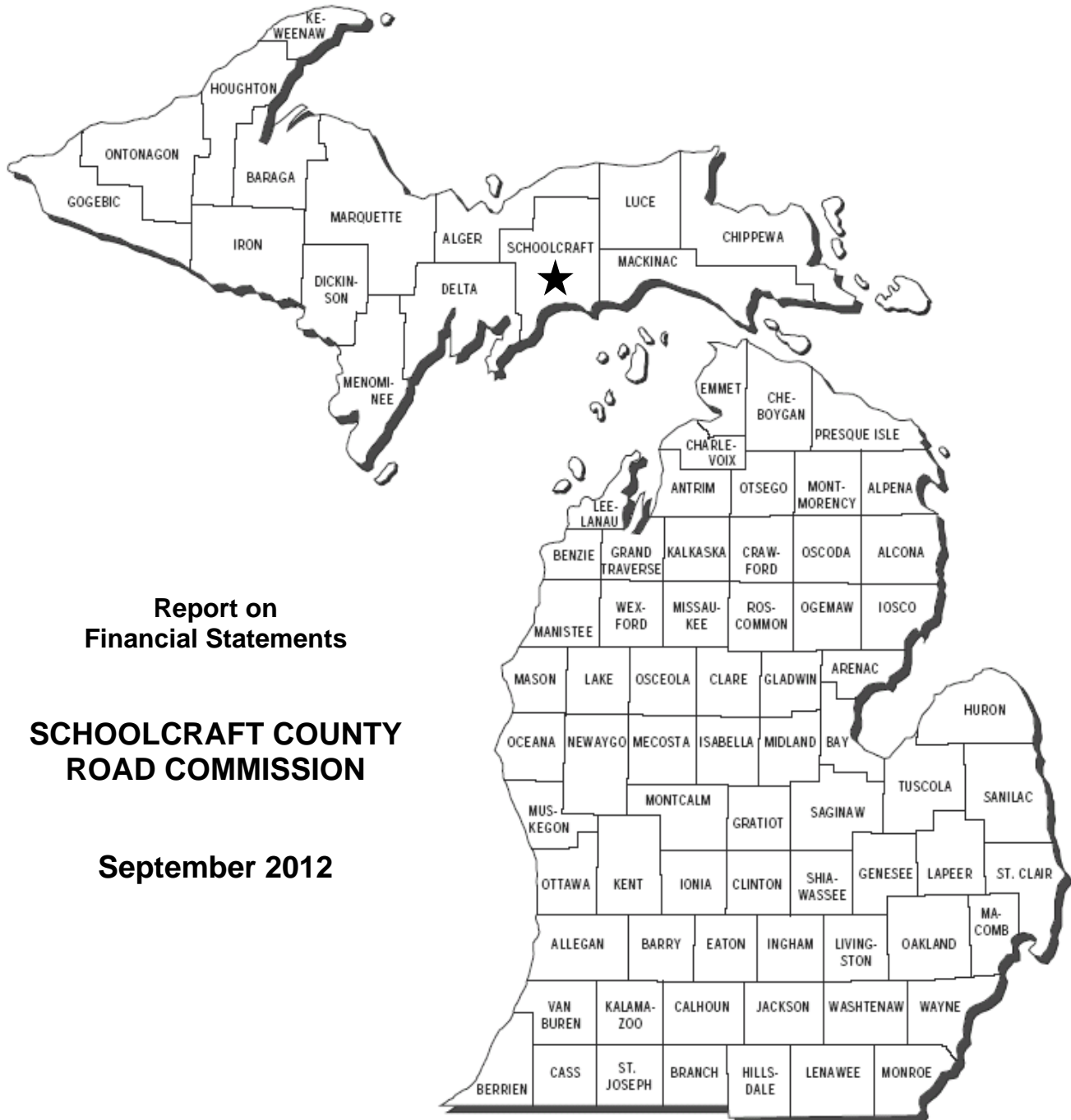


# STATE OF MICHIGAN

Rick Snyder, Governor

## DEPARTMENT OF TREASURY

Andy Dillon  
State Treasurer



Report on  
Financial Statements

SCHOOLCRAFT COUNTY  
ROAD COMMISSION

September 2012

SCHOOLCRAFT COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

Bernard J. Lund  
Chairperson

Gregory L. Hase  
Vice Chairperson

Dale J. DuFour  
Member

Craig Kelso  
Engineer / Manager

Lisa Kleeman  
Finance Director

COUNTY POPULATION--2010  
8,485

STATE EQUALIZED VALUATION--2012  
\$475,958,759



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

ANDY DILLON  
STATE TREASURER

February 14, 2013

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

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying financial statements of the governmental activities and major fund of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, Michigan, as of and for the fiscal year ended September 30, 2012, which collectively comprise the Schoolcraft County Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Schoolcraft County Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Schoolcraft County Road Commission, as of September 30, 2012, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 14, 2013, on our consideration of the Schoolcraft County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws,

regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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 G and H are 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 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Schoolcraft County Road Commission's basic financial statements. The accompanying supplementary and related information in Exhibits I through K and schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



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

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

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**SCHOOLCRAFT COUNTY ROAD COMMISSION**

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# **SCHOOLCRAFT COUNTY ROAD COMMISSION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2012**

### Using this Annual Report

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

### Overview of the Financial Statements

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

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

### Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2012

### Reporting the Road Commission's Major Fund

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

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

### The Road Commission as a Whole

The Road Commission's net assets increased approximately 6.33% or \$577,978 from \$9,134,997 to \$9,712,975 for the fiscal year ended September 30, 2012. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$545,550 or approximately 32.17%. The primary reasons for the increase in net assets were the significant increase in cash and investments, with a larger increase in revenues than in expenditures. The investment in capital assets-net of related debt increased approximately .44% or \$32,428 from the prior fiscal year. This was primarily due to the capital asset additions of \$1,240,251 being more than the depreciation of \$958,323 during fiscal year 2012.



**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended September 30, 2012**

Net assets as of the fiscal year ended September 30, 2012, compared to the prior fiscal year end are as follows:

	Governmental Activities 09/30/11	Governmental Activities 09/30/12	Variance Increase (Decrease)	Percentage
<b>Assets</b>				
Current and Other Assets	\$ 2,474,337	\$ 2,944,219	\$ 469,882	18.99%
Net Capital Assets	9,207,938	9,489,866	281,928	3.06%
<b>Total Assets</b>	<b>11,682,275</b>	<b>12,434,085</b>	<b>751,810</b>	<b>6.44%</b>
<b>Liabilities</b>				
Current Liabilities	206,331	119,099	(87,232)	-42.28%
Long-Term Liabilities	2,340,947	2,602,011	261,064	11.15%
<b>Total Liabilities</b>	<b>2,547,278</b>	<b>2,721,110</b>	<b>173,832</b>	<b>6.82%</b>
<b>Net Assets</b>				
Invested in Capital Assets				
Net of Related Debt	7,438,962	7,471,390	32,428	0.44%
Restricted	1,696,035	2,241,585	545,550	32.17%
<b>Total Net Assets</b>	<b>\$ 9,134,997</b>	<b>\$ 9,712,975</b>	<b>\$ 577,978</b>	<b>6.33%</b>

## SCHOOLCRAFT COUNTY ROAD COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2012

#### Changes in Net Assets

A summary of changes in net assets for the fiscal year ended September 30, 2012, compared to the prior year follows:

	Governmental Activities 2011	Governmental Activities 2012	Increase (Decrease)	Percentage
Program Revenue				
Licenses and Permits	\$ 2,825	\$ 8,516	\$ 5,691	201.45%
Federal Grants	619,573	594,669	(24,904)	-4.02%
State Grants	2,225,797	2,145,509	(80,288)	-3.61%
Charges for Services	1,565,152	1,519,726	(45,426)	-2.90%
Investment Earnings	134,531	113,463	(21,068)	-15.66%
General Revenue				
Gain on Equipment Disposal	5,863	3,413	(2,450)	-41.79%
<b>Total Revenue</b>	<b>4,553,741</b>	<b>4,385,296</b>	<b>(168,445)</b>	<b>-3.70%</b>
Expenses				
Primary Road Maintenance	841,336	734,525	(106,811)	-12.70%
Local Road Maintenance	524,925	420,822	(104,103)	-19.83%
State Trunkline Maintenance	1,485,269	1,372,113	(113,156)	-7.62%
Private Driveway Snow Plowing	17,881	9,484	(8,397)	-46.96%
Net Equipment Expense	109,437	168,036	58,599	53.55%
Net Administrative Expense	244,548	284,645	40,097	16.40%
Non-Road Project	11,983	43,805	31,822	265.56%
Infrastructure Depreciation	607,016	693,137	86,121	14.19%
Compensated Absences	(16,945)	9,855	26,800	158.16%
Other Post-Employment Benefits	94,407	35,001	(59,406)	-62.93%
Other Net Pension Obligations	(79,820)	(75,852)	3,968	4.97%
Interest Expense	83,171	93,714	10,543	12.68%
Refunding Bond--Cost of Issuance	-	18,033	18,033	100.00%
<b>Total Expenses</b>	<b>3,923,208</b>	<b>3,807,318</b>	<b>(115,890)</b>	<b>-2.95%</b>
<b>Change in Net Assets</b>	<b>\$ 630,533</b>	<b>\$ 577,978</b>	<b>\$ (52,555)</b>	<b>-8.34%</b>
<b>Ending Net Assets</b>	<b>\$ 9,134,997</b>	<b>\$ 9,712,975</b>	<b>\$ 577,978</b>	<b>6.33%</b>

The total revenue decreased by \$168,445 or 3.70% from \$4,553,741 in fiscal year 2011 to \$4,385,296 in fiscal year 2012. The most significant variances were decreases in Federal grants, State grants, as well as a decrease in Charges for Services due to a lighter winter.

## SCHOOLCRAFT COUNTY ROAD COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2012

The total expenditures decreased by \$115,890 or 2.95% from \$3,923,208 in fiscal year 2011 to \$3,807,318 in fiscal year 2012. The most significant increase in expenses during fiscal year 2012 was related to Infrastructure Depreciation and Net Equipment Expense. These increases were offset by a decrease in Primary and Local Road Maintenance and State Trunkline Maintenance 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, 2012, the fund balance of the General Operations Fund increased by \$157,598 as compared to an increase of \$160,606 in the fund balance for the year ended September 30, 2011. Total revenues and other financing sources were \$5,949,245, an increase of \$1,340,374 compared with the prior fiscal year. The increase is primarily from proceeds from bond refinancing and installment purchase proceeds. Revenues in the amount of \$4,385,296 decreased \$168,445 as compared with the prior fiscal year. This change was due in part to a decrease in Federal and State aid funds as well as a decrease in Charges for Services.

Total expenditures and other financing uses amounted to \$5,791,647, an increase of \$1,343,382 compared to the prior fiscal year. This change in expenditures and other financing uses was primarily due to a bond refunding for the debt service on the Manistique Garage. Expenditures in the amount of \$4,323,614 decrease by \$124,651 as compared to the prior fiscal year.

This refunding accomplished a significant savings in interest and will be applied towards bridge replacements and rehabilitation that will take place in fiscal years 2013 and 2014. The accumulative savings of approximate \$356,956 has been deferred and restricted for capital projects.

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended September 30, 2012**

	2011	2012	Variance	Percent
Revenues				
Licenses and Permits	\$ 2,825	\$ 8,516	\$ 5,691	201.45%
Federal Grants	619,573	594,669	(24,904)	-4.02%
State Grants	2,225,797	2,145,509	(80,288)	-3.61%
Charges for Services	1,559,826	1,485,594	(74,232)	-4.76%
Interest and Rents	134,531	113,463	(21,068)	-15.66%
Other Revenue	11,189	37,545	26,356	235.55%
Total Revenues	<u>4,553,741</u>	<u>4,385,296</u>	<u>(168,445)</u>	<u>-3.70%</u>
Expenditures				
Public Works	4,083,870	3,818,923	(264,947)	-6.49%
Capital Outlay	103,240	189,572	86,332	83.62%
Debt Service	261,155	315,119	53,964	20.66%
Total Expenditures	<u>4,448,265</u>	<u>4,323,614</u>	<u>(124,651)</u>	<u>-2.80%</u>
Excess of Revenues Over Expenditures	105,476	61,682	(43,794)	-41.52%
Other Financing Sources (Uses)				
Proceeds From Lease Purchase	55,130	95,905	40,775	73.96%
Proceeds From Bond Refinancing	-	1,468,044	1,468,044	100.00%
Bond Costs	-	(18,033)	(18,033)	100.00%
Payments to Refunding Bond Escrow Agent	-	(1,450,000)	(1,450,000)	100.00%
Total Other Financing Sources (Uses)	<u>55,130</u>	<u>95,916</u>	<u>40,786</u>	<u>73.98%</u>
Net Change in Fund Balance	160,606	157,598	(3,008)	-1.87%
Fund Balance--Beginning	<u>1,777,302</u>	<u>1,937,908</u>	<u>160,606</u>	<u>9.04%</u>
Fund Balance--Ending	<u>\$ 1,937,908</u>	<u>\$ 2,095,506</u>	<u>\$ 157,598</u>	<u>8.13%</u>

**Budgetary Highlights**

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

The final revenue budget for fiscal year ended September 30, 2012 was higher than the original budget by \$1,862,988. This was due, in part, to more State and Federal aid than originally anticipated and proceeds from an installment purchase and bond refunding.

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended September 30, 2012**

The actual revenue recognized during the current fiscal year was higher than the final amended budget by \$23,096, mainly due to slightly more Michigan Transportation Funds and Royalties than anticipated.

The final amended expenditure budget for the current fiscal year was \$1,831,883 higher than the original budget, primarily due to higher preservation / structural improvements on primary and local roads, bond refunding, bridge improvements and other unanticipated small non-road projects. The actual expenditures recognized during the current fiscal year were \$103,397 lower than the final amended budget. This was primarily due to lower net equipment expense due to depreciation.

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2012 the Road Commission had \$9,489,866 invested in capital assets as follows:

	<u>09/30/11</u>	<u>09/30/12</u>	<u>Percentage Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 244,065	\$ 255,359	4.63%
Infrastructure--Land and Improvements	<u>1,272,270</u>	<u>1,272,270</u>	<u>0.00%</u>
Subtotal	<u>1,516,335</u>	<u>1,527,629</u>	<u>0.74%</u>
Capital Assets Being Depreciated			
Land Improvements	50,519	50,519	0.00%
Buildings	3,531,203	3,556,426	0.71%
Road Equipment	4,416,492	4,525,386	2.47%
Shop Equipment	174,052	177,468	1.96%
Office Equipment	39,961	45,067	12.78%
Engineer's Equipment	28,439	28,439	0.00%
Depletable Assets	69,508	69,508	0.00%
Infrastructure--Bridges	500,242	591,449	18.23%
Infrastructure--Roads	<u>7,541,289</u>	<u>8,500,761</u>	<u>12.72%</u>
Subtotal	<u>16,351,705</u>	<u>17,545,023</u>	<u>7.30%</u>
Total Capital Assets	17,868,040	19,072,652	6.74%
Total Accumulated Depreciation	<u>(8,660,102)</u>	<u>(9,582,786)</u>	<u>10.65%</u>
Total Net Capital Assets	<u>\$ 9,207,938</u>	<u>\$ 9,489,866</u>	<u>3.06%</u>

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2012

The Road Commission reported infrastructure current year asset additions in the amount of \$1,050,679. Infrastructure assets are financed through Federal, State and local contributions.

Current year's major additions included the following:

Land	\$ 11,294
Building Improvements	25,223
Infrastructure	1,050,679
Equipment	<u>153,055</u>
Total Additions	<u>\$ 1,240,251</u>

### Debt

The Road Commission currently has debt in the amount of \$2,018,476 for the fiscal year ending September 30, 2012. Bonds on the building amount to \$1,825,000 which will be paid off over a period of fifteen (15) years. The Road Commission also owes on two installment purchase contracts for equipment totaling \$188,476 that will be paid off over a period of three (3) years. The Road Commission also owes \$5,000 for land in which the final payment is due in five (5) years in 2018. Compensated absences long-term debt amounts to \$237,141.

The outstanding debt of the Road Commission at September 30, 2012 was as follows:

	Balances 09/30/11	Balances 09/30/12
2002 MTF Refunding Bonds	\$ 1,515,000	\$ -
2012 MTF Refunding Bonds	-	1,825,000
2008 Land Installment Purchase	40,750	5,000
2009 Installment Purchase - Equipment	170,252	97,056
2011 Installment Purchase - Trucks	42,975	-
2012 Installment Purchase - Trucks	-	<u>91,420</u>
Total	<u>\$ 1,768,977</u>	<u>\$ 2,018,476</u>

# **SCHOOLCRAFT COUNTY ROAD COMMISSION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2012**

### Economic Factors and Next Year's Budget

The Board considered many factors when setting the fiscal year 2012/13 budget. One of the factors is the economy. The Road Commission derives approximately 40% of its revenues from the fuel tax and vehicle registration fees collected. The stagnant economy and the increase in cost of fuel have resulted in less consumption of fuel and consequently less Michigan Transportation Funds tax to be distributed. It is estimated that Motor Vehicle Highway Funds will remain flat in the next fiscal year due to a slow recovery in the economy and fluctuating fuel prices.

The above items were considered when adopting the budget for 2013. Amounts available for appropriation in the 2013 budget for projected revenues are \$3,942,203 and projected expenditures are \$3,942,203.

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

### Contacting the Road Commission's Financial Management

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

**SCHOOLCRAFT COUNTY ROAD COMMISSION  
STATEMENT OF NET ASSETS  
September 30, 2012**

**EXHIBIT A**

**ASSETS**

Cash	\$ 1,167,189
Accounts Receivable	
State Trunkline Maintenance	92,816
Michigan Transportation Fund	296,120
State--Other	123,084
Due on County Road Agreements	51,334
Sundry Accounts	24,109
Inventories	
Road Materials	425,043
Equipment Parts and Materials	161,881
Prepaid Expenses	90,015
Prepaid Net Pension Obligation	155,672
Cash Restricted for Capital Projects	356,956
Capital Assets (Net of Accumulated Depreciation)	<u>9,489,866</u>
Total Assets	<u>12,434,085</u>

**LIABILITIES**

Current Liabilities	
Accounts Payable	53,544
Due to State of Michigan	1,292
Accrued Liabilities	30,883
Driveway Snow Plowing Deposits	33,073
Deferred Revenue	
Forest Road Funds	307
Noncurrent Liabilities	
Advance From State	216,986
Bonds Payable--Due in One Year	85,000
Bonds Payable--Due in More Than One Year	1,740,000
Installment Purchase Agreements Payable--Due in One Year	72,512
Installment Purchase Agreements Payable--Due in More Than One Year	120,964
Vested Employee Benefits Payable	237,141
Other Post-Employment Benefits Payable	<u>129,408</u>
Total Liabilities	<u>2,721,110</u>

**NET ASSETS**

Investment in Capital Assets	
Net of Related Debt	7,471,390
Restricted for Roads	<u>2,241,585</u>
Total Net Assets	<u>\$ 9,712,975</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, 2012**

**EXHIBIT B**

Program Expenses	
Primary Road Maintenance	\$ 734,525
Local Road Maintenance	420,822
State Trunkline Maintenance	1,372,113
Private Driveway Plowing	9,484
Net Equipment Expense	168,036
Net Administrative Expense	284,645
Non-Road Project	43,805
Infrastructure Depreciation	693,137
Compensated Absences	9,855
Other Post-Employment Benefits	35,001
Other Net Pension Obligations	(75,852)
Interest Expense	93,714
Refunding--Cost of Issuance	18,033
	<hr/>
Total Program Expenses	3,807,318
Program Revenue	
Charges for Services	
License and Permits	8,516
Charges for Services	1,519,726
Operating Grants and Contributions	
Michigan Transportation Funds	1,813,620
Investment Earnings	113,463
Capital Grants and Contributions	
Federal Grants	594,669
State Grants	331,889
	<hr/>
Total Program Revenue	4,381,883
Net Program Revenue	574,565
General Revenue	
Gain on Equipment Disposal	3,413
	<hr/>
Total General Revenues	3,413
Change in Net Assets	577,978
Net Assets	
Beginning of Year	9,134,997
	<hr/>
End of Year	\$9,712,975
	<hr/>

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

**SCHOOLCRAFT COUNTY ROAD COMMISSION  
BALANCE SHEET--GOVERNMENTAL FUND  
September 30, 2012**

**EXHIBIT C**

<u><b>ASSETS</b></u>	<u>General Operating Fund</u>
Cash	\$ 1,167,189
Receivables	
State Trunkline Maintenance	92,816
Michigan Transportation Fund	296,120
State Department of Transportation--Other	123,084
Due on County Road Agreements	51,334
Sundry Accounts	24,109
Inventories	
Road Materials	425,043
Equipment Parts and Materials	161,881
Prepaid Expenses	90,015
Cash Restricted for Capital Projects	<u>356,956</u>
Total Assets	<u><u>\$ 2,788,547</u></u>
 <u><b>LIABILITIES AND FUND EQUITY</b></u>	
Liabilities	
Accounts Payable	\$ 53,544
Accrued Interest Payable	8,868
Accrued Liabilities	22,015
Due to State of Michigan	1,292
Advances	
Driveway Plowing	33,073
State of Michigan	216,986
Deferred Revenue	
Forest Road Funds	307
Bond Proceeds to be used on Future Capital Projects	<u>356,956</u>
Total Liabilities	<u>693,041</u>
Fund Equity	
Fund Balance	
Nonspendable:	
Inventory	586,924
Prepaid Expenses	90,015
Restricted for Road Operations	<u>1,418,567</u>
Total Fund Equity	<u>2,095,506</u>
Total Liabilities and Fund Equity	<u><u>\$ 2,788,547</u></u>

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

**SCHOOLCRAFT COUNTY ROAD COMMISSION  
RECONCILIATION OF THE GOVERNMENTAL FUND  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
For the Fiscal Year Ended September 30, 2012**

**EXHIBIT D**

Total Governmental Fund Balance	\$ 2,095,506
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	9,489,866
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	(2,385,025)
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).	356,956
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>155,672</u>
Net Assets of Governmental Activities	<u><u>\$ 9,712,975</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, 2012**

**EXHIBIT E**

	General Operating Fund
Revenues	
Licenses and Permits	\$ 8,516
Federal Grants	594,669
State Grants	2,145,509
Charges for Services	1,485,594
Interest and Rents	113,463
Other Revenue	37,545
	<hr/>
Total Revenues	4,385,296
	<hr/>
Expenditures	
Public Works	3,818,923
Capital Outlay	189,572
Debt Service	315,119
	<hr/>
Total Expenditures	4,323,614
	<hr/>
Excess of Revenues Over (Under) Expenditures	61,682
	<hr/>
Other Financing Sources (Uses)	
Proceeds From Installment Purchase Agreements	95,905
Proceeds From Bond Refinancing	1,468,044
Bond Costs	(18,033)
Payments to Refunding Bond Escrow Agent	(1,450,000)
	<hr/>
Total Other Financing Sources (Uses)	95,916
	<hr/>
Net Change in Fund Balance	157,598
	<hr/>
Fund Balance--October 1, 2011	1,937,908
	<hr/>
Fund Balance--September 30, 2012	\$ 2,095,506
	<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, 2012**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Funds \$ 157,598

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. 281,928  
Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the Statement of Net Assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Assets. 107,456

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) 30,996

Change in Net Assets of Governmental Activities \$ 577,978

**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, 2012

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

The accounting policies of the Schoolcraft County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Road Commission.

#### Reporting Entity

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

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

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

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

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

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

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

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2012

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

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; 2) Michigan Transportation Funds (MTF), State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

#### Measurement Focus/Basis of Accounting--Fund Financial Statements

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

Michigan Transportation Funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

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

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2012

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

#### Cash, Cash Equivalents and Investments

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

#### Inventories

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

#### Prepaid Expenses

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

#### Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of eight years and all equipment with a C-rate. Such assets are recorded at cost or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

#### 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, 2012

### 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 Assets.

#### Compensated Absences (Vacation and Sick Leave)

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year; and a two (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 U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

#### Deferred Revenue

Deferred 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 Government Accounting Standards Board Statement (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Road Commission classifies governmental fund balances as follows:

- Non-Spendable – includes fund balance amounts that cannot be spent either because (a) it is not in spendable form or (b) because it is legally or contractually required to be maintained intact. 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, 2012

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

- Restricted – includes fund balance amounts that can be spent only for specific purposes stipulated by the Constitution, external resource providers, or through enabling legislation.
- Committed – includes fund balance amounts that can be used only for specific purposes determined by a formal action of the government’s highest level of decision making authority.
- Assigned – includes fund balance amounts that are intended to be used by the government for specific purposes but do not meet the criteria to classified as restricted or committed. Fund balance may be assigned by the Engineer / Manager or his/her/their designee.
- Unassigned – is to be used only to report a deficit balance from overspending for specific purposes for which amounts have been restricted, committed or assigned.

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

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

#### NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

##### Budgetary Procedures

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

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2012

### 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 2012 expenditures were within the final amended budget by a total of \$103,397, some expenditure activities exceeded the amounts appropriated.

Expenditures by activity that exceeded appropriations are as follows:

	Final Amended Budget	Actual	Variance (Unfavorable)
Primary Road Preservation / Structural Improvements	\$ 856,982	\$ 904,909	\$ (47,927)
Primary Road Routine and Preventive Maintenance	677,912	734,525	(56,613)
Local Road Preservation / Structural Improvements	44,768	54,563	(9,795)
Local Road Routine and Preventive Maintenance	390,119	420,822	(30,703)
Local Road Structure Preservation / Structural Improvements	8,348	9,555	(1,207)
Equipment Expense--Net	135,938	168,036	(32,098)
Administrative Expense--Net	281,397	284,645	(3,248)
Other Non-Road Projects	38,372	43,805	(5,433)

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 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.

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2012**

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

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

	<u>General Operating Fund</u>
Cash	\$ 1,167,189
Restricted Cash	<u>356,956</u>
Total	<u><u>\$ 1,524,145</u></u>

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposits)	\$ 1,522,145
Imprest Cash	<u>2,000</u>
Total	<u><u>\$ 1,524,145</u></u>

Restricted cash at September 30, 2012, consists of \$356,956 received as bond proceeds for future capital projects.

The bank balance of the Road Commission's deposits is \$1,688,611, of which \$719,449 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy authorizes investment in all those that are authorized by law. As stated above, the Road Commission did not have any investments in the fiscal year ended September 30, 2012.

Disclosures Relating to Credit Risk

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

Disclosures Relating to Interest Rate Risk

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

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2012

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

#### 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, 2012**

NOTE D--CAPITAL ASSETS

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

	Balances 10/01/11	Additions	Deductions	Balances 09/30/12
Capital Assets Not Being Depreciated				
Land	\$ 244,065	\$ 11,294	\$ -	\$ 255,359
Infrastructure--Land Improvements	1,272,270	-	-	1,272,270
Subtotal	<u>1,516,335</u>	<u>11,294</u>	<u>-</u>	<u>1,527,629</u>
Capital Assets Being Depreciated				
Land Improvements	50,519	-	-	50,519
Buildings	3,531,203	25,223	-	3,556,426
Road Equipment	4,416,492	144,533	35,639	4,525,386
Shop Equipment	174,052	3,416	-	177,468
Office Equipment	39,961	5,106	-	45,067
Engineer's Equipment	28,439	-	-	28,439
Depletable Assets	69,508	-	-	69,508
Infrastructure--Bridges	500,242	91,207	-	591,449
Infrastructure--Roads	7,541,289	959,472	-	8,500,761
Total	<u>16,351,705</u>	<u>1,228,957</u>	<u>35,639</u>	<u>17,545,023</u>
Less Accumulated Depreciation				
Land Improvements	26,942	3,368	-	30,310
Building	1,222,065	107,841	-	1,329,906
Road Equipment	4,084,073	140,824	35,639	4,189,258
Shop Equipment	128,729	11,234	-	139,963
Office Equipment	33,479	3,079	-	36,558
Engineer's Equipment	20,847	2,209	-	23,056
Depletable Assets	22,403	-	-	22,403
Infrastructure--Bridges	26,946	28,006	-	54,952
Infrastructure--Roads	3,094,618	661,762	-	3,756,380
Total	<u>8,660,102</u>	<u>958,323</u>	<u>35,639</u>	<u>9,582,786</u>
Net Capital Assets Being Depreciated	<u>7,691,603</u>	<u>270,634</u>	<u>-</u>	<u>7,962,237</u>
Total Net Capital Assets	<u>\$ 9,207,938</u>	<u>\$ 281,928</u>	<u>\$ -</u>	<u>\$ 9,489,866</u>

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2012**

NOTE D--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 140,824
Indirect Equipment	-
Shop Building	107,841
Shop Equipment	11,234
Net Administrative Expenses	
Office Equipment and Furniture	2,209
Engineer Equipment	3,079
Land Improvements	3,368
Infrastructure Depreciation Expense	<u>689,768</u>
 Total Depreciation Expense	 <u><u>\$ 958,323</u></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 10/01/11	Additions	(Reductions)	Balance 09/30/12	Due in One Year
Bonds Payable					
Michigan Transportation Fund Bonds Series 2002	\$ 1,515,000	\$ -	\$ (1,515,000)	\$ -	\$ -
Michigan Transportation Fund Bonds Series 2012	-	1,825,000	-	1,825,000	85,000
Installment Purchase Contract					
Land--Graves Pit	40,750	-	(35,750)	5,000	5,000
Installment Purchase Contract					
The State Savings Bank--2009 Equipment	170,251	-	(73,195)	97,056	36,123
Installment Purchase Contract					
The State Savings Bank--2011 Equipment	42,975	-	(42,975)	-	-
Installment Purchase Contract		95,905			
The State Savings Bank--2012 Equipment	-	-	(4,485)	91,420	31,389
Vested Employee Benefits					
Vacation and Sick Leave	227,286	9,855	-	237,141	-
Totals	<u>\$ 1,996,262</u>	<u>\$ 1,930,760</u>	<u>\$ (1,671,405)</u>	<u>\$ 2,255,617</u>	<u>\$ 157,512</u>

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2012**

NOTE E--LONG-TERM DEBT (Continued)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2013	\$ 157,512	\$ 58,415	\$ 215,927
2014	164,804	50,596	215,400
2015	151,160	47,193	198,353
2016	100,000	45,240	145,240
2017	105,000	43,840	148,840
2018-2022	600,000	185,798	785,798
2023-2027	<u>740,000</u>	<u>86,362</u>	<u>826,362</u>
Total	<u>\$ 2,018,476</u>	<u>\$ 517,444</u>	<u>\$ 2,535,920</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, 2012**

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>	
2013	\$ 85,000	\$ 28,899	\$ 24,307	\$ 138,206
2014	95,000	23,840	23,840	142,680
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
2018-2022	600,000	92,899	92,899	785,798
2023-2027	740,000	43,181	43,181	826,362
Total	<u>\$ 1,825,000</u>	<u>\$ 256,629</u>	<u>\$ 252,037</u>	<u>\$ 2,333,666</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
	-
Total	<u>\$ 5,000</u>

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2012**

NOTE E--LONG-TERM DEBT (Continued)

Loans Payable--Equipment Purchases

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

Terms: Purchase price of \$319,565 at 4.5% interest from August 2009 to July 2019, requiring monthly payments of \$3,312.62 beginning August 9, 2009. The Road Commission has been making extra payments every month. Therefore, the loan will be paid off in fiscal year 2015 under the required payment terms.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 36,123	\$ 3,629	\$ 39,752
2014	37,782	1,969	39,751
2015	<u>23,151</u>	<u>353</u>	<u>23,504</u>
Total	<u>\$ 97,056</u>	<u>\$ 5,951</u>	<u>\$ 103,007</u>

Loans Payable--Vehicle Purchases

The Road Commission financed the purchase of a pickup truck and a patcher with the State Savings Bank of Manistique on August 9, 2012. The terms and annual principal and interest requirements are as follows:

Terms: Purchase price of \$95,905 at 2.0% interest from August 2012 to August 2015, requiring monthly payments of \$2,747.42 beginning August 9, 2012.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 31,389	\$ 1,580	\$ 32,969
2014	32,022	947	32,969
2015	<u>28,009</u>	<u>300</u>	<u>28,309</u>
Total	<u>\$ 91,420</u>	<u>\$ 2,827</u>	<u>\$ 94,247</u>

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2012

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

#### Vested Employee Vacation Benefits

Vacation benefits are earned in varying amounts depending on the employee's years of service. Prior to January 1, 1993, the Road Commission's vacation policy required all vacation benefits to be used within the calendar year in which they were credited. New vacation policies provide for all employees to be credited on January 1, 1993, with the vacation benefits they earned for the year 1992, and the 1993 vacation benefits to be credited on a per month basis with employees permitted to accumulate up to a maximum of 2 years of vacation benefits. The liability recorded in the long-term debt for vacation earned but not used, as of September 30, 2012, totaled \$84,867.

#### Vested Employee Sick Leave Benefits

Sick leave benefits are earned at the rate of 1 day for each calendar month in which the employee has worked at least 12 days and the maximum accumulation will be 105 days. Upon retirement or death, an employee, or his estate, shall be paid for 100% of accumulated sick leave. The accumulated sick leave of \$152,274 recorded in the long-term debt consists of 100% of the maximum accumulated sick leave at September 30, 2012.

### NOTE F--DEFERRED COMPENSATION PLAN

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

### 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 2.25% times the final average compensation (FAC) with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the calendar year ended December 31, 2011.

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2012**

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

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, 2010, a rate of 38.98% of annual compensation was actuarially determined to be applied to annual compensation for calendar year 2011.

Annual Pension Cost

For the calendar year ended December 31, 2011, the Road Commission's annual pension cost was \$496,688, 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, 2009. 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.

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2009	\$ 394,541	100%	\$0
2010	414,827	100%	\$0
2011	496,688	100%	\$0

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2012**

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Required Supplementary Information for GASB Statement No. 27

Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
\$ 6,805,000	\$ 11,826,061	\$ 5,021,061	58%	\$ 1,258,977	399%
6,746,576	12,316,229	5,569,653	55%	1,145,011	486%
6,723,639	12,700,034	5,976,395	53%	1,111,005	538%

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

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

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

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

At September 30, 2012, 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.

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2012**

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 9 employees that qualified during the year ended September 30, 2012. The total cost was \$150,714 and the amount reimbursed by retirees was \$19,742 with a net cost to the Road Commission of \$130,972. The expenditures are recognized as the insurance premiums become due.

Funding Status and Funding Progress

For the year ended September 30, 2012, the Road Commission has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of September 30, 2011. The Road Commission's annual other post-employment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer based on the alternate method of actuarial, as provided in accordance with the parameters of GASB Statement No. 45. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The valuation computed required contribution and actual funding are summarized as follows:

	<u>2011</u>	<u>2012</u>
Annual Required Contribution	\$ 188,420	\$ 188,420
Amount Contributed		
Payments of Current Premiums	(94,013)	(130,972)
Advance Funding		<u>(30,000)</u>
Increase in Net OPEB Obligation	94,407	27,448
Adjustment for Interest and Amortization	-	7,553
OPEB Obligation--Beginning of Year	<u>-</u>	<u>94,407</u>
OPEB Obligation--End of Year	<u>\$ 94,407</u>	<u>\$ 129,408</u>

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2012**

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

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

	2011	2012
Annual OPEB Costs	\$ 188,420	\$ 188,420
Percentage Contributed	49.90%	85.43%
Net OPEB Obligation	\$ 94,407	\$ 129,408

The schedule of funding progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The Road Commission expects to have an actuarial valuation performed every three years.

Funding Status

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

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

Significant actuarial assumptions used include:

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

**SCHOOLCRAFT COUNTY ROAD COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2012**

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, 2012, the Road Commission received \$14,944 in Federal Grants for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit.

During the fiscal year ended September 30, 2012, the Road Commission received and expended \$579,725 in Federal grants for negotiated (force account) projects. Negotiated projects are projects that are performed by the Road Commission and are subject to single audit requirements, if the amount expended is \$500,000 or more. A single audit was required during the fiscal year ended September 30, 2012.

NOTE K--STATE TRUNKLINE MAINTENANCE REVENUE

The \$100,431 difference between the State trunkline maintenance revenues of \$1,187,964 and expenditures of \$1,087,533 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, 2009 through September 30, 2010	\$ 100,431

NOTE L--CONTINGENT LIABILITIES

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

NOTE M--UPCOMING REPORTING CHANGE

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted during the Road Commission's 2012-2013 fiscal year-end.



## SCHOOLCRAFT COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2012

#### NOTE M--UPCOMING REPORTING CHANGE (Continued)

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Schoolcraft County Road Commission will need to implement the standard beginning with fiscal year ending September 30, 2013.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the Road Commission as of fiscal year 2013-2014.

In June 2012, GASB Statement No. 67, *Financial Reporting for Pension Plans*, was issued by the Governmental Accounting Standards Board. This new standard, which replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, establishes standards for financial reporting that outline the basic framework for separately-issued pension plan financial reports and specifies the required approach to measuring the liability of employer(s) and certain non-employer contributing entities, about which information is required to be disclosed. GASB Statement No. 67 is required to be adopted for years beginning after June 15, 2013. For the Road Commission, this standard will be adopted for the 2014-2015 fiscal year.

# SCHOOLCRAFT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2012

### NOTE M--UPCOMING REPORTING CHANGE (Continued)

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 2015-2016 fiscal year

**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, 2012**

**EXHIBIT G**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 5,000	\$ 8,500	\$ 8,516	\$ 16
Federal Grants--Negotiated Projects				
Critical Bridge Funds	-	14,600	14,626	26
Surface Transportation Program	263,812	385,000	384,960	(40)
Economic Development D Funds	173,148	185,000	186,991	1,991
U.S Forest Service	-	-	1,755	1,755
High Priority Funds	71,600	6,300	6,337	37
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,295,000	1,295,000	1,299,164	4,164
Local Road	375,000	385,000	386,544	1,544
Snow Removal	112,878	112,900	117,912	5,012
Economic Development Fund				
Rural Primary (D)	88,500	145,000	143,824	(1,176)
Forest Road Funds (E)	177,000	185,000	185,323	323
State Critical Bridge	-	2,700	2,742	42
Charges for Services				
State Trunkline Maintenance	1,242,491	1,187,950	1,187,964	14
State Trunkline Non-Maintenance	138,000	284,500	284,580	80
Private Drive Snow Removal	19,732	9,000	9,509	509
Salvage Sales	-	3,500	3,541	41
Interest and Rents				
Interest Earned	12,000	10,450	10,473	23
Rents and Royalties	75,000	93,400	102,990	9,590
Other Revenue				
Contributions from Private Sources	2,000	35,000	33,333	(1,667)
Refunds/Rebates	-	-	799	799
Gain on Sale of Timber	2,000	-	-	-
Gain on Equipment Disposal	-	3,400	3,413	13
<b>Total Revenue</b>	<b>4,063,161</b>	<b>4,362,200</b>	<b>4,385,296</b>	<b>23,096</b>
Other Financing Sources				
Proceeds From Installment Purchase Agreement	-	95,905	95,905	-
Proceeds From Bond Refinancing	-	1,468,044	1,468,044	-
<b>Total Other Financing Sources</b>	<b>-</b>	<b>1,563,949</b>	<b>1,563,949</b>	<b>-</b>
<b>Total Revenue and Other Financing Sources</b>	<b>4,063,161</b>	<b>5,926,149</b>	<b>\$ 5,949,245</b>	<b>\$ 23,096</b>
Fund Balance--October 1, 2011	1,937,908	1,937,908		
<b>Total Budget</b>	<b>\$ 6,001,069</b>	<b>\$ 7,864,057</b>		

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

**SCHOOLCRAFT COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
GENERAL OPERATING FUND--SCHEDULE OF  
EXPENDITURES AND OTHER FINANCING USES  
BUDGETARY COMPARISON SCHEDULE  
For the Fiscal Year Ended September 30, 2012**

**EXHIBIT H**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvement	\$ 563,506	\$ 856,982	\$ 904,909	\$ (47,927)
Routine and Preventive Maintenance	590,682	677,912	734,525	(56,613)
Local Road				
Preservation/Structural Improvement	7,882	44,768	54,563	(9,795)
Routine and Preventive Maintenance	380,236	390,119	420,822	(30,703)
Primary Road Structure				
Preservation/Structural Improvement	-	81,652	81,652	-
Local Road Structure				
Preservation-Structural Improvement	-	8,348	9,555	(1,207)
State Trunkline Maintenance	1,269,447	1,090,000	1,087,533	2,467
State Trunkline Non-Maintenance	148,025	285,000	284,580	420
Private Drive Snow Removal	13,706	11,512	9,484	2,028
Equipment Expense--Net	(246,068)	135,938		
Direct			\$ 838,739	
Indirect			397,161	
Operating			291,059	
Less: Equipment Rentals			(1,358,923)	(32,098)
Distributive Expense	1,164,581	-	-	-
Administrative Expense--Net	110,305	281,397		
Administrative Expense			417,678	
Less: Overhead--State			(131,392)	
Overhead--State Non-Maintenance			-	
Overhead--Other			(1,641)	
Purchase Discounts			-	(3,248)
Other Non-Road Projects	-	38,372	43,805	(5,433)
Capital Outlay--Net	(245,141)	190,000		
Capital Outlay			189,572	
Less: Depreciation Credits			(265,186)	
Equipment Retirements			-	265,614
Debt Service				
Principal	206,000	235,570	221,405	14,165
Interest	100,000	99,430	93,714	5,716
Total Expenditures	<u>4,063,161</u>	<u>4,427,000</u>	<u>4,323,614</u>	<u>103,386</u>
Other Financing Uses				
Bond Closing Costs	-	18,043	18,033	10
Payments to Refunding Bond Escrow Agent	-	1,450,001	1,450,000	1
Total Other Financing Uses	<u>-</u>	<u>1,468,044</u>	<u>1,468,033</u>	<u>11</u>
Total Expenditures and Other Financing Uses	<u>4,063,161</u>	<u>5,895,044</u>	<u>\$ 5,791,647</u>	<u>\$ 103,397</u>
Fund Balance--September 30, 2012	<u>1,937,908</u>	<u>1,969,013</u>		
Total Budget	<u>\$ 6,001,069</u>	<u>\$ 7,864,057</u>		

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

**SCHOOLCRAFT COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND  
ANALYSIS OF CHANGES IN FUND BALANCES  
For the Fiscal Year Ended September 30, 2012**

**EXHIBIT I**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$2,318,717	\$ 423,227	\$1,643,352	\$ 4,385,296
Total Expenditures	<u>2,164,856</u>	<u>572,987</u>	<u>1,585,771</u>	<u>4,323,614</u>
Excess of Revenues Over (Under) Expenditures	<u>153,861</u>	<u>(149,760)</u>	<u>57,581</u>	<u>61,682</u>
Other Financing Sources (Uses)				
Optional Transfers	(126,881)	126,881	-	-
Proceeds from Installment Purchase Agreement	-	-	95,905	95,905
Proceeds from Bond Refunding	-	-	1,468,044	1,468,044
Bond Closing Costs	-	-	(18,033)	(18,033)
Payment to Refunding Bond Escrow Agent	<u>-</u>	<u>-</u>	<u>(1,450,000)</u>	<u>(1,450,000)</u>
Total Other Financing Sources (Uses)	<u>(126,881)</u>	<u>126,881</u>	<u>95,916</u>	<u>95,916</u>
Net Change in Fund Balance	26,980	(22,879)	153,497	157,598
Fund Balance--October 1, 2011	<u>628,793</u>	<u>22,879</u>	<u>1,286,236</u>	<u>1,937,908</u>
Fund Balance--September 30, 2012	<u><u>\$ 655,773</u></u>	<u><u>\$ -</u></u>	<u><u>\$1,439,733</u></u>	<u><u>\$ 2,095,506</u></u>

**SCHOOLCRAFT COUNTY ROAD COMMISSION  
GENERAL OPERATING FUND--ANALYSIS OF  
REVENUES AND OTHER FINANCING SOURCES  
For the Fiscal Year Ended September 30, 2012**

**EXHIBIT J**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Permits	\$ -	\$ -	\$ 8,516	\$ 8,516
Federal Grants--Negotiated Projects				
Critical Bridge Funds	8,607	6,019	-	14,626
Surface Transportation Program	384,960	-	-	384,960
Economic Development D Funds	186,991	-	-	186,991
U.S. Forest Service	-	-	1,755	1,755
High Priority Funds	6,337	-	-	6,337
State Grants				
Michigan Transportation Fund				
Engineering	7,707	2,293	-	10,000
Allocation	1,299,164	386,544	-	1,685,708
Snow Removal	90,792	27,120	-	117,912
Economic Development Fund				
Rural Primary (D)	143,824	-	-	143,824
Forest Road Funds (E)	185,323	-	-	185,323
State Critical Bridge Funds	1,614	1,128	-	2,742
Charges for Services				
State Trunkline Maintenance	-	-	1,187,964	1,187,964
State Trunkline Non-Maintenance	-	-	284,580	284,580
Private Drive Snow Removal	-	-	9,509	9,509
Salvage Sales	-	-	3,541	3,541
Interest and Rents				
Interest Earned	3,398	123	6,952	10,473
Rents and Royalties	-	-	102,990	102,990
Other Revenue				
Other Non-Road Services	-	-	33,333	33,333
Refunds/Rebates	-	-	799	799
Gain on Equipment Disposal	-	-	3,413	3,413
Total Revenue	<u>2,318,717</u>	<u>423,227</u>	<u>1,643,352</u>	<u>4,385,296</u>
Other Financing Sources				
Proceeds From Installment Purchase Agreement	-	-	95,905	95,905
Proceeds From Bond Refunding	-	-	1,468,044	1,468,044
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>1,563,949</u>	<u>1,563,949</u>
Total Revenue and Other Financing Sources	<u>\$ 2,318,717</u>	<u>\$ 423,227</u>	<u>\$ 3,207,301</u>	<u>\$ 5,949,245</u>

**SCHOOLCRAFT COUNTY ROAD COMMISSION**  
**GENERAL OPERATING FUND**  
**ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES**  
**For the Fiscal Year Ended September 30, 2012**

**EXHIBIT K**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvement	\$ 904,909	\$ -	\$ -	\$ 904,909
Routine and Preventive Maintenance	734,525	-	-	734,525
Local Road				
Preservation/Structural Improvement	-	54,563	-	54,563
Routine and Preventive Maintenance	-	420,822	-	420,822
Primary Road Structures				
Preservation/Structural Improvement	81,652	-	-	81,652
Local Road Structures				
Preservation/Structural Improvement	-	9,555	-	9,555
State Trunkline Maintenance	-	-	\$ 1,087,533	1,087,533
State Trunkline Non-Maintenance	-	-	284,580	284,580
Private Snow Plowing	-	-	9,484	9,484
Equipment Expense--Net (Per Exhibit H)	69,829	25,475	72,732	168,036
Administrative Expense--Net (Per Exhibit H)	222,073	62,572	-	284,645
Other Non-Road Projects	-	-	43,805	43,805
Capital Outlay--Net (Per Exhibit H)	-	-	(75,614)	(75,614)
Debt Service				
Principal	65,000	-	156,405	221,405
Interest	86,868	-	6,846	93,714
Total Expenditures	<u>2,164,856</u>	<u>572,987</u>	<u>1,585,771</u>	<u>4,323,614</u>
Other Financing Uses				
Bond Closing Costs	-	-	18,033	18,033
Payment to Refunding Bond Escrow Agent	-	-	1,450,000	1,450,000
Total Other Financing Uses	<u>-</u>	<u>-</u>	<u>1,468,033</u>	<u>1,468,033</u>
Total Expenditures and Other Financing Uses	<u>\$ 2,164,856</u>	<u>\$ 572,987</u>	<u>\$ 3,053,804</u>	<u>\$ 5,791,647</u>

**SCHOOLCRAFT COUNTY ROAD COMMISSION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (3)  
For the Fiscal Year Ended September 30, 2012**

**SCHEDULE 1**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
Negotiated Projects (1)			
US Department of Transportation			
Highway Research, Planning and Construction			
TED (D)	20.205	RR 7761 111258	\$ 37,368
TED (D)	20.205	YY 0457 111253	39,984
TED (D)	20.205	EE 0464 102934	30,903
TED (D)	20.205	EE 0458 111254	40,342
TED (D)	20.205	RR 7947 87618	38,394
Federal Local Bridge Funds	20.205	RR 7583 105345	6,019
Surface Transportation Program	20.205	RR 7249 102936	69,300
Surface Transportation Program	20.205	RR 7761 111258	37,368
Surface Transportation Program	20.205	YY 0457 111253	17,771
Surface Transportation Program	20.205	RR 6778 105062	70,431
Surface Transportation Program	20.205	EE 0464 102934	18,178
Surface Transportation Program	20.205	EE 0458 111254	8,965
Surface Transportation Program	20.205	RR 7710 108854	74,412
Surface Transportation Program	20.205	RR 7864 102943	74,771
Surface Transportation Program	20.205	RR 7878 106198	966
Surface Transportation Program	20.205	RR 7947 87618	12,798
Total US Department of Transportation			<u>577,970</u>
US Department of Agriculture			
Direct From United States Forest Service			
Hiawatha National Forest ARRA Funds	10.687	10-RO-11094419-077	<u>1,755</u>
Total US Department of Agriculture			<u>1,755</u>
Total Negotiated Projects Subject to Single Audit Requirements			<u>\$ 579,725</u>
Contracted Projects (2)			
High Risk Rural Roads	20.205	LL 0405 112731	6,337
Federal Local Bridge Funds	20.205	RR 7434 102645	8,607
Total Contracted Projects			<u>\$ 14,944</u>
Total Federal Aid Projects			<u>\$ 594,669</u>

**See Notes to Schedule of Expenditures of Federal Awards.**



**SCHOOLCRAFT COUNTY ROAD COMMISSION**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Fiscal Year Ended September 30, 2012**

1. Negotiated projects are projects that the Road Commission's work force performs or administers the work in accordance with a contract negotiated with the United States Department of Agriculture and the United States Forest Service.
2. Contracted projects are administered by the Michigan Department of Transportation (MDOT) and will be included in its Single Audit.
3. This schedule is presented on the modified accrual basis of accounting; please refer to Note A of the financial statement notes for other significant accounting policies.



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

ANDY DILLON  
STATE TREASURER

February 14, 2013

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

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

Dear Commissioners:

We have audited the basic financial statements of the governmental activities and major fund of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, Michigan, as of and for the year ended September 30, 2012, which collectively comprise the Schoolcraft County Road Commission's basic financial statements, and have issued our report thereon dated February 14, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schoolcraft County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards, and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2012-1.

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

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



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



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

ANDY DILLON  
STATE TREASURER

February 14, 2013

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

RE: Report on Compliance With Requirements That Could Have a Direct and  
Material Effect on Each Major Program and on Internal Control Over  
Compliance in Accordance With OMB Circular A-133

Dear Commissioners:

Compliance

We have audited the Schoolcraft County Road Commission's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Schoolcraft County Road Commission's major Federal programs for the year ended September 30, 2012. The Schoolcraft County Road Commission's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the Schoolcraft County Road Commission's management. Our responsibility is to express an opinion on the Schoolcraft County Road Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Schoolcraft County Road Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Schoolcraft County Road Commission's compliance with those requirements.

In our opinion, the Schoolcraft County Road Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended September 30, 2012.

#### Internal Control Over Compliance

Management of the Schoolcraft County Road Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the Schoolcraft County Road Commission's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Schoolcraft County Road Commission's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

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



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



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

ANDY DILLON  
STATE TREASURER

February 14, 2013

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 and major fund of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, Michigan, for the fiscal year ended September 30, 2012, and have issued our report thereon dated February 14, 2013. 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 May 2, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the 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 its compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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

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

#### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on December 11, 2012.

#### Significant Accounting Policies

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

#### Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction,

that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 14, 2013.

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 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 QUESTIONED COSTS  
For the Fiscal Year Ended September 30, 2012

**Section I--Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issues: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes  X  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes  X  No
- Noncompliance material to financial statements noted? \_\_\_\_\_ Yes  X  No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes  X  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes  X  None reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_\_\_\_ Yes  X  No

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
20.205	Highway Research, Planning and Construction

Dollar threshold used to distinguish between type A and type B programs \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes  X  No

SCHOOLCRAFT COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended September 30, 2012

**Section II--Financial Statement Findings**

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 2012-1*

*Condition:* During the fiscal year ended September 30, 2012, expenditures were incurred in excess of amounts appropriated in the amended budgets as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Preservation / Structural Improvement	\$ 856,982	\$ 904,909	\$ (47,927)
Primary Road Routine & Preventive Maintenance	677,912	734,525	(56,613)
Local Preservation / Structural Improvement	44,768	54,563	(9,795)
Local Road Routine & Preventive Maintenance	390,119	420,822	(30,703)
Local Road Structure Preservation / Structural Improvement	8,348	9,555	(1,207)
Equipment Expense--Net	135,938	168,036	(32,098)
Administrative Expense--Net	281,397	284,645	(3,248)
Other Non-Road Projects	38,372	43,805	(5,433)

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

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

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

**Section III--Federal Award Findings and Questioned Costs**

There were no findings related to single audit compliance.

SCHOOLCRAFT COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended September 30, 2012

**Summary Schedule of Prior Year Audit Findings**

Violation of Public Act 2 of 1968, as Amended

*Finding 2011-1*

*Condition:* During the fiscal year ended September 30, 2011, expenditures were incurred in excess of amounts appropriated in the amended budgets as follows:

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

*Current Year Status:* The Road Commission continues to adopt and amend their budget as required, but 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.