3,600,583	\$ 457,495	14.56%
Net Capital Assets	<u>10,994,056</u>	<u>13,694,070</u>	<u>2,700,014</u>	<u>24.56%</u>
<b>Total Assets</b>	<u>14,137,144</u>	<u>17,294,653</u>	<u>3,157,509</u>	<u>22.33%</u>
<b>Liabilities</b>				
Current Liabilities	210,233	454,480	244,247	116.18%
Long-Term Liabilities	<u>2,391,263</u>	<u>2,728,433</u>	<u>337,170</u>	<u>14.10%</u>
<b>Total Liabilities</b>	<u>2,601,496</u>	<u>3,182,913</u>	<u>581,417</u>	<u>22.35%</u>
<b>Deferred Inflows of Resources</b>				
Unearned Income	<u>13,982</u>	<u>95,394</u>	<u>81,412</u>	<u>582.26%</u>
<b>Net Position</b>				
Net Investment in Capital Assets	9,108,355	11,534,299	2,425,944	26.63%
Restricted	<u>2,413,311</u>	<u>2,482,047</u>	<u>68,736</u>	<u>2.85%</u>
<b>Total Net Position</b>	<u><u>\$ 11,521,666</u></u>	<u><u>\$ 14,016,346</u></u>	<u><u>\$ 2,494,680</u></u>	<u><u>21.65%</u></u>

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended September 30, 2014**

**Changes in Net Position**

A summary of changes in net position for the fiscal year ended September 30, 2014, compared to the prior year follows:

	Governmental Activities 2013	Governmental Activities 2014	Increase (Decrease)	Percentage
Program Revenue				
Licenses and Permits	\$ 6,390	\$ 4,045	\$ (2,345)	-36.70%
Federal Grants	476,430	1,028,996	552,566	115.98%
State Grants	3,207,337	3,288,649	81,312	2.54%
Charges for Services	2,199,051	2,370,426	171,375	7.79%
Contributions	44,427	184,278	139,851	314.79%
Investment Earnings	60,662	71,408	10,746	17.71%
General Revenue				
Gain on Equipment Disposal	4,500	3,875	(625)	-13.89%
<b>Total Revenue</b>	<b>5,998,797</b>	<b>6,951,677</b>	<b>952,880</b>	<b>15.88%</b>
Expenses				
Primary Road Maintenance	851,726	957,426	105,700	12.41%
Local Road Maintenance	479,451	653,696	174,245	36.34%
State Trunkline Maintenance	1,837,374	2,046,140	208,766	11.36%
Private Driveway Snow Plowing	21,355	25,699	4,344	20.34%
Net Equipment Expense	14,359	(243,945)	(258,304)	-1798.90%
Net Administrative Expense	315,307	191,362	(123,945)	-39.31%
Non-Road Project	6,770	8,263	1,493	22.05%
Infrastructure Depreciation	766,263	850,459	84,196	10.99%
Compensated Absences	(43,119)	7,369	50,488	-117.09%
Other Post-Employment Benefits	(21,076)	15,428	36,504	-173.20%
Other Net Pension Obligations	(94,535)	(104,450)	(9,915)	10.49%
Interest Expense	56,231	49,550	(6,681)	-11.88%
<b>Total Expenses</b>	<b>4,190,106</b>	<b>4,456,997</b>	<b>266,891</b>	<b>6.37%</b>
<b>Change in Net Position</b>	<b>1,808,691</b>	<b>2,494,680</b>	<b>685,989</b>	<b>37.93%</b>
<b>Ending Net Position</b>	<b>\$ 11,521,666</b>	<b>\$ 14,016,346</b>	<b>\$ 2,494,680</b>	<b>21.65%</b>

The total revenue increased by \$952,880 or 15.88% from \$5,998,797 in fiscal year 2013 to \$6,951,677 in fiscal year 2014. The most significant variances were increases in Federal grants, an increase in charges for services due to a harsher winter and an increase in contributions due to more township projects in 2014.

## **SCHOOLCRAFT COUNTY ROAD COMMISSION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2014**

The total expenditures increased by \$266,891 or 6.37% from \$4,190,106 in fiscal year 2013 to \$4,456,997 in fiscal year 2014. The most significant increases in expenses during fiscal year 2014 were related to State trunkline maintenance due to the harsher winter in 2014 and increases in primary and local road maintenance, which were offset by decreases in net equipment expense and net administrative expenses.

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, 2014, the fund balance of the General Operations Fund increased by \$16,945 as compared to an increase of \$180,672 in the fund balance for the year ended September 30, 2013. Total revenues and other financing sources were \$7,491,310, an increase of \$1,244,467 compared with the prior fiscal year which amounted to \$6,246,843 at the end of September 30, 2013. The increase is primarily from an increase in federal grants, state trunkline maintenance, township contributions and installment proceeds offset by a decrease in proceeds from bond refinancing proceeds. Revenues in the amount of \$6,951,677 increased \$952,880 as compared with the prior fiscal year. This change was due in part to increases in Federal aid, State trunkline maintenance related to the harsh winter and township contributions associated additional township projects.

Total expenditures amounted to \$7,474,365, an increase of \$1,408,194 compared to the prior fiscal year which amounted to \$6,066,171 at the end of September 30, 2013. This change in expenditures was primarily due to an increase in Primary and Local Road Preservation / Structural Improvements and Maintenance, an increase in state trunkline maintenance costs due to the harsher winter and an increase in Primary Road Structure Preservation / Structural Improvements due to new bridge projects, offset by decreases in state trunkline non-maintenance, net administrative expenses and a decrease in net equipment expense.

## SCHOOLCRAFT COUNTY ROAD COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2014

	2013	2014	Variance	Percent
<b>Revenues</b>				
Licenses and Permits	\$ 6,390	\$ 4,045	\$ (2,345)	-36.70%
Federal Grants	476,430	1,028,996	552,566	115.98%
State Grants	3,207,337	3,288,649	81,312	2.54%
Contributions	44,427	184,278	139,851	314.79%
Charges for Services	2,192,214	2,360,336	168,122	7.67%
Interest and Rents	60,662	71,408	10,746	17.71%
Other Revenue	11,337	13,965	2,628	23.18%
<b>Total Revenues</b>	<b>5,998,797</b>	<b>6,951,677</b>	<b>952,880</b>	<b>15.88%</b>
<b>Expenditures</b>				
Public Works	5,834,145	6,772,949	938,804	16.09%
Capital Outlay	(37,350)	416,165	453,515	-1214.23%
Debt Service	269,376	285,251	15,875	5.89%
<b>Total Expenditures</b>	<b>6,066,171</b>	<b>7,474,365</b>	<b>1,408,194</b>	<b>23.21%</b>
<b>Excess of Revenues Over (Under)</b>				
Expenditures	(67,374)	(522,688)	(455,314)	675.80%
<b>Other Financing Sources (Uses)</b>				
Proceeds From Lease Purchase	80,370	509,771	429,401	534.28%
Proceeds From Bonds	167,676	29,862	(137,814)	-82.19%
<b>Total Other Financing Sources (Uses)</b>	<b>248,046</b>	<b>539,633</b>	<b>291,587</b>	<b>117.55%</b>
<b>Net Change in Fund Balance</b>	<b>180,672</b>	<b>16,945</b>	<b>(163,727)</b>	<b>-90.62%</b>
Fund Balance--Beginning	2,095,506	2,276,178	180,672	8.62%
Fund Balance--Ending	\$ 2,276,178	\$ 2,293,123	\$ 16,945	0.74%

### 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, 2014 was higher than the original budget by \$3,603,914. This was due, in part, to more State and Federal aid than originally anticipated, more state Maintenance funding due to the harsh winter and more proceeds from installment agreements.

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2014

The actual revenue recognized during the current fiscal year was lower than the final amended budget by \$97,325, mainly due to slightly less Federal Aid Funds than anticipated.

The final amended expenditure budget for the current fiscal year was \$3,654,823 higher than the original budget, primarily due to higher preservation / structural improvements on primary roads, more state trunkline maintenance due to the harsher winter and more capital outlay. The actual expenditures recognized during the current fiscal year were \$165,179 lower than the final amended budget. This was primarily due to less net equipment expenses and lower administrative expenses than anticipated.

### Capital Assets and Debt Administration

#### Capital Assets

As of September 30, 2014 the Road Commission had \$13,694,070 invested in capital assets as follows:

	<u>9/30/13</u>	<u>9/30/14</u>	<u>Percentage Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 357,407	\$ 357,407	0.00%
Infrastructure--Land and Improvements	<u>1,272,270</u>	<u>1,272,270</u>	<u>0.00%</u>
Subtotal	<u>1,629,677</u>	<u>1,629,677</u>	<u>0.00%</u>
Capital Assets Being Depreciated			
Land Improvements	50,519	50,519	0.00%
Buildings	3,556,426	3,577,261	0.59%
Road Equipment	4,623,612	5,231,470	13.15%
Shop Equipment	178,962	178,962	0.00%
Office Equipment	55,542	58,853	5.96%
Engineer's Equipment	28,439	28,439	0.00%
Depletable Assets	69,508	69,508	0.00%
Infrastructure--Bridges	1,948,648	2,228,321	14.35%
Infrastructure--Roads	<u>9,451,365</u>	<u>12,306,000</u>	<u>30.20%</u>
Subtotal	<u>19,963,021</u>	<u>23,729,333</u>	<u>18.87%</u>
Total Capital Assets	<u>21,592,698</u>	<u>25,359,010</u>	<u>17.44%</u>
Total Accumulated Depreciation	<u>(10,598,642)</u>	<u>(11,664,940)</u>	<u>10.06%</u>
Total Net Capital Assets	<u>\$ 10,994,056</u>	<u>\$ 13,694,070</u>	<u>24.56%</u>

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2014

The Road Commission reported infrastructure current year asset additions in the amount of \$3,134,308. Infrastructure assets are financed through Federal, State and local contributions.

Current year's major additions included the following:

Buildings	\$ 20,835
Infrastructure	3,134,308
Equipment	<u>659,073</u>
Total Additions	<u>\$ 3,814,216</u>

More detailed information about the Road Commission's capital assets is presented in Note D to the financial statements.

### Debt

The Road Commission currently has debt in the amount of \$2,159,771 for the fiscal year ending September 30, 2014. Bonds on the building amount to \$1,645,000, which will be paid off over a remaining period of thirteen (13) years. The Road Commission also owes on two installment purchase contracts for equipment totaling \$509,771 that will be paid off over a remaining period of three (3) years. The Road Commission owes \$5,000 for land in which the final payment is due in four (4) years in 2018. Vested employee benefits long-term debt amounts to \$201,391. More detailed information about the Road Commission's long term debt is presented in Note E to the financial statements.

The outstanding debt excluding vested employee benefits long-term debt of the Road Commission at September 30, 2014 was as follows:

	Balances 09/30/13	Balances 09/30/14
2012 MTF Refunding Bonds	\$ 1,740,000	\$ 1,645,000
2008 Land Installment Purchase	5,000	5,000
2009 Installment Purchase - Equipment	20,491	-
2012 Installment Purchase - Trucks	59,995	-
2013 Installment Purchase - Property	60,215	-
2014 Installment Purchase - Equipment	-	378,681
2014 Installment Purchase - Equipment	-	<u>131,090</u>
Total	<u>\$ 1,885,701</u>	<u>\$ 2,159,771</u>

# **SCHOOLCRAFT COUNTY ROAD COMMISSION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2014**

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

The Board considered many factors when setting the fiscal year 2014/15 budget. One of the factors is the economy. The Road Commission derives approximately 30% of its revenues from the fuel tax and vehicle registration fees collected. The slow economic recovery over the past few years, with increased equipment and materials costs, along with a flat gas tax last increased in 1994 have resulted in a budget projection that allows for very little improvements to roads and a minimum level of maintenance. It is estimated that Motor Vehicle Highway Funds will remain flat for 2015.

The above items were considered when adopting the budget for 2015. Amounts available for appropriation in the 2015 budget for projected revenues are \$4,882,208 and projected expenditures are \$4,882,208.

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

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

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Schoolcraft County Road Commission administrative offices at Tannery Location, Manistique, Michigan 49854 (906) 341-5634.

**SCHOOLCRAFT COUNTY ROAD COMMISSION**  
**STATEMENT OF NET POSITION**  
**September 30, 2014**

**EXHIBIT A**

**ASSETS**

Current Assets	
Cash	\$ 1,845,707
Accounts Receivable	
State Trunkline Maintenance	101,467
Michigan Transportation Fund	301,757
State--Other	97,614
Due on County Road Agreements	72,262
Sundry Accounts	2,728
Inventories	606,795
Prepaid Expenses	53,389
Net Pension Asset	354,657
Non-Current Assets	
Cash Restricted for Capital Projects	164,207
Capital Assets Nondepreciating	1,629,677
Capital Assets -Net of Accumulated Depreciation	12,064,393
Total Assets	<u>17,294,653</u>

**LIABILITIES**

Current Liabilities	
Accounts Payable	339,204
Accrued Liabilities	89,658
Driveway Snow Plowing Deposits	25,618
Noncurrent Liabilities	
Advance From State	243,511
Bonds Payable--Due in One Year	100,000
Bonds Payable--Due in More Than One Year	1,545,000
Installment Purchase Agreements Payable--Due in One Year	421,140
Installment Purchase Agreements Payable--Due in More Than One Year	93,631
Vested Employee Benefits Payable--Due in One Year	128,175
Vested Employee Benefits Payable--Due in More than One Year	73,216
Net Other Post-Employment Benefits Obligation	123,760
Total Liabilities	<u>3,182,913</u>

**DEFERRERD INFLOWS OF RESOURCES**

Unearned Revenues	
State Roads & Risk Reserve Funds	28,458
Forest Road Funds	66,936
Total Deferred Inflows of Resources	<u>95,394</u>

**NET POSITION**

Net Investment in Capital Assets	11,534,299
Restricted for County Roads	2,482,047
Total Net Position	<u>\$ 14,016,346</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, 2014**

**EXHIBIT B**

Program Expenses	
Primary Road Maintenance	\$ 957,426
Local Road Maintenance	653,696
State Trunkline Maintenance	2,046,140
Private Driveway Plowing	25,699
Net Equipment Expense	(243,945)
Net Administrative Expense	191,362
Non-Road Project	8,263
Infrastructure Depreciation	850,459
Compensated Absences	7,369
Other Post-Employment Benefits	15,428
Other Net Pension Obligations	(104,450)
Interest Expense	49,550
Total Program Expenses	<u>4,456,997</u>
Program Revenue	
Charges for Services	
License and Permits	4,045
Charges for Services	2,370,426
Operating Grants and Contributions	
Michigan Transportation Funds	1,878,946
Contributions	184,278
Investment & Royalties Earnings	71,408
Capital Grants and Contributions	
Federal Grants	1,028,996
State Grants	1,409,703
Total Program Revenue	<u>6,947,802</u>
Net Program Revenue	2,490,805
General Revenue	
Gain on Equipment Disposal	3,875
Total General Revenues	<u>3,875</u>
Change in Net Position	2,494,680
Net Position	
Beginning of Year	<u>11,521,666</u>
End of Year	<u>\$ 14,016,346</u>

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

**SCHOOLCRAFT COUNTY ROAD COMMISSION  
BALANCE SHEET--GOVERNMENTAL FUND  
September 30, 2014**

**EXHIBIT C**

	General Operating Fund
<b><u>ASSETS</u></b>	
Cash	\$ 1,845,707
Receivables	
State Trunkline Maintenance	101,467
Michigan Transportation Fund	301,757
State Department of Transportation--Other	97,614
Due on County Road Agreements	72,262
Sundry Accounts	2,728
Inventories	
Road Materials	411,831
Equipment Parts and Materials	194,964
Prepaid Expenses	53,389
Cash Restricted for Capital Projects	164,207
Total Assets	<u>\$ 3,245,926</u>
<b><u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND EQUITY</u></b>	
<b>LIABILITIES</b>	
Accounts Payable	\$ 339,204
Accrued Interest Payable	7,757
Accrued Liabilities	81,901
Advances	
Driveway Plowing	25,618
State of Michigan	243,511
Total Liabilities	<u>697,991</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unearned Revenues--Forest Road Funds	66,936
Unearned Revenues--State RRR Funds	28,458
Unearned Revenues--Bond Proceeds to be used on Future Capital Projects	159,418
Total Deferred Inflows of Resources	<u>254,812</u>
<b>FUND EQUITY</b>	
Fund Balance	
Nonspendable:	
Inventory	606,795
Prepaid Expenses	53,389
Restricted for Road Operations	1,632,939
Total Fund Equity	<u>2,293,123</u>
Total Liabilities, Deferred Inflows of Resources and Fund Equity	<u>\$ 3,245,926</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 POSITION  
September 30, 2014**

**EXHIBIT D**

Total Governmental Fund Balance	\$ 2,293,123
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	13,694,070
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	(2,484,922)
Bond proceeds to be used in the future were recorded as deferred revenue in the governmental funds, but not in the Statement of Activities (where it is recorded as bonds payable).	159,418
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).	<u>354,657</u>
Net Position of Governmental Activities	<u><u>\$ 14,016,346</u></u>

**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, 2014**

**EXHIBIT E**

	General Operating Fund
Revenues	
Licenses and Permits	\$ 4,045
Federal Grants	1,028,996
State Grants	3,288,649
Contributions from Local Units	184,278
Charges for Services	2,360,336
Interest and Rents	71,408
Other Revenue	13,965
	<hr/>
Total Revenues	6,951,677
	<hr/>
Expenditures	
Public Works	6,772,949
Capital Outlay	416,165
Debt Service	285,251
	<hr/>
Total Expenditures	7,474,365
	<hr/>
Excess of Revenues Over (Under) Expenditures	(522,688)
	<hr/>
Other Financing Sources (Uses)	
Proceeds From Bond Refinancing	29,862
Proceeds From Installment Purchase Agreements	509,771
	<hr/>
Total Other Financing Sources (Uses)	539,633
	<hr/>
Net Change in Fund Balance	16,945
	<hr/>
Fund Balance--October 1, 2013	2,276,178
	<hr/>
Fund Balance--September 30, 2014	\$ 2,293,123
	<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, 2014**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Funds \$ 16,945

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. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.

2,700,014

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

(303,932)

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)

81,653

Change in Net Position of Governmental Activities \$ 2,494,680

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

**SCHOOLCRAFT COUNTY ROAD COMMISSION  
STATEMENT OF NET POSITION  
FIDUCIARY FUND  
September 30, 2014**

**EXHIBIT G**

	<u>Pension Trust</u>
<b><u>ASSETS</u></b>	
Investments at Fair Market Value	<u>\$ 195,598</u>
Total Assets	<u>195,598</u>
<b><u>LIABILITIES</u></b>	
Total Liabilities	<u>-</u>
<b><u>NET POSITION</u></b>	
Restricted for Other Post Employment Benefits	<u><u>\$ 195,598</u></u>

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

**SCHOOLCRAFT COUNTY ROAD COMMISSION  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUND  
For the Fiscal Year Ended September 30, 2014**

**EXHIBIT H**

	<u>Pension Trust</u>
<b>ADDITIONS</b>	
Contributions	
Employer Contributions	<u>\$ 60,000</u>
Total Contributions	<u>60,000</u>
Investment Earnings	
Interest and Dividends	
Net Increase (Decrease) in Fair Value of Investments	<u>12,520</u>
Total Investment Earnings	<u>12,520</u>
Net Investment Earnings	<u>12,520</u>
Total Additions	<u>72,520</u>
<b>DEDUCTIONS</b>	
Administrative Fees	<u>618</u>
Total Deductions	<u>618</u>
Changes in Net Position	71,902
Net Position Restricted for Pension Benefits	
Beginning of Year (Note M)	<u>123,696</u>
End of Year	<u>\$ 195,598</u>

**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, 2014

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

The accounting policies of the Schoolcraft County Road Commission (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, (MCL 224.1), is governed by an elected 3-member Board of County Road Commissioners (Board). The Road Commission may not issue debt without the approval of the County Board of Commissioners. 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.

In accordance with generally accepted accounting principles and the Governmental Accounting Standards Board (GASB) Statement No. 61, "The Financial Reporting Entity," these financial statements present the Road Commission for financial reporting purposes. The criteria established by GASB 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 General Operating Fund is used to control the expenditures of Michigan Transportation Fund (MTF) 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 General Operating Fund.

#### Basis of Presentation--Government-Wide Financial Statements

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

The Statement of Net Position presents the Road Commission's assets and liabilities with the difference being reported as either net investment in capital assets or restricted net position.

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



# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2014

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

#### Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the General Operating Fund, a governmental fund. The General 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) 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 for the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after 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.

MTFs, 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, 2014**

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.

Restricted Cash

Funds classified as restricted cash at September 30, 2014 consist of \$164,207 to be used for capital projects.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance and 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, include property, plant and equipment, and infrastructure assets (e.g., roads, bridges and similar items), are reported in the General 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 an 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.

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

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2014

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

#### 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 Position.

#### 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 (2) 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 GAAP 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.

#### Unearned Revenue

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

#### Fund Balance Classifications

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

- Nonspendable – 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. For the Road Commission, the non-spendable balance reflects the inventory on hand, and prepaid expenses.

## SCHOOLCRAFT COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2014

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

- Restricted – includes fund balance amounts that can be spent only for specific purposes stipulated by the State 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.

#### 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 (CAO) (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 CAO 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.

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2014

### NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

#### 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 2014 expenditures were within the final amended budget by a total of \$165,179, some expenditure activities exceeded the amounts appropriated.

Expenditures by activity that exceeded appropriations are as follows:

	Final Amended Budget	Actual	Variance (Unfavorable)
Primary Road Structure Preservation / Structural Improvements	\$ 194,378	\$ 279,673	\$ (85,295)
State Trunkline Maintenance	1,865,997	1,923,438	(57,441)

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.

### 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 Pension Trust Fund was established with the Constellation Trust Company as governmental trust under Section 115 of the Internal Revenue Code to hold the assets of the retiree health funding vehicle and is administered under the discretion of Constellation Trust Company as fiduciary, directly by (or through a combination of) Constellation Trust Company and the road commission's Director of Finance whom directs payment of fund monies for the benefit of eligible employees under the road commission's retiree health care benefit program. The Pension Trust Fund investments are authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. Investments within the Trust are in accordance with statutory authority.

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014**

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

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, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

	General Operating Fund	Pension Trust Fund	Total
Cash	\$ 1,845,707	\$ -	\$ 1,845,707
Restricted Cash	164,207	-	164,207
Investments	-	195,598	195,598
Total	\$ 2,009,914	\$ 195,598	\$ 2,205,512

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposits)	\$ 2,007,914
Investments at Fair Market Value	
Within Pension Trust	195,598
Imprest Cash	2,000
Total	\$ 2,205,512

Restricted cash at September 30, 2014, consists of \$164,207 received as bond proceeds for future capital projects.

The bank balance of the Road Commission's deposits is \$2,015,985, of which \$501,000 is covered by Federal depository insurance.

Non-negotiable certificates of deposits that are placed by the depositors directly with financial institutions and that are subject to a penalty if redeemed before maturity are treated as bank deposits. Because non-negotiable certificates of deposits are deposits, no interest rate risk or credit risk disclosures are required, which are limited to investments.

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 General Operating Fund did not have any investments in the fiscal year ended September 30, 2014.

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2014

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

#### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

As of September 30, 2014, the Road Commission General Operating Fund did not have any investments.

#### 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, 2014**

**NOTE D--CAPITAL ASSETS**

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

	Balances 10/01/13	Additions	Deductions	Balances 09/30/14
Capital Assets Not Being Depreciated				
Land	\$ 357,407	\$ -	\$ -	\$ 357,407
Infrastructure--Land Improvements	1,272,270	-	-	1,272,270
Subtotal	<u>1,629,677</u>	<u>-</u>	<u>-</u>	<u>1,629,677</u>
Capital Assets Being Depreciated				
Land Improvements	50,519	-	-	50,519
Buildings	3,556,426	20,835	-	3,577,261
Road Equipment	4,623,612	655,762	47,904	5,231,470
Shop Equipment	178,962	-	-	178,962
Office Equipment	55,542	3,311	-	58,853
Engineer's Equipment	28,439	-	-	28,439
Depletable Assets	69,508	-	-	69,508
Infrastructure--Bridges	1,948,648	279,673	-	2,228,321
Infrastructure--Roads	9,451,365	2,854,635	-	12,306,000
Total	<u>19,963,021</u>	<u>3,814,216</u>	<u>47,904</u>	<u>23,729,333</u>
Less Accumulated Depreciation				
Land Improvements	33,678	3,368	-	37,046
Building	1,438,056	109,887	-	1,547,943
Road Equipment	4,315,548	138,586	47,904	4,406,230
Shop Equipment	149,923	8,801	-	158,724
Office Equipment	39,542	4,261	-	43,803
Engineer's Equipment	25,265	2,208	-	27,473
Depletable Assets	22,403	-	-	22,403
Infrastructure--Bridges	86,142	65,689	-	151,831
Infrastructure--Roads	4,488,085	781,402	-	5,269,487
Total	<u>10,598,642</u>	<u>1,114,202</u>	<u>47,904</u>	<u>11,664,940</u>
Net Capital Assets Being Depreciated	<u>9,364,379</u>	<u>2,700,014</u>	<u>-</u>	<u>12,064,393</u>
Total Net Capital Assets	<u>\$ 10,994,056</u>	<u>\$ 2,700,014</u>	<u>\$ -</u>	<u>\$ 13,694,070</u>



**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014**

NOTE D--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

Net Equipment Expense		
Direct Equipment	\$	138,586
Indirect Equipment		
Shop Building	109,887	
Shop Equipment	8,801	
Net Administrative Expenses		
Office Equipment and Furniture	4,261	
Engineer Equipment	2,208	
Land Improvements	3,368	
Infrastructure Depreciation Expense	<u>847,091</u>	
Total Depreciation Expense	<u>\$ 1,114,202</u>	

NOTE E--LONG-TERM DEBT

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

	Balance 10/01/13	Additions	(Reductions)	Balance 09/30/14	Due in One Year
Bonds Payable					
Michigan Transportation Fund Bonds Series 2012	\$ 1,740,000	\$ -	\$ (95,000)	\$ 1,645,000	\$ 100,000
Installment Purchase Contract					
Land--Graves Pit	5,000	-	-	5,000	-
Installment Purchase Contract					
The State Savings Bank--2014 Equipment	20,491	-	(20,491)	-	-
Installment Purchase Contract					
The State Savings Bank--2012 Equipment	59,995	-	(59,995)	-	-
Installment Purchase Contract					
The State Savings Bank--2013 Property	60,215	-	(60,215)	-	-
Installment Purchase Contract					
The State Savings Bank--2014 Equipment	-	378,681	-	378,681	378,681
Installment Purchase Contract					
The State Savings Bank--2014 Equipment	-	131,090	-	131,090	42,459
Vested Employee Benefits					
Vacation and Sick Leave	<u>194,022</u>	<u>7,369</u>	<u>-</u>	<u>201,391</u>	<u>128,175</u>
Totals	<u>\$ 2,079,723</u>	<u>\$ 517,140</u>	<u>\$ (235,701)</u>	<u>\$ 2,361,162</u>	<u>\$ 649,315</u>

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014**

NOTE E--LONG-TERM DEBT (Continued)

The annual interest and principal requirements of the Road Commission's long-term borrowing excluding vested employee benefits may be summarized as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2015	\$ 521,140	\$ 49,724	\$ 570,864
2016	143,685	47,198	190,883
2017	149,946	44,537	194,483
2018	115,000	42,160	157,160
2019	115,000	39,960	154,960
2020-2024	655,000	153,622	808,622
2025-2027	<u>460,000</u>	<u>36,418</u>	<u>496,418</u>
Total	<u>\$2,159,771</u>	<u>\$413,619</u>	<u>\$2,573,390</u>

Bonds Payable

Michigan Transportation Fund Bonds, Series 2012

On June 27, 2012, the County of Schoolcraft approved a \$1,825,000 Michigan Transportation Fund Refunding Bond issue, Series 2012, to refund the 2002 bond issue that was for the purpose of constructing Road Commission buildings. An advance refunding bond issue occurs when a new debt is issued to refinance an existing debt (old debt), but the proceeds must be placed in escrow pending call date or maturity. The difference between the cash flow required to service the old debt and the new debt and complete the refunding is \$230,546. The economic gain from the transaction (difference between the present value of the old debt service requirement and the present value of new debt service requirement, discounted at the effective interest rate on the new debt and adjusted for any additional cash) is \$178,100. The total bond issuance cost, including issuance cost, underwriter's discount, insurance fee, and additional proceeds, was \$18,033. The refunding bonds are payable over the period of 2013 to 2027 at interest rates that range from 1.1% to 4%.

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014**

NOTE E--LONG-TERM DEBT (Continued)

The terms and annual principal and interest requirements are as follows:

Terms: Date of issue was June 27, 2012, in the amount of \$1,825,000 at variable interest rates paid semi-annually with interest ranging from 1.1% to 4.00% commencing on February 1, 2013 through August 1, 2027, and annual principal payments ranging from \$85,000 to \$160,000.

<u>Year</u>	<u>Principal 1-Aug</u>	<u>Interest</u>		<u>Annual Total</u>
		<u>1-Feb</u>	<u>1-Aug</u>	
2015	\$ 100,000	\$ 23,270	\$ 23,270	\$ 146,540
2016	100,000	22,620	22,620	145,240
2017	105,000	21,920	21,920	148,840
2018	110,000	21,080	21,080	152,160
2019	115,000	19,980	19,980	154,960
2020-2024	655,000	76,811	76,811	808,622
2025-2027	<u>460,000</u>	<u>18,209</u>	<u>18,209</u>	<u>496,418</u>
Total	<u>\$1,645,000</u>	<u>\$203,890</u>	<u>\$203,890</u>	<u>\$2,052,780</u>

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>
2018	\$ 5,000
	<u>-</u>
Total	<u>\$ 5,000</u>

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014**

NOTE E--LONG-TERM DEBT (Continued)

Promissory Note Payable--Equipment Purchases

The Road Commission financed the purchase of three trucks with the State Savings Bank of Manistique on July 28, 2014. The terms and annual principal and interest requirements are as follows:

Terms: Purchase price of \$378,681 at 2.85% interest from August 2014 to January 2015, requiring principal and any interest accrued to be paid by January 28, 2015.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$378,681	\$ -	\$ 378,681
	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$378,681</u>	<u>\$ -</u>	<u>\$ 378,681</u>

Loans Payable--Vehicle Purchases

The Road Commission financed the refurbishing two trucks with the State Savings Bank of Manistique on September 29, 2014. The terms and annual principal and interest requirements are as follows:

Terms: Purchase price of \$131,090 at 2.85% interest from October 2014 to September 2017, requiring monthly payments of \$3,803.60 beginning October 29, 2014.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 42,459	\$ 3,184	\$ 45,643
2016	43,685	1,958	45,643
2017	<u>44,946</u>	<u>697</u>	<u>45,643</u>
Total	<u>\$131,090</u>	<u>\$ 5,839</u>	<u>\$ 136,929</u>

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2014

### NOTE E--LONG-TERM DEBT (Continued)

#### Vested Employee Benefits Payable

##### 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, 2014, totaled \$78,611.

##### 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 \$122,780 recorded in the long-term debt consists of 100% of the maximum accumulated sick leave at September 30, 2014.

The Road Commission has estimated the current portion of vested employee benefits payable within one year based on historical trends and current policies regarding usage of these benefits.

### NOTE F--DEFERRED COMPENSATION PLAN

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

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2014

### NOTE G--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 2.50% 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, 2013.

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, 2011, a rate of 42.80% of annual compensation was actuarially determined to be applied to annual compensation for calendar year 2014.

#### Annual Pension Cost

For the calendar year ended December 31, 2013, the Road Commission's annual pension cost was \$663,210 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, 2013. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to 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 include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014**

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Three Year Trend Information

Year Ended <u>December 31</u>	Annual Pension Cost (APC) <u>                    </u>	Percentage Of APC Contributed <u>                    </u>	Net Pension Obligation <u>                    </u>
2011	\$ 496,688	116%	\$ (79,820)
2012	564,606	113%	(75,852)
2013	663,210	114%	(94,535)

Actuarial Valuation Date <u>                    </u>	Actuarial Value of Assets <u>                    </u>	Actuarial Accrued Liability (AAL) <u>                    </u>	Underfunded Actuarial Accrued Liability (UAAL) <u>                    </u>	Funded Ratio <u>                    </u>	Covered Payroll <u>                    </u>	UAAL as a Percent of Covered Payroll <u>                    </u>
12/31/13	\$ 6,859,911	\$ 13,700,057	\$ 6,840,146	50%	\$ 1,050,832	651%

The schedule of funding progress immediately following the notes to the financial statements presents trend information about whether the actuarial value of plan asset is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE H--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 (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 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, 2014

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

The 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, 2014, 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 I--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 10 employees that qualified during the fiscal year ended September 30, 2014. The total cost was \$192,244 and the amount reimbursed by retirees was \$38,449 with a net cost to the Road Commission of \$153,795. The expenditures are recognized as the insurance premiums become due.

#### Funding Status and Funding Progress

For the year ended September 30, 2014, the Road Commission has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of September 30, 2014. 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 ARC, 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, 2014**

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Annual Required Contribution	\$ 188,420	\$ 188,420	\$ 220,557
Amount Contributed			
Payments of Current Premiums	(130,972)	(129,849)	(153,795)
Advance Funding	<u>(30,000)</u>	<u>(90,000)</u>	<u>(60,000)</u>
Increase in Net OPEB Obligation	27,448	(31,429)	6,762
Adjustment for Interest and Amortization	7553	10,353	8,666
OPEB Obligation--Beginning of Year	<u>94,407</u>	<u>129,408</u>	<u>108,332</u>
OPEB Obligation--End of Year	<u>\$ 129,408</u>	<u>\$ 108,332</u>	<u>\$ 123,760</u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the fiscal years ended September 30 were as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Annual OPEB Costs	\$ 188,420	\$ 188,420	\$ 220,557
Percentage Contributed	85.43%	116.68%	96.93%
Net OPEB Obligation	\$ 129,408	\$ 108,332	\$ 123,760

The schedule of funding progress immediately following the notes to the financial statements 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.

<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>
9/30/2014	\$ 195,598	\$ 2,190,027	\$ 1,994,429	8.93%	\$ -	n/a

The Road Commission expects to have an actuarial valuation performed every three years.

Significant actuarial assumptions used include:

- 1) Discount rate of 7.00%
- 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, 2005-2020.

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014**

NOTE J--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, 2014, the Road Commission did not receive any Federal grants for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit.

During the fiscal year ended September 30, 2014, the Road Commission received and expended \$284,403 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 \$750,000 or more. A single audit was not required during the fiscal year ended September 30, 2014.

NOTE K--STATE TRUNKLINE MAINTENANCE REVENUE

The \$114,477 difference between the State trunkline maintenance revenues of \$2,037,915 and expenditures of \$1,923,438 is primarily due to the following audit results:

<u>Description of Audit</u>	<u>Refunded to Road Commission</u>
State Trunkline Audit Results October 1, 2011 through September 30, 2012	\$ 114,477

NOTE L--UPCOMING REPORTING CHANGE

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the 2014-2015 fiscal year.

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2014**

**NOTE M—RESTATED BEGINNING NET POSITION/OPEB TRUST**

The beginning Net Position of the Pension (Section 115 OPEB) Trust Fund shown in Exhibit H was established at October 1, 2013 in the amount \$123,696. Advance contributions which went into a Section 115 Trust amounted to \$120,000 with interest earned less fees amounting to \$3,696 which was not recorded in the financial statements in prior years when the Section 115 Trust was established for Other Post Employee Benefits (OPEB). The current balance as of September 30, 2014 as noted in Exhibit G totaled \$195,598.

SCHOOLCRAFT COUNTY ROAD COMMISSION

REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS--PENSION  
 For the Fiscal Year Ended September 30, 2014

EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information--Schedule of Funding Progress

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
12/31/11	\$ 6,723,639	\$ 12,700,034	\$ 5,976,395	53%	\$ 1,111,005	538%
12/31/12	6,740,663	12,912,952	6,172,289	52%	1,031,916	598%
12/31/13	6,859,911	13,700,057	6,840,146	50%	1,050,832	651%

OTHER POST-EMPLOYMENT BENEFITS

Required Supplementary Information – Schedule of Funding Progress

The funding status as of September 30, 2014, 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
9/30/2011	\$ -	\$ 1,982,238	\$ 1,982,238	0.00%	\$ -	n/a
9/30/2014	195,598	2,190,027	1,994,429	8.93%	-	n/a

**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, 2014**

**EXHIBIT I**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 8,000	\$ 4,000	\$ 4,045	\$ 45
Federal Grants				
Surface Transportation Program	300,800	873,904	706,034	(167,870)
High Risk Rural Roads	-	320,867	322,962	2,095
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,300,000	1,341,000	1,344,278	3,278
Local Road	400,000	400,000	404,382	4,382
Snow Removal	115,926	120,286	120,286	-
Road and Risk Reserve Fund (RRR)		718,260	771,542	53,282
Other State Grants		-	118,260	118,260
Economic Development Fund				
Rural Primary (D)	56,400	197,388	171,712	(25,676)
Forest Road Funds (E)	177,000	191,281	124,345	(66,936)
State Critical Bridge	-	200,000	223,844	23,844
Contributions From Local Units				
Townships	-	231,981	184,278	(47,703)
Charges for Services				
State Trunkline Maintenance	1,325,000	2,040,474	2,037,915	(2,559)
State Trunkline Non-Maintenance	150,000	125,000	122,702	(2,298)
Private Drive Snow Removal	21,595	27,000	25,699	(1,301)
Salvage Sales	1,000	1,651	1,713	62
Other Charges for Services	100,000	170,000	172,307	2,307
Interest and Rents				
Interest Earned	10,000	10,000	14,601	4,601
Rents and Royalties	7,000	45,000	56,807	11,807
Other Revenue				
Other Non-Road Services	-	11,000	6,055	(4,945)
Refunds/Rebates	2,000	4,000	4,035	35
Gain on Equipment Disposal	-	3,000	3,875	875
Total Revenue	<u>3,984,721</u>	<u>7,046,092</u>	<u>6,951,677</u>	<u>(94,415)</u>
Other Financing Sources				
Proceeds from Installment Purchase Agreement	-	512,681	509,771	(2,910)
Proceeds from Bond Refinancing	-	29,862	29,862	-
Total Other Financing Sources	<u>-</u>	<u>542,543</u>	<u>539,633</u>	<u>(2,910)</u>
Total Revenue and Other Financing Sources	3,984,721	7,588,635	<u>\$ 7,491,310</u>	<u>\$ (97,325)</u>
Fund Balance--October 1, 2013	<u>2,276,178</u>	<u>2,276,178</u>		
Total Budget	<u>\$ 6,260,899</u>	<u>\$ 9,864,813</u>		

**SCHOOLCRAFT COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
GENERAL OPERATING FUND--SCHEDULE OF  
EXPENDITURES--BUDGETARY COMPARISON SCHEDULE  
For the Fiscal Year Ended September 30, 2014**

**EXHIBIT J**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvement	\$ 500,000	\$ 2,380,100	\$ 2,380,064	\$ 36
Routine and Preventive Maintenance	1,004,167	1,000,009	957,426	42,583
Local Road				
Preservation/Structural Improvement	55,282	495,927	474,571	21,356
Routine and Preventive Maintenance	519,597	706,124	653,696	52,428
Primary Road Structure				
Preservation/Structural Improvement	92,440	194,378	279,673	(85,295)
State Trunkline Maintenance	1,275,000	1,865,997	1,923,438	(57,441)
State Trunkline Non-Maintenance	150,000	125,000	122,702	2,298
Private Drive Snow Removal	21,595	27,000	25,699	1,301
Equipment Expense--Net	3,273	(157,188)		
Direct			\$ 879,330	
Indirect			435,123	
Operating			419,760	
Less: Equipment Rentals			(1,978,158)	86,757
Administrative Expense--Net	328,439	275,281		
Administrative Expense			447,102	
Less: Overhead--State			(195,068)	
Overhead--State Non-Maintenance			-	
Overhead--Other			(60,672)	
Purchase Discounts			-	83,919
Other Non-Road Projects	-	16,000	8,263	7,737
Capital Outlay--Net	(198,732)	425,108		
Capital Outlay			679,908	
Less: Depreciation Credits			(263,743)	
Equipment Retirements			-	8,943
Debt Service				
Principal	200,000	235,720	235,701	19
Interest	33,660	50,088	49,550	538
Total Expenditures	<u>3,984,721</u>	<u>7,639,544</u>	<u>\$ 7,474,365</u>	<u>\$ 165,179</u>
Fund Balance--September 30, 2014	<u>2,276,178</u>	<u>2,225,269</u>		
Total Budget	<u>\$ 6,260,899</u>	<u>\$ 9,864,813</u>		

**SCHOOLCRAFT COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND  
ANALYSIS OF CHANGES IN FUND BALANCES  
For the Fiscal Year Ended September 30, 2014**

**EXHIBIT K**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 3,859,151	\$ 645,838	\$ 2,446,688	\$ 6,951,677
Total Expenditures	<u>3,832,173</u>	<u>1,115,840</u>	<u>2,526,352</u>	<u>7,474,365</u>
Excess of Revenues Over (Under) Expenditures	<u>26,978</u>	<u>(470,002)</u>	<u>(79,664)</u>	<u>(522,688)</u>
Other Financing Sources (Uses)				
Optional Transfers	(235,000)	235,000	-	-
Interfund Transfers		235,002	(235,002)	
Proceeds from Bond Refinancing	29,862	-	-	29,862
Proceeds from Installment Purchase Agreement	<u>-</u>	<u>-</u>	<u>509,771</u>	<u>509,771</u>
Total Other Financing Sources (Uses)	<u>(205,138)</u>	<u>470,002</u>	<u>274,769</u>	<u>539,633</u>
Net Change in Fund Balance	(178,160)	-	195,105	16,945
Fund Balance--October 1, 2013	<u>470,218</u>	<u>-</u>	<u>1,805,960</u>	<u>2,276,178</u>
Fund Balance--September 30, 2014	<u>\$ 292,058</u>	<u>\$ -</u>	<u>\$ 2,001,065</u>	<u>\$ 2,293,123</u>

**SCHOOLCRAFT COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND--ANALYSIS OF  
REVENUES AND OTHER FINANCING SOURCES  
For the Fiscal Year Ended September 30, 2014**

**EXHIBIT L**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Permits	\$ -	\$ -	\$ 4,045	\$ 4,045
Federal Grants--Negotiated Projects				
Surface Transportation Program	706,034	-	-	706,034
High Risk Rural Roads	322,962	-	-	322,962
State Grants				
Michigan Transportation Fund				
Engineering	7,687	2,313	-	10,000
Allocation	1,344,278	404,382	-	1,748,660
Snow Removal	92,620	27,666	-	120,286
Road and Risk Reserve Funds (RRR)	771,542			771,542
Other State Grants	91,061	27,199		118,260
Economic Development Fund				
Rural Primary (D)	171,712	-	-	171,712
Forest Road Funds (E)	124,345	-	-	124,345
State Critical Bridge Funds	223,844	-	-	223,844
Contributions From Local Units				
Townships	-	184,278	-	184,278
Charges for Services				
State Trunkline Maintenance	-	-	2,037,915	2,037,915
State Trunkline Non-Maintenance	-	-	122,702	122,702
Private Drive Snow Removal	-	-	25,699	25,699
Salvage Sales	-	-	1,713	1,713
Other Charges for Services	-	-	172,307	172,307
Interest and Rents				
Interest Earned	3,066	-	11,535	14,601
Rents and Royalties	-	-	56,807	56,807
Other Revenue				
Other Non-Road Services	-	-	6,055	6,055
Refunds/Rebates	-	-	4,035	4,035
Gain on Equipment Disposal	-	-	3,875	3,875
Total Revenue	<u>3,859,151</u>	<u>645,838</u>	<u>2,446,688</u>	<u>6,951,677</u>
Other Financing Sources				
Proceeds from Installment Purchase Agreement	-	-	509,771	509,771
Proceeds from Bond Refinancing	29,862	-	-	29,862
Total Other Financing Sources	<u>29,862</u>	<u>-</u>	<u>509,771</u>	<u>539,633</u>
Total Revenue and Other Financing Sources	<u>\$ 3,889,013</u>	<u>\$ 645,838</u>	<u>\$ 2,956,459</u>	<u>\$ 7,491,310</u>



**SCHOOLCRAFT COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND  
ANALYSIS OF EXPENDITURES  
For the Fiscal Year Ended September 30, 2014**

**EXHIBIT M**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Primary Road				
Preservation/Structural Improvement	\$ 2,380,064	\$ -	\$ -	\$ 2,380,064
Routine and Preventive Maintenance	957,426	-	-	957,426
Local Road				
Preservation/Structural Improvement	-	474,571	-	474,571
Routine and Preventive Maintenance	-	653,696	-	653,696
Primary Road Structures				
Preservation/Structural Improvement	279,673	-	-	279,673
State Trunkline Maintenance	-	-	\$ 1,923,438	1,923,438
State Trunkline Non-Maintenance	-	-	122,702	122,702
Private Snow Plowing	-	-	25,699	25,699
Equipment Expense--Net (Per Exhibit H)	(73,344)	(57,925)	(112,676)	(243,945)
Administrative Expense--Net (Per Exhibit H)	145,864	45,498	-	191,362
Other Non-Road Projects	-	-	8,263	8,263
Capital Outlay--Net (Per Exhibit H)	-	-	416,165	416,165
Debt Service				
Principal	95,000	-	140,701	235,701
Interest	47,490	-	2,060	49,550
<b>Total Expenditures</b>	<u><u>\$ 3,832,173</u></u>	<u><u>\$ 1,115,840</u></u>	<u><u>\$ 2,526,352</u></u>	<u><u>\$ 7,474,365</u></u>



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

R. KEVIN CLINTON  
STATE TREASURER

February 17, 2015

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States the financial statements of the governmental activities, 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 fiscal year ended September 30, 2014, which collectively comprise the Schoolcraft County Road Commission's basic financial statements, and have issued our report thereon dated February 17, 2015.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Schoolcraft County Road Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Schoolcraft County Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Schoolcraft County Road Commission's internal control.

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

than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

### **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 one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards, and which is described in the accompanying Schedule of Findings and Responses as Finding 2014-001.

### **Schoolcraft County Road Commission's Response to Findings**

The Schoolcraft County 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 Schoolcraft County Road Commission's responses and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Schoolcraft County Road Commission's internal control or on compliance. This report is an integral part of the audit performed in accordance with Government Auditing Standards in considering Schoolcraft County Road Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.



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



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

R. KEVIN CLINTON  
STATE TREASURER

February 17, 2015

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, 2014, and have issued our report thereon dated February 17, 2015. 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 June 21, 2014, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. 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 Schoolcraft County 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 Schoolcraft County Road Commission's financial statements are free of material misstatement, we performed tests of the Schoolcraft County Road Commission's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described in professional standards, is to evaluate the presentation of supplementary information in relation to the financial statements as a whole and to report on whether the supplementary

information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with the accounting principles generally accepted in the United States of America, the methods of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or the financial statements themselves.

#### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on January 13, 2015.

#### Significant Results of the Audit

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Schoolcraft County Road Commission are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2014. We noted no transactions entered into by the Schoolcraft County 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 the depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets in accordance with Generally Accepted Accounting Principles. Management's estimate of the current portion of vested employee benefits payable within the next year is based on historical trends and current policies regarding the usage of these benefits. We evaluated the key factors and assumptions used to develop the depreciation and the current portion of vested employee benefits payable in determining that they are 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 17, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Schoolcraft County 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 Schoolcraft County 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 Schoolcraft County 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, 2014

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 2014-001*

*Condition:* During the fiscal year ended September 30, 2014, expenditures were incurred in excess of amounts appropriated in the amended budgets as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road Structure Preservation / Structural Improvement	\$ 194,378	\$ 279,673	\$ (85,295)
State Trunkline Maintenance	1,865,997	1,923,438	(57,441)

*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.