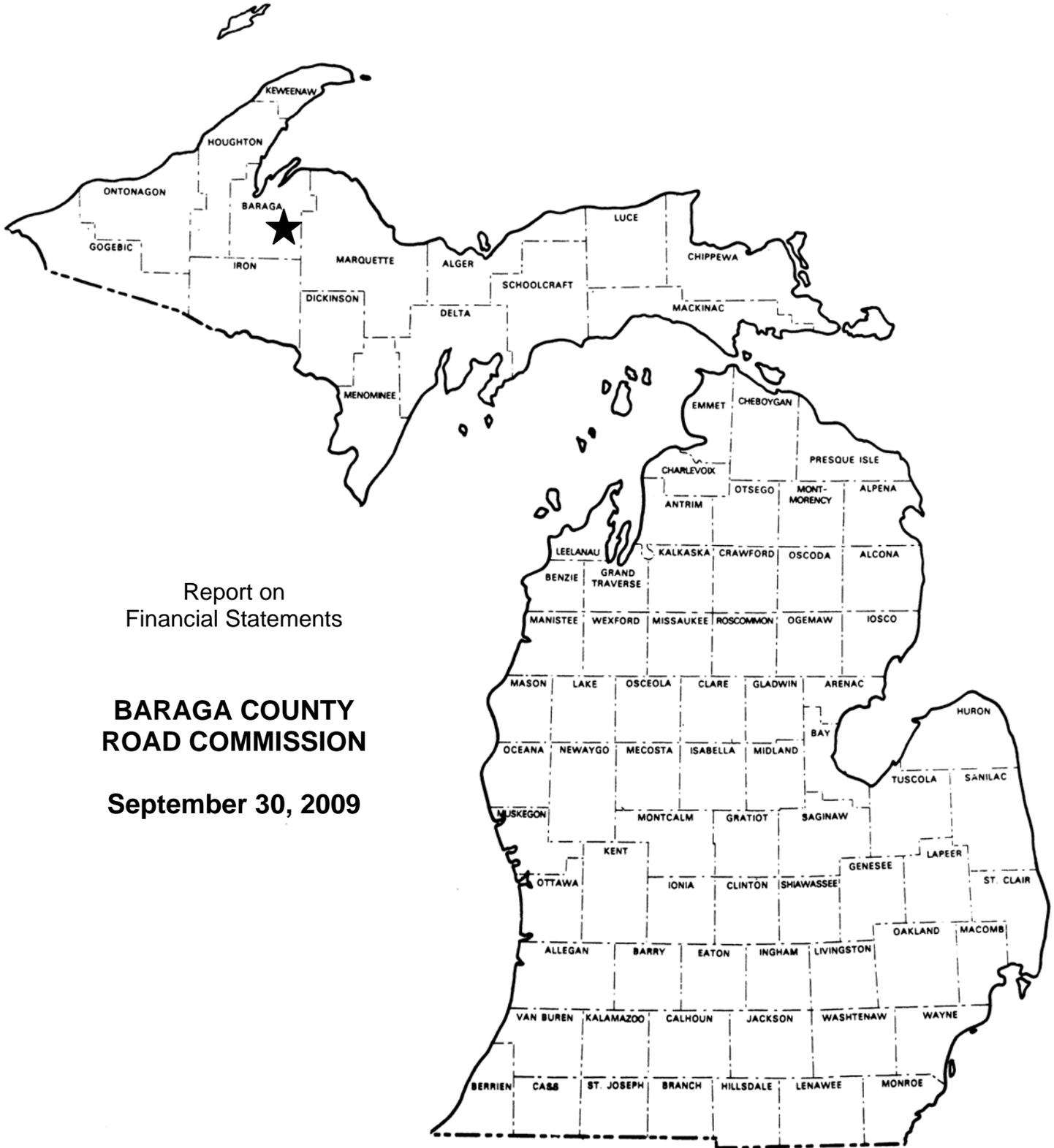


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY
Robert J. Kleine, Treasurer



Report on
Financial Statements

**BARAGA COUNTY
ROAD COMMISSION**

September 30, 2009

BARAGA COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Harold Miron
Chairperson

Roy Koski
Vice Chairperson

Anthony R. Selkey
Member

Douglas J. Mills, P.E.
Engineer/Manager

Mary R. Bedner
Clerk/Office Manager

COUNTY POPULATION--2000
8,746

STATE EQUALIZED VALUATION--2009
\$348,818,172



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

March 11, 2010

Board of County Road Commissioners
Baraga County Road Commission
US 41 South
P.O. Box 217
L'Anse, Michigan 49946

RE: Unqualified Opinion on Basic Financial Statements and Supplementary
Schedule of Expenditures of Federal and State Awards--Governmental Entity

Dear Board Members:

We have audited the accompanying basic financial statements of the Baraga County Road Commission, a component unit of Baraga County, Michigan, as of and for the year ended September 30, 2009 as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission, as of September 30, 2009 and the changes in financial position 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 March 11, 2010, on our consideration of the Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 1 through 10 and the budget comparison information in Exhibits G and H are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Road Commission's basic financial statements. The accompanying supplementary and related information in Exhibits I through K is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



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

BARAGA COUNTY ROAD COMMISSION

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BARAGA COUNTY ROAD COMMISSION

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BARAGA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2009

Our discussion and analysis of the Road Commission's financial performance provides an overview of its financial activities for the fiscal year ended September 30, 2009. This 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 activities; 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 Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. 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. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

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.

BARAGA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2009

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 and decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Report on 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 type fund.

- 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 9.52% or \$1,814,598 from \$19,054,529 to \$20,869,127 for the year ended September 30, 2009. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, were \$1,654,326 during 2009, an increase of \$149,541 from the prior year. The change was primarily the result of a reduction in debt and decrease in maintenance activity expenditures in 2009 as compared to 2008.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets-net or related debt) are considered restricted. The depreciation for the current year's infrastructure assets will be depreciated in the subsequent year.

BARAGA COUNTY ROAD COMMISSION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2009**

The investment in capital assets for 2009, net of related debt, was \$19,214,801, an increase of \$1,665,057 from the prior year. The increase was primarily the result of reporting infrastructure additions in the amount of \$1,543,922 for the year 2009.

Net assets as of the fiscal year ended September 30, 2009 are as follows:

	Governmental Activities <u>09/30/08</u>	Governmental Activities <u>09/30/09</u>	<u>Variance</u>	<u>Percent Change</u>
Current and Other Assets	\$ 2,330,910	\$ 2,929,098	\$ 598,188	25.66%
Net Capital Assets	<u>17,549,744</u>	<u>19,214,801</u>	<u>1,665,057</u>	<u>9.49%</u>
 Total Assets	 <u>19,880,654</u>	 <u>22,143,899</u>	 <u>2,263,245</u>	 <u>11.38%</u>
Current Liabilities	464,660	835,735	(371,075)	-79.86%
Noncurrent Liabilities	<u>361,465</u>	<u>439,037</u>	<u>(77,572)</u>	<u>-21.46%</u>
 Total Liabilities	 <u>826,125</u>	 <u>1,274,772</u>	 <u>448,647</u>	 <u>54.31%</u>
 Net Assets				
Invested in Capital Assets				
Net of Related Debt	17,549,744	19,214,801	1,665,057	9.49%
Restricted	<u>1,504,785</u>	<u>1,654,326</u>	<u>149,541</u>	<u>9.94%</u>
 Total Net Assets	 <u><u>\$19,054,529</u></u>	 <u><u>\$ 20,869,127</u></u>	 <u><u>\$1,814,598</u></u>	 <u><u>9.52%</u></u>

BARAGA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2009

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

	<u>2008</u>	<u>2009</u>	<u>Difference</u>	<u>Percent Change</u>
Program Revenue				
Federal Grants	\$ 2,859,919	\$ 1,718,458	\$ (1,141,461)	-39.91%
State Grants	2,662,649	2,294,772	(367,877)	-13.82%
Contributions From Local Units	129,348	130,278	930	0.72%
Charges for Services	113,094	113,358	264	0.23%
Investment Earnings	27,353	45,951	18,598	67.99%
Reimbursements		221	221	100.00%
General Revenue				
Property Taxes	328,581	350,688	22,107	6.73%
Gain on Equipment Disposal	42,738	6,365	(36,373)	-85.11%
Total Revenue	<u>6,163,682</u>	<u>4,660,091</u>	<u>(1,503,591)</u>	<u>-24.39%</u>
Expenses				
Primary Road Maintenance	721,647	676,879	(44,768)	-6.20%
Local Road Maintenance	1,508,496	1,512,610	4,114	0.27%
Private Driveway Plowing	83,403	90,385	6,982	8.37%
Net Equipment Expense	(131,038)	(274,776)	(143,738)	-109.69%
Net Administrative Expense	369,152	370,357	1,205	0.33%
Infrastructure Depreciation Expense	260,605	367,987	107,382	41.20%
Compensated Absences	22,940	(2,636)	(25,576)	-111.49%
Other Post-Employment Benefits		80,208	80,208	-100.00%
Non-Road Project	9,504	5,429	(4,075)	-42.88%
Interest Expense	5,499	19,050	13,551	246.43%
Total Expenses	<u>2,850,208</u>	<u>2,845,493</u>	<u>(4,715)</u>	<u>-0.17%</u>
Increase in Net Assets	<u>3,313,474</u>	<u>1,814,598</u>	<u>(1,498,876)</u>	<u>-45.24%</u>
Ending Net Assets	<u>\$ 19,054,529</u>	<u>\$20,869,127</u>	<u>\$ 1,814,598</u>	<u>9.52%</u>

BARAGA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2009

The Road Commission's Fund

The Road Commission's General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies, distributed to the county, which are earmarked by law for road and highway purposes.

	<u>2008</u>	<u>2009</u>	<u>Variance</u>	<u>%</u>
Revenues				
Taxes	\$ 328,581	\$ 350,688	\$ 22,107	6.73%
Federal Aid	2,392,795	2,185,582	(207,213)	-8.66%
State Aid	2,733,369	2,294,772	(438,597)	-16.05%
Contributions From Local Units	129,348	130,278	930	0.72%
Charges for Services	100,999	106,674	5,675	5.62%
Interest and Rents	27,353	45,951	18,598	67.99%
Other Revenue	54,833	13,270	(41,563)	-75.80%
Total Revenues	<u>5,767,278</u>	<u>5,127,215</u>	<u>(640,063)</u>	<u>-11.10%</u>
Expenditures				
Public Works	5,451,243	4,286,055	(1,165,188)	-21.37%
Capital Outlay	287,182	127,873	(159,309)	-55.47%
Debt Service	87,829	19,050	(68,779)	-78.31%
Total Expenditures	<u>5,826,254</u>	<u>4,432,978</u>	<u>(1,393,276)</u>	<u>-23.91%</u>
Excess of Revenues Over (Under)				
Expenditures	<u>(58,976)</u>	<u>694,237</u>	<u>753,213</u>	<u>1277.15%</u>
Fund Balance--Beginning	<u>1,458,103</u>	<u>1,399,126</u>	<u>(58,977)</u>	<u>-4.04%</u>
Fund Balance--Ending	<u>\$1,399,126</u>	<u>\$ 2,093,363</u>	<u>\$ 694,236</u>	<u>49.62%</u>

For the fiscal year ended September 30, 2009, the fund balance of the General Operating Fund increased \$694,236 as compared to a decrease of \$58,977 in the fund balance for the fiscal year ended September 30, 2008. Total operating revenues were \$5,127,215, a decrease of \$640,063 as compared to last year. This change in revenues resulted from a decrease in State and Federal Aid. The difference in State and Federal aid from 2008 to 2009 was primarily due to the completion of competitive Safety Projects in 2008 and significant decrease in STP funds due to wrap up of projects. There was also a significant decrease in projects under the special "one time" State Local Jobs Today funding program.

BARAGA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2009

Total expenditures were \$4,432,978, a decrease of \$1,393,276 in comparison to last year. This change in expenditures is primarily the result of the reduction of heavy maintenance construction projects, decrease in debt service, decrease in equipment maintenance costs and a decrease in depreciation due to aging capital assets.

Budgetary Highlights for FY2009

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's 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 original revenue budget for 2009 was \$6,000,000, which was \$971,000 more than the final amended budget. This reduction from the original revenue budget was due, in large part, to the Road Commission receiving less certain Federal and State aid project funding during the year than was originally planned. The final amended budget was \$98,215 less than the actual revenue received for the year.

The Road Commission's original expenditures were projected at \$6,000,000, while the final amended budget was \$5,029,000. The actual expenditures were \$4,432,978 resulting in actual expenditures being less than the budget by \$596,022. This was primarily due to the timing of some projects in progress and/or completed after October 1st of 2009 (FY2010) and a general decrease in other expenditures from the final amended budget.

BARAGA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2009

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2009, the Road Commission had \$19,214,801 invested in capital assets as follows:

	09/30/08	09/30/09	Percentage Change
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 106,277	\$ 106,277	0.00%
Infrastructure--Land and Improvements	7,754,823	8,445,001	8.90%
Subtotal	<u>7,861,100</u>	<u>8,551,278</u>	<u>8.78%</u>
Capital Assets Being Depreciated			
Buildings	509,456	509,268	-0.04%
Road Equipment	4,813,225	4,678,562	-2.80%
Shop Equipment	105,903	111,256	5.05%
Office Equipment	138,543	138,938	0.29%
Engineer's Equipment	120,801	104,309	-13.65%
Stockroom Equipment	49,704	48,297	-2.83%
Depletable Assets	53,083	53,083	0.00%
Infrastructure--Bridges	4,487,266	5,434,538	21.11%
Infrastructure--Roads	4,809,501	5,406,151	12.41%
Subtotal	<u>15,087,482</u>	<u>16,484,402</u>	<u>9.26%</u>
Total Capital Assets	22,948,582	25,035,680	9.09%
Total Accumulated Depreciation	<u>(5,398,838)</u>	<u>(5,820,879)</u>	<u>7.82%</u>
Total Net Capital Assets	<u>\$ 17,549,744</u>	<u>\$ 19,214,801</u>	<u>9.49%</u>

The Road Commission reported infrastructure current year asset additions in the amount of \$1,543,922. Infrastructure assets are financed through Federal, State and local contributions. The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB Statement No. 34.

BARAGA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2009

This year's major capital asset additions included the following:

Construction and Reconstruction of Bridges	\$ 947,272
Various Resurfacing Projects and Related Land/Right-of-Way	596,650
Road Equipment	109,704
Other Various Equipment	<u>18,169</u>
Total Additions	<u>\$ 1,671,795</u>

There were no new installment purchase agreements entered into during 2009. All equipment was acquired with Road Commission funds.

Debt

The Road Commission had no long-term debt, other than compensated absences and other post employment benefits at the end of 2008 and 2009.

Economic Factors and Next Year's Budget

The past year was a challenge for governmental agencies at all levels. Agencies responsible for maintaining the Michigan Transportation System continue to be placed under pressure due to an ever growing demand for services at reduced funding levels.

The cost of equipment, material and personnel have continued to increase since the gas tax was last increased in 1997, far outpacing general inflation rates. A .19 cents per gallon gas tax in 1997 would be about .26 cents per gallon in 2010 if it was simply allowed to adjust with the rate of the consumer price index. However, the gas tax remains unadjusted for inflation since 1997.

Throughout the state, road commissions continued to struggle with budget issues during the past year. Road commissions continue to report staff downsizing, layoffs and temporary shutdowns. The County Road Association of Michigan (CRAM) has reported that many agencies are unable to purchase needed equipment, maintain adequate staffing levels and provide matching funds for projects. In 2009, several road commissions began pulverizing blacktop roads and converting them back to gravel. The lack of needed funding results in reduced basic service levels, deferred maintenance and less investment in capital improvements for roads and bridges.

Michigan Transportation Fund (MTF) revenue has not kept pace with inflation, let alone the extreme cost increases for construction and maintenance in recent years. Reduced spending power and the erosion of the basic allocated funding source limits the ability to undertake proper long-range planning and manage the public assets. Many agencies have adopted asset management systems for their road network. Data has been collected and software tools are available to guide the agencies with sound road investment recommendations. However, the appropriate funding has not been provided to implement many of the needed recommendations to preserve and maintain the system in a pro-active manner.

BARAGA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2009

Local road agencies, including the Road Commission, are simply not able to keep up with basic transportation needs.

The board of county road commissioners considered many factors when setting the fiscal year 2010 budget. One of the major factors is the Michigan Transportation Fund (MTF). The MTF provides the primary operating revenue for the Road Commission. The MTF, Act 51 of 1951 provides for the distribution of over \$2.0 billion of fuel taxes and vehicle registration fees collected in Michigan. After deductions of 1 cent of the 1997 gas tax increase for bridges, \$43 million for state debt service and deductions for other state agencies, public transit, economic development and local bridge programs, the balance is distributed by formula: state-39.1%, counties-39.1%, and cities and villages-21.8%.

The State of Michigan also continues the practice of allowing MTF funds to be utilized by, and provide funding for, other State departments. This money comes off the top of the MTF and results in fewer dollars available to the Michigan Department of Transportation, county road commissions, and city and village street departments.

Fuel tax collections are also expected to continue in a downward trend in 2010 due to less consumption. The less consumption results from higher fuel prices, the economic conditions throughout the state and country, more fuel efficient vehicles, and increased use of hybrid vehicles and alternative fuels. If there is less consumption, there will be less Michigan Transportation Fund tax collections and fewer dollars distributed to road agencies.

Because of the above stated reasons, the total anticipated MTF funding for Baraga County was estimated to be 5% less for the 2010 fiscal year as compared to 2009.

Another factor considered when preparing the fiscal year 2010 budget was the availability of funding sources other than the MTF. In Baraga County, the Road Commission anticipates several road projects and one bridge replacement project to be partially funded by various State and Federal agencies, including the Bureau of Indian Affairs. In addition, it is anticipated that the American Recovery and Reinvestment Act (ARRA) of 2009 will provide two additional projects on the Federal Aid System to be completed in 2010.

While a substantial portion of Road Commission revenue comes from State and Federal sources to partially fund improvement projects, local funding is also needed to provide matching dollars. Countywide road millage, township millages, township contributions and tribal contributions are also anticipated to provide revenue toward projects and maintenance activities in the 2010 fiscal year.

BARAGA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended September 30, 2009

In summary, key revenue factors and expenditure concerns were analyzed during the preparation of the 2010 fiscal year budget. Revenue factors included: declining allocated funding from the MTF; limited local funding resources and limited availability of other competitive State and Federal program funds. Expenditure concerns include: maintaining capability to match federal aid funds, volatile fuel costs; past year major increased costs in other materials such as, asphalt, aggregate and steel that have continued; employee health insurance cost increases; and unfunded employee retirement liability. All of these concerns, in addition to the general items previously discussed, were considered when adopting the budget for 2010. The amount expected to be available for appropriation in the fiscal year 2010 budget is \$6,605,000. New State transportation funding initiatives are being discussed. However, no new funding sources are expected to be in place to provide additional revenue for fiscal year 2010.

The board realizes, and the reader should understand, that there are not sufficient funds available to adequately address the needs of the county road system, as a whole. Additional drainage improvements, preventative maintenance, reconstruction, bituminous resurfacing and surfacing of gravel roads throughout the county are needed. Many needed projects and activities remain unfunded and priorities must be established for the entire system. The preparation of the budget is challenging. However, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Baraga 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 Road Commission for Baraga County administrative offices at: 18139 US 41, L'Anse, Michigan, 49946.

BARAGA COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
September 30, 2009

EXHIBIT A

<u>ASSETS</u>	<u>Governmental Activities</u>
Cash	\$ 1,283,701
Accounts Receivable	
Sundry Accounts	9,756
Michigan Transportation Funds	279,455
Due From Federal Government	806,628
Inventories	
Road Materials	363,221
Equipment Parts and Materials	144,290
Prepaid Expenses	42,047
Capital Assets (Net of Accumulated Depreciation)	<u>19,214,801</u>
 Total Assets	 <u>22,143,899</u>
 <u>LIABILITIES</u>	
Current Liabilities	
Accounts Payable	707,250
Due to State of Michigan	56,196
Accrued Liabilities	11,272
Other Accrued Liabilities	30,967
Driveway Snow Plowing Deposits	30,050
Noncurrent Liabilities	
Vested Employee Benefits Payable	358,829
Other Post-Employment Benefits Payable	<u>80,208</u>
 Total Liabilities	 <u>1,274,772</u>
 <u>NET ASSETS</u>	
Investment in Capital Assets	
Net of Related Debt	19,214,801
Restricted for County Roads	<u>1,654,326</u>
 Total Net Assets	 <u><u>\$ 20,869,127</u></u>

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

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

EXHIBIT B

	Governmental Activities
Program Expenses	
Primary Road Maintenance	\$ 676,879
Local Road Maintenance	1,512,610
Private Driveway Plowing	90,385
Net Equipment Expense	(274,776)
Net Administrative Expense	370,357
Infrastructure Depreciation	367,987
Compensated Absences	(2,636)
Other Post-Employment Benefits	80,208
Cost of General Services	5,429
Interest Expense	19,050
	<hr/>
Total Program Expenses	2,845,493
	<hr/>
Program Revenue	
Charges for Services	
Charges for Services	113,358
Reimbursements	221
Operating Grants and Contributions	
Michigan Transportation Funds	1,956,071
Investment Earnings	45,951
Capital Grants and Contributions	
Federal Grants	1,718,458
State Grants	338,701
Contributions From Local Units	130,278
	<hr/>
Total Program Revenue	4,303,038
	<hr/>
Net Program Revenue	1,457,545
	<hr/>
General Revenue	
Taxes	350,688
Gain on Equipment Disposal	6,365
	<hr/>
Total General Revenues	357,053
	<hr/>
Change in Net Assets	1,814,598
	<hr/>
Net Assets	
Beginning of Year	19,054,529
	<hr/>
End of Year	\$ 20,869,127
	<hr/> <hr/>

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

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

EXHIBIT C

	<u>General Operating Fund</u>
<u>ASSETS</u>	
Cash	\$ 1,283,701
Accounts Receivable	
Michigan Transportation Funds	279,455
Sundry Accounts	9,756
Due From Federal Government	806,628
Inventories	
Road Materials	363,221
Equipment Parts and Materials	144,290
Prepaid Expenses	<u>42,047</u>
Total Assets	<u><u>\$ 2,929,098</u></u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 707,250
Accrued Liabilities	11,272
Due to State	56,196
Other Accrued Liabilities	30,967
Advances	
Driveway Plowing	<u>30,050</u>
Total Liabilities	<u>835,735</u>
Fund Equity	
Fund Balance	
Reserved for Inventory	507,511
Reserved for Self-Insurance	239,225
Unreserved and Undesignated	<u>1,346,627</u>
Total Fund Equity	<u>2,093,363</u>
Total Liabilities and Fund Equity	<u><u>\$ 2,929,098</u></u>

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

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

EXHIBIT D

Total Governmental Fund Balance	\$ 2,093,363
Amounts reported for governmental activities in the Statement of Net Assets are are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	19,214,801
Long-term liabilities are not due and payable in the current period and are not reported in the fund.	<u>(439,037)</u>
Net Assets of Governmental Activities	<u><u>\$20,869,127</u></u>

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

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

EXHIBIT E

	General Operating Fund
Revenues	
Taxes	\$ 350,688
Federal Grants	2,185,582
State Grants	2,294,772
Contributions From Local Units	130,278
Charges for Services	106,674
Interest and Rents	45,951
Other Revenue	13,270
	<hr/>
Total Revenues	5,127,215
	<hr/>
Expenditures	
Public Works	4,286,055
Capital Outlay	127,873
Debt Service	19,050
	<hr/>
Total Expenditures	4,432,978
	<hr/>
Excess of Revenues Over (Under) Expenditures	694,237
	<hr/>
Fund Balance--October 1, 2008	1,399,126
	<hr/>
Fund Balance--September 30, 2009	<u>\$ 2,093,363</u>

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

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

EXHIBIT F

Net Change in Fund Balance--Governmental Fund \$ 694,237

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.

1,665,057

Deferred revenue is not available pay for current period expenditures and, therefore, not reported in the funds.

Deferred revenues relating to prior years
Bureau of Indian Affairs Grants (BIA) (467,124)

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 increase in other post-employment benefits) (77,572)

Change in Net Assets of Governmental Activities \$1,814,598

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

BARAGA COUNTY ROAD COMMISSION

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

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The Road Commission, which is established pursuant to the County Road Law Michigan Compiled Law (MCL) 224.1, is governed by an elected 3-member board of county road commissioners. The Road Commission may not issue debt without the county's approval and the property tax levy for road purposes is subject to county board of commissioners' approval. If approval is granted, Road Commission taxes are levied under the taxing authority of the County, as approved by the county electors, and 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 Baraga County Road Commission, a discretely presented component unit of Baraga 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 road 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. All of the net assets that are not related to capital assets are classified as restricted due to legal constraints.

BARAGA COUNTY ROAD COMMISSION

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

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

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

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 customer or applicants for goods or services or privileges provided; 2) Michigan transportation funds, 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.

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.

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

BARAGA COUNTY ROAD COMMISSION

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

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

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.

Bank Deposits 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. Investments are recorded at cost.

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

Prepaid Items

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

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.

Property Taxes

The 2008 taxable valuation was \$214,454,720 on which ad valorem taxes of 1.9526 mills were levied for the Road Commission and the Villages of L'Anse and Baraga's snow removal and road construction purposes. In addition, specific taxes are levied under the Industrial Facilities Tax Act and Commercial Forest Reserve Act.

The county's 2008 ad valorem tax was levied and collectible on December 1, 2008. It is the county's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of the levy are budgeted and made available for financing operations. The 2008 tax levy for Road Commission operations was recorded as revenue during the fiscal year ended September 30, 2009 totaling \$350,688 for all taxes received.

BARAGA COUNTY ROAD COMMISSION

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

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

Capital Assets and Depreciation

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 \$200 and an estimated useful life in excess of two years. 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.

GASB Statement No. 34 makes it optional for phase III governments (Baraga County) to record major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, and that they be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Road Commission has capitalized the current year's infrastructure since 2004, as required by GASB Statement No. 34, and has reported the infrastructure in the Statement of Net Assets.

Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to a depreciation credit account for noninfrastructure related assets. Accordingly, the annual depreciation expense does not affect the available operating equities of the General Operating Fund for the noninfrastructure related assets; the infrastructure asset depreciation is reported as a separate line-item in the Statement of Activities. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

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

Long-Term Obligations

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

BARAGA COUNTY ROAD COMMISSION

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

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

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 county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer prepares and submits a proposed operating budget to the board of 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 and fiscal officer to amend the Road Commission's budget when necessary, without increasing the overall budget, by transferring up to 20% from one line-item to another.

The budget is prepared on the modified accrual basis of accounting, which is the same basis as the fund financial statements.

NOTE C--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated 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 as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

BARAGA COUNTY ROAD COMMISSION

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

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

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

At year end, the Road Commission's deposits (there were no investments) were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 1,283,601
Petty Cash and Cash on Hand	<u>100</u>
Total	<u><u>\$ 1,283,701</u></u>

The bank balance of the primary government's deposits is \$1,587,037, of which \$707,894 is covered by Federal depository insurance. On October 3, 2008, FDIC deposit insurance temporarily increased from \$100,000 to \$250,000 per depositor through December 31, 2009; and on May 20, 2009, the temporary increase was extended through December 31, 2013.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission did not have any investments during 2009.

Disclosures Relating to Interest Rate Risk

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

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

BARAGA COUNTY ROAD COMMISSION

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

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

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 legal or policy 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 and the Road Commission's investment policy does not contain legal or policy requirements 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.

NOTE D--DEFERRED COMPENSATION PLAN

The Road Commission offers all Road Commission employees a choice of two deferred compensation plans created in accordance with Internal Revenue Code, Sections 457 (g) and 457 (b). The assets of the plan are held in a trust in a custodial account as described in IRS Sections 457(g) and (b) 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 for any other use. The administrators are Nationwide Retirement Solutions and EF Jones Insurance. Both are agents of the employer for purposes of providing direction to the custodians of the accounts 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.

During 2006, the Road Commission ended their agreement with Hartford Life Insurance Company. Employees with funds in the Hartford plan can continue to have their funds with the plan until they individually elect to move their funds out of the plan.

BARAGA COUNTY ROAD COMMISSION

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

NOTE E--FUND BALANCE RESERVES

Reserve for Self-Insurance

The Road Commission's policy is to self-insure for fleet collision coverage and employee group life coverage. The Collision Insurance Reserve Account was established in 1969 and the Life Insurance Reserve Account in 1982. The reserve accounts are funded by annual transfers of amounts equal to what the approximate premium would be on the respective coverage, plus interest earned on interest-bearing deposits of the reserve account. The Road Commission's policy provides that the transfers of premium amounts will be discontinued when the annual interest earnings on the reserve account are greater than the estimated premium cost. All collision repair costs on road equipment and group life benefit payments are expensed when paid and closed to the respective reserve account at year end.

	Collision Insurance Reserve	Life Insurance Reserve	Total Self-Insurance Reserve
Balance--October 1, 2008	\$ 159,351	\$ 76,781	\$ 236,132
Additions			
Interest Earned	2,087	1,006	3,093
Balance--September 30, 2009	\$ 161,438	\$ 77,787	\$ 239,225

Reserve for Inventory

The Road Commission established a fund balance reserve totaling \$507,511 for inventories not available for appropriation in the 2010 budget.

NOTE F--LONG-TERM DEBT

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

	Balances 10/01/08	Additions (Reductions)	Balances 09/30/09	Due Within One Year
<u>Vested Employee Benefits Payable</u>				
Vacation Benefits	\$ 105,012	\$ 9,055	\$ 114,067	
Sick Leave Benefits	256,453	(11,691)	244,762	
Total	\$ 361,465	\$ (2,636)	\$ 358,829	\$ -

BARAGA COUNTY ROAD COMMISSION

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

NOTE F--LONG-TERM DEBT (Continued)

Vacation Benefits

The Road Commission's employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. All vacation time accrued through December 31 of the current year shall be utilized in the following year.

Sick Leave Benefits

The sick leave benefits liability recorded as long-term debt in the Statement of Net Assets reflects only those vested benefits which would be payable should an employee quit.

The Road Commission's employment policies provide that sick leave is accumulated at the rate of 1 day per month for all regular employees who have worked more than ½ of the normal working hours during the month. There is no limit on the accumulation of sick leave and accumulated benefits shall be paid at the employee's prevailing rate of pay in accordance with the following policy:

1. Retirement or Death--An employee shall receive pay in a lump sum for accumulated sick leave at the following rate: 100% of the first 120 days and 50% of the remainder.
2. Resignation--An employee shall receive pay in a lump sum for accumulated vested sick leave computed as follows:

0-5 years	No sick leave benefits
5-10 years	50% of accumulated benefits
10-15 years	75 % of the first 120 days, and 50% of the remainder
15 or more years	100% of the first 120 days, and 50% of the remainder

BARAGA COUNTY ROAD COMMISSION

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

NOTE G--CAPITAL ASSETS

Following is a summary of the changes in the capital assets at September 30, 2009.

	Account Balances 10/01/08	Additions	Deductions	Account Balances 09/30/09
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 106,277			\$ 106,277
Infrastructure--Land Improvements	7,754,823	\$ 690,178		8,445,001
Subtotal	<u>7,861,100</u>	<u>690,178</u>	<u>\$ -</u>	<u>8,551,278</u>
Capital Assets Being Depreciated				
Buildings	509,456	1,886	2,074	509,268
Road Equipment	4,813,225	109,704	244,367	4,678,562
Shop Equipment	105,903	9,023	3,670	111,256
Office Equipment	138,543	1,606	1,211	138,938
Engineers' Equipment	120,801	4,561	21,053	104,309
Stockroom Equipment	49,704	1,093	2,500	48,297
Depletable Assets	53,083			53,083
Infrastructure--Bridges	4,487,266	947,272		5,434,538
Infrastructure--Roads	4,809,501	596,650		5,406,151
Total	<u>15,087,482</u>	<u>1,671,795</u>	<u>274,875</u>	<u>16,484,402</u>
Less Accumulated Depreciation				
Buildings	336,320	9,352	624	345,048
Road Equipment	4,130,790	290,995	242,732	4,179,053
Shop Equipment	90,179	4,205	3,670	90,714
Office Equipment	68,678	11,119	1,211	78,586
Engineers' Equipment	77,459	8,178	21,053	64,584
Stockroom Equipment	38,049	1,994	2,500	37,543
Depletable Assets	53,083			53,083
Infrastructure--Bridges	286,751	122,763		409,514
Infrastructure--Roads	317,529	245,225		562,754
Total	<u>5,398,838</u>	<u>693,831</u>	<u>271,790</u>	<u>5,820,879</u>
Net Capital Assets Being Depreciated	<u>9,688,644</u>	<u>1,671,795</u>	<u>696,916</u>	<u>10,663,523</u>
Total Net Capital Assets	<u>\$ 17,549,744</u>	<u>\$ 2,361,973</u>	<u>\$ 696,916</u>	<u>\$ 19,214,801</u>

BARAGA COUNTY ROAD COMMISSION

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

NOTE G--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Net Equipment Expense	
Direct Equipment	\$ 290,995
Indirect Equipment	14,881
Net Administrative Expenses	
Office	11,119
Engineering	8,178
Building	670
Infrastructure Depreciation	<u>367,988</u>
Total Depreciation Expense	<u>\$ 693,831</u>

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, self-insures for fleet collision and employee group life coverage as detailed in Note F, and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The 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 with the state. The Road Commission became a member of the pool in 1980 for workers' compensation insurance and in 1984 for liability and property coverage.

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.

BARAGA COUNTY ROAD COMMISSION

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

NOTE I--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death, 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). The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2008.

MERS was established in 1946 under of 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 provisions of 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; the rate was 24.00%, 14.45% and 16.66% for the general, engineer/manager and non-union employees, respectively, for the calendar year ending December 31, 2008.

Annual Pension Cost

During the calendar year ended December 31, 2008, the Road Commission's contributions totaling \$230,161 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2006. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 28 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 projected benefit.

BARAGA COUNTY ROAD COMMISSION

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

NOTE I--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2006	\$172,377	100%	\$0
2007	185,705	100%	0
2008	230,161	100%	0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/06	\$4,263,471	\$ 6,569,030	\$ 2,305,559	65%	\$ 992,998	232%
12/31/07	4,315,673	6,684,806	2,369,133	65%	1,029,131	230%
12/31/08	4,257,252	6,755,485	2,498,233	63%	951,384	263%

Significant actuarial assumptions used include:

- 1) Long-term investment yield rate of 8%;
- 2) Annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases; and
- 3) Base inflation of 4.5%.

NOTE J--POST-EMPLOYMENT BENEFITS

In 2004, GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions" (OPEB). The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post-employment benefits (other than pensions). The new rules cause the government-wide financial statements to recognize the cost of providing retiree health care expenses over the working life of the employee, rather than at the time the health care expenses are paid. For the Road Commission, the pronouncement is effective for the year ending September 30, 2010. However the Road Commission has implemented this pronouncement earlier. GASB Statement No. 45 has been implemented prospectively.

The Baraga County Road Commission Retiree Medical Plan is a single-employer Plan administered by the Road Commission and can be amended at its discretion.

BARAGA COUNTY ROAD COMMISSION

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

NOTE J--POST-EMPLOYMENT BENEFITS (Continued)

Retired Union Employees

The hospital and medical coverage benefits are provided in accordance with Article 33(A.2a) and 33(A.2b) in the union agreement. Article 33(A.2a) states: When an employee elects to retire early and has at least twenty (20) years of continuous service with the Road Commission, the Road Commission agrees to continue to pay the premiums for the lesser of: 1) five years; or 2) until the employee's qualification for Medicare or death. Article 33(A.2b) states: For employees employed as of December 31, 1998 electing to retire early, the Road Commission agrees to continue to pay the premiums from age 62 to 65 or until the employee qualifies for Medicare or death, whichever comes sooner, even if the employee has not completed such twenty (20) years.

Retired Administrative Employees

The benefits are provided in accordance with Section 10(A.2) of the "General Employee Policy pertaining to Non-Bargaining Unit Employees," which includes the provision that when an employee elects to retire early, the Road Commission agrees to pay the medical insurance premium from age 60 to 65 or until the employee qualifies for Medicare, whichever comes sooner.

Permanently Disabled Employees

The benefits are provided in accordance with a board of road commissioners' policy adopted on November 13, 1996, which includes the provision that any regular employee having 20 years of service with the Road Commission who becomes permanently disabled, or any regular employee having 5 years of service with the Road Commission who becomes permanently disabled after reaching age 55, shall be eligible for health insurance benefits for a 36 month period. Said period shall commence the month after the month of the last day worked. Eligible employees are those who have been determined to be permanently disabled and are receiving social security disability and MERS retirement benefits. During the three year period under this policy, the Road Commission will pay the premiums for primary coverage until such time that the employee qualifies for Medicare Part B, at which time the Road Commission will pay the premium for secondary coverage.

Contribution

The contribution requirements of the plan are established by the Road Commission and management through negotiations with the Road Commission's union or personnel agreements and are on a "pay-as-you-go basis. The Road Commission has no obligation to make contributions in advance of when insurance premiums are due for payment (in other word, other than financing on a pay-as-you-go basis). During 2009, three retirees were eligible for benefits, and \$23,554 was recognized for post-employment health insurance expenditures in the Road Commission Operating Fund.

BARAGA COUNTY ROAD COMMISSION

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

NOTE J--POST-EMPLOYMENT BENEFITS (Continued)

Funding Status and Funding Progress

For the fiscal year ended September 30, 2009, the Road Commission has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of September 30, 2009. 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>2009</u>
Annual Required Contribution	\$103,762
Amount Contributed	
Payments of Current Premiums	(23,554)
Advance Funding	
	<u> </u>
Increase in Net OPEB Obligation	80,208
Adjustment for Interest and Amortization	-
OPEB Obligation--Beginning of Year	<u> </u>
OPEB Obligation--End of Year	<u>\$ 80,208</u>

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the fiscal year ended September 30, 2009 were as follows:

Annual OPEB Costs	\$103,762
Percentage Contributed	22.7%
Net OPEB Obligation	\$80,208

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

BARAGA COUNTY ROAD COMMISSION

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

NOTE J--POST-EMPLOYMENT BENEFITS (Continued)

Funding Status

The funding status as of September 30, 2009, the most recent actuarial valuation date is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
09/30/09	\$ -	\$ 958,102	\$958,102	0.00%	\$1,159,544	83%

Significant actuarial assumptions used include:

- 1) Discount rate of 4.80%
- 2) Annual salary increases of 2.50%
- 3) Post-Retirement Interest rate of 7.00%
- 4) Healthcare inflation rate is based on NIH National Health Expenditure Projections, 2008-2018.

NOTE K--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2009, the Federal aid expended by the Road Commission was \$865,519 for contracted projects and \$832,940 for negotiated 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. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administrated by the Road Commission and are subject to a single audit if the expenditures exceeded \$500,000.

A Single Audit was performed during the fiscal year ended September 30, 2009, as there was \$832,940 expended in Federal Awards.

BARAGA COUNTY ROAD COMMISSION

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

NOTE L--CONTINGENCIES

The Road Commission entered into loan contracts with the MDOT for constructing transportation infrastructure improvements. The loans are in the form of “Advance Construction” and will be repaid with future Federal aid reimbursements applicable to the project. MDOT will retain the loan funds and make payments to the project contractors and subcontractors on the Road Commission’s behalf. The Road Commission is to direct MDOT to convert Federal advance construction funds as soon as they become available and they will be used to pay principal on the loan. The Road Commission will pay MDOT interest at a rate of 4 percent annually. The assessment of interest begins when MDOT expends loan funds.

The Federal aid is contingent upon availability of Federal funds and Federal approval in future years. The Road Commission believes that MDOT will receive the future Federal aid funds on behalf of the Road Commission.

On May 5, 2009, Federal funds were converted to pay off the loan amount of \$172,442 leaving a contingency balance of \$481,200 at September 30, 2009. Listed below is a summary of the loan balances outstanding at September 30, 2009.

Beginning Date	Contractor Paid	Project #	Maximum Available Loan Amount	Loan Amount Expended 09/30/09	2009 Federal Aid Converted	Remaining Balance 09/30/09	Principal Due Date
08/26/08		100978a		\$172,442	\$172,442		
09/26/08		35571a	\$235,200	211,779		\$ 23,421	09/30/11
09/26/08		51712a	246,000	219,159		26,841	09/30/10
Total Contingency Loan Balance			<u>\$481,200</u>	<u>\$603,380</u>	<u>\$172,442</u>	<u>\$ 50,262</u>	

The Federal aid is contingent upon availability of Federal funds and Federal approval in future years. The Road Commission believes that MDOT will receive the future Federal aid funds on behalf of the Road Commission.

**BARAGA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
GOVERNMENTAL OPERATING FUND
SCHEDULE OF REVENUES AND OTHER
FINANCING SOURCES--BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2009**

EXHIBIT G

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Property Taxes	\$ 320,000	\$ 351,000	\$ 350,688	\$ (312)
Federal Grants (Negotiated Projects)				
Bureau of Indian Affairs--Bridges	150,000	98,000	121,393	23,393
Bureau of Indian Affairs--Roads	1,900,000	1,181,000	1,178,670	(2,330)
Emergency Relief	35,000	-	-	-
Federal Grants (Contracted Projects)				
Army Core of Engineers	100,000	108,000	107,755	(245)
Critical Bridge	745,000	643,000	722,290	79,290
High Priority Funds	-	9,000	9,000	-
Category "D" Funds	80,000	-	-	-
Safety	50,000	-	447	447
Surface Transportation Funds	-	46,000	46,027	27
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,090,000	1,090,000	1,079,247	(10,753)
Local Road	592,000	592,000	583,819	(8,181)
Snow Removal	275,000	283,000	283,005	5
Economic Development Funds				
Forest Funds (E)	168,000	167,000	167,478	478
Critical Bridge	140,000	143,000	158,660	15,660
Jobs Today Program	-	11,000	12,563	1,563
FEMA	5,000	-	-	-
Contributions--Local Units				
Townships	120,000	121,000	121,154	154
Other Governmental Units	5,000	9,000	9,124	124
Charges for Services				
Private Driveway Fees	80,000	91,000	90,385	(615)
Sales	10,000	10,000	10,569	569
Salvage Sales	15,000	6,000	5,720	(280)
Interest and Rents				
Interest Earned	15,000	24,000	23,761	(239)
Rents and Royalties		28,000	22,190	(5,810)
Other Revenue				
Refunds/Rebates	5,000	-	221	221
Gain on Equipment Disposals	5,000	6,000	6,365	365
Private Contributions	10,000	2,000	6,684	4,684
Total Revenue	<u>5,925,000</u>	<u>5,029,000</u>	<u>5,127,215</u>	<u>98,215</u>
Other Financing Sources				
Installment Purchase Proceeds	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue and Other Financing Sources	<u>6,000,000</u>	<u>5,029,000</u>	<u>\$ 5,127,215</u>	<u>\$ 98,215</u>
Fund Balance--October 1, 2008	<u>1,399,126</u>	<u>1,399,126</u>		
Total Budget	<u>\$ 7,399,126</u>	<u>\$ 6,428,126</u>		

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

**BARAGA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL OPERATING FUND--SCHEDULE OF
EXPENDITURES--BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2009**

EXHIBIT H

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 550,000	\$ 245,000	\$ 141,439	\$ 103,561
Routine and Preventive Maintenance	1,000,000	757,000	676,879	80,121
Local Road				
Preservation/Structural Improvements	1,160,000	1,087,000	985,824	101,176
Routine and Preventive Maintenance	1,200,000	1,592,000	1,512,190	79,810
Primary Road Structure				
Preservation/Structural Improvements	80,000	5,000	403	4,597
Routine and Preventive Maintenance	5,000	5,000	-	5,000
Local Road Structure				
Preservation/Structural Improvements	1,065,000	1,208,000	1,106,434	101,566
Routine and Preventive Maintenance	5,000	5,000	420	4,580
Equipment Expense--Net	160,000	(207,000)		
Direct			\$ 566,515	
Indirect			271,974	
Operating			186,734	
Less: Equipment Rentals			(1,299,999)	67,776
Administrative Expense--Net	405,000	388,000		
Administrative Expense			381,742	
Less: Handling Charges			(11,325)	
Other			(60)	17,643
Cost of General Services	4,000	10,000	5,429	4,571
Non Road Project	81,000	92,000	90,385	1,615
Capital Outlay--Net	145,000	(183,000)		
Capital Outlay			127,873	
Less: Depreciation Credits			(325,844)	
Equipment Retirements			(3,085)	18,056
Debt Service				
Principal	35,000	-	-	-
Interest	5,000	25,000	19,050	5,950
Contingency	100,000			
Total Expenditures	6,000,000	5,029,000	\$ 4,432,978	\$ 596,022
Fund Balance--September 30, 2009	1,399,126	1,399,126		
Total Budget	\$ 7,399,126	\$ 6,428,126		

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

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

EXHIBIT I

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Total Revenues	\$ 1,531,064	\$ 3,430,435	\$ 165,716	\$5,127,215
Total Expenditures	<u>840,865</u>	<u>3,736,620</u>	<u>(144,507)</u>	<u>4,432,978</u>
Excess of Revenues Over (Under) Expenditures	<u>690,199</u>	<u>(306,185)</u>	<u>310,223</u>	<u>694,237</u>
Other Financing Sources (Uses) Optional Transfers	<u>(306,185)</u>	<u>306,185</u>	<u> </u>	<u> </u>
Total Other Financing Sources (Uses)	<u>(306,185)</u>	<u>306,185</u>	<u> </u>	<u> </u>
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	384,014	-	310,223	694,237
Fund Balance--October 1, 2008	<u>8,745</u>	<u> </u>	<u>1,390,381</u>	<u>1,399,126</u>
Fund Balance--September 30, 2009	<u>\$ 392,759</u>	<u>\$ </u>	<u>\$ 1,700,604</u>	<u>\$ 2,093,363</u>

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

EXHIBIT J

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Taxes				
Property Taxes		\$ 350,688		\$ 350,688
Federal Grants (Negotiated Projects)				
Bureau of Indian Affairs--Bridges	-	121,393		121,393
Bureau of Indian Affairs--Roads	\$ 377,558	801,112		1,178,670
Federal Grants (Contracted Projects)				
Army Core of Engineers	-	107,755		107,755
Bridge	-	722,290		722,290
High Priority Funds	9,000			9,000
FEMA	-	447		447
Surface Transportation Funds	46,027			46,027
State Grants				
Michigan Transportation Fund				
Engineering	6,490	3,510		10,000
Allocation	1,079,247	583,819		1,663,066
Snow Removal		283,005		283,005
Economic Development Fund				
Economic "D" Funds	-			-
Forest Funds (E)	-	167,478		167,478
Critical Bridge	-	158,660		158,660
Jobs Today Program	12,563			12,563
Contributions--Local Units				
Townships		121,154		121,154
Other Governmental Units		9,124	-	9,124
Charges for Services				
Private Driveway Fees			\$ 90,385	90,385
Sales	-	-	10,569	10,569
Salvage Sales			5,720	5,720
Interest and Rents				
Interest Earned	179	-	23,582	23,761
Rents and Royalties			22,190	22,190
Other Revenue				
Refunds/Rebates			221	221
Gain on Equipment Disposal			6,365	6,365
Contributions From Private Sources		-	6,684	6,684
Total Revenue	<u><u>\$ 1,531,064</u></u>	<u><u>\$ 3,430,435</u></u>	<u><u>\$ 165,716</u></u>	<u><u>\$ 5,127,215</u></u>

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

EXHIBIT K

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Primary Road				
Preservation/Structural Improvements	\$ 141,439			\$ 141,439
Routine and Preventive Maintenance	676,879			676,879
Local Road				
Preservation/Structural Improvements		\$ 985,824		985,824
Routine and Preventive Maintenance		1,512,190		1,512,190
Primary Road Structures				
Preservation/Structural Improvements	403			403
Local Road Structures				
Preservation/Structural Improvements		1,106,434		1,106,434
Routine and Preventive Maintenance		420		420
Equipment Expense--Net (Per Exhibit H)	(65,452)	(170,059)	\$ (39,265)	(274,776)
Administrative Expense--Net (Per Exhibit H)	68,546	301,811		370,357
Cost of General Services			5,429	5,429
Non Road Project			90,385	90,385
Capital Outlay--Net (Per Exhibit H)			(201,056)	(201,056)
Debt Service				
Interest Payments	19,050		-	19,050
Total Expenditures	<u>\$ 840,865</u>	<u>\$ 3,736,620</u>	<u>\$ (144,507)</u>	<u>\$ 4,432,978</u>

**BARAGA COUNTY ROAD COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (3)
For the Fiscal Year Ended September 30, 2009**

SCHEDULE 1

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>(4) Revenue Recognized</u>	<u>Federal Expenditures</u>
Negotiated Projects (1)				
US Department of Transportation				
Highway Research, Planning and Construction				
Direct--US Department of Interior				
Bureau of Indian Affairs	20.205	AGF20080004	\$ 250,000	\$ 250,000
Bureau of Indian Affairs	20.205	AGF20080005	276,623	240,000
Bureau of Indian Affairs	20.205	AGF20080008	255,990	235,000
Bureau of Indian Affairs	20.205	AGF20080009	18,500	
Bureau of Indian Affairs	20.205	AGF50060011	269,127	18,261
Bureau of Indian Affairs	20.205	AGF50060012	108,431	
Bureau of Indian Affairs	20.205	AGF50060037	22,416	16,643
Bureau of Indian Affairs	20.205	AGF50060038	74,361	50,618
Bureau of Indian Affairs	20.205	AGF50060038	24,615	22,418
Total US Department of Transportation			<u>1,300,063</u>	<u>832,940</u>
Total Negotiated Projects Subject to Single Audit Requirements			<u>\$1,300,063</u>	<u>\$ 832,940</u>
Contracted Projects (2)				
US Department of Agriculture				
Forest Service				
Emergency Watershed Protection Restoration				
FR2200 Embankment Slough Repair	10.923	AG-569R-S-08-0014	\$ 107,755	\$ 107,755
Total US Department of Agriculture			<u>\$ 107,755</u>	<u>\$ 107,755</u>
US Department of Transportation				
Passed Through Michigan Department of Transportation				
Highway Research, Planning and Construction				
Critical Bridge	20.205	RR 5110 83836A	\$ 52,454	\$ 52,454
Critical Bridge	20.205	RR 6750 89187A	376,397	376,397
Critical Bridge	20.205	RR 6750 89188A	293,439	293,439
Surface Transportation Program	20.205	EE 0138 35571A	27,917	27,917
Surface Transportation Program	20.205	RR 4357 78933A	17,782	17,782
Surface Transportation Program	20.205	RR5878 51712A	348	348
Surface Transportation Program	20.205	RR 5313 83443A	427	427
Safety Program	20.205	RR 56064 100978A	9,000	9,000
Total US Department of Transportation			<u>777,764</u>	<u>777,764</u>
Total Contracted Projects			<u>\$ 885,519</u>	<u>\$ 885,519</u>
Total Federal Aid Projects			<u>\$2,185,582</u>	<u>\$ 1,718,459</u>

The notes to this schedule are an integral part of this statement.

BARAGA COUNTY ROAD COMMISSION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended September 30, 2009

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 Bureau of Indian Affairs.
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 statements for other significant accounting policies.
4. Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures related to the Federal aid projects were recorded when the liability was incurred. At September 30, 2009 there was no deferred revenue reported for any projects. There was \$467,123 that was collected during the fiscal year ended September 30, 2009 that was from the prior year's deferred revenue.



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

March 11, 2010

Board of County Road Commissioners
Baraga County Road Commission
US 41 South
P.O. Box 217
L'Anse, Michigan 49946

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 Board Members:

We have audited the financial statements of the Baraga County Road Commission, a component unit of Baraga County, as of and for the year ended September 30, 2009, and have issued our report thereon dated March 11, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be a significant deficiency in internal control over financial reporting listed as Finding 2008-1. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards, and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2008-2 and 2008-3.

We noted certain other matters that we reported to the management of the Road Commission, which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2008-6 and 2008-7.

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

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



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



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

ROBERT J. KLEINE
STATE TREASURER

March 11, 2010

Board of County Road Commissioners
Baraga County Road Commission
US 41 South
P.O. Box 217
L'Anse, Michigan 49946

RE: Report on Compliance With Requirements Applicable to Each Major Program and on
Internal Control Over Compliance in Accordance With OMB Circular A-133

Dear Commissioners:

Compliance

We have audited the compliance of Baraga County Road Commission, a component unit of Baraga County, with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended September 30, 2009. The Road Commission's major Federal program is 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 its major Federal programs is the responsibility of the Road Commission's management. Our responsibility is to express an opinion on the 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 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 Road Commission's compliance with those requirements.

In our opinion, the Road Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended September 30, 2009.

Internal Control Over Compliance

Management of the 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 Road Commission's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order 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 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 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 Road Commission's responses and accordingly, we express no opinion on them.

This report is intended solely for the information of Baraga County Board of Road Commissioners, management and others within the 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. 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



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

March 11, 2010

Board of County Road Commissioners
Baraga County Road Commission
US 41 South
P.O. Box 217
L'Anse, Michigan 49946

RE: Report to Those Charged With Governance

Dear Commissioners:

We have audited the basic financial statements of Baraga County Road Commission, a component unit of Baraga County, for the fiscal year ended September 30, 2009, and have issued our report thereon dated March 11, 2009. Professional standards require that we provide you with the following information related to our audit.

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

As stated in the engagement letter dated August 12, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and do not provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order 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.

As part of obtaining reasonable assurance about whether the Road Commission's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Road Commission's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement"

applicable to each of its major Federal programs for the purpose of expressing an opinion on the Road Commission's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Road Commission's compliance with those requirements.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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

As part of our audit, we considered the internal control of the Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on January 25, 2010.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Road Commission are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ending September 30, 2009. We noted no transactions entered into by the Road Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. None of the uncorrected misstatements detected as a result of audit procedures 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 March 11, 2010.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit'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 governmental unit'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 Baraga County Board of Road Commissioners and management of the Road Commission and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



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

BARAGA COUNTY ROAD COMMISSION

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

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? X Yes _____ 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

BARAGA COUNTY ROAD COMMISSION

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

Section II--Financial Statement Findings

SIGNIFICANT DEFICIENCIES

Inventory Process

Finding 2008-1

Condition: One person is primarily responsible for custody, ordering, receiving, authorizing and adjusting inventory in the perpetual system.

Criteria: The Accounting Procedures Manual, issued by the Michigan Department of Treasury, calls for the segregation of duties which requires that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Recommendation: We recommend that the Road Commission implement other controls to mitigate the lack of segregation of duties such as another employee entering adjustments or recording the usage of materials or management review of all adjustments. There could be other controls that the Road Commission could implement as long as another person is involved within the process.

Management Response:

- Contact Person(s) Responsible for Correction
Douglas J. Mills, Engineer/Manager

The Road Commission is limited in the number of employees available to provide the segregation of duties that are desired. This is common to other small governmental agencies attempting to provide services while reducing administrative costs. The Road Commission will implement other controls to mitigate the lack of segregation of duties such as: another employee entering adjustments, recording the usage of materials, or management review of all adjustments.

STATUTORY COMPLIANCE

Plowing of Private Driveways

Finding 2009-1

Condition: The Road Commission has been providing snow plowing services in some areas as a public service at no charge: Michigan DNR access sites, municipal parking areas, church parking lots, etc.

BARAGA COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended September 30, 2009

STATUTORY COMPLIANCE (Continued)

Criteria: Public Act 387 of 1965 states: “In any county in the upper peninsula without a voted millage for snow removal, the board of county road commissioners may contract with the owners of private driveways or roads to remove snow from the private driveway or road. The contract shall provide for the reimbursement of the snow removal cost to the board of county road commissioners. Before entering into the contracts, the board of county road commissioners shall determine the charges to be made for snow removal service, which charges shall be sufficient to completely reimburse the county road commission for all expenses of whatsoever nature incurred in the performance of snow removal. Upon entering into the contract, the board of county road commissioners shall demand and receive sufficient payment from the property owners to fully pay for the services to be rendered for at least 30 days in advance.”

Recommendation: We recommend that the Road Commission cease plowing services on areas that are not on the county road system for any entities or agencies that have not contracted with the Road Commission in accordance with Public Act 387 of 1965.

Management Response:

- Contact Person(s) Responsible for Correction
Douglas J. Mills, Engineer/Manager

The Board has implemented this recommendation during the 2009/10 plowing season.

Inventory Sales

Finding 2008-2

Condition: We found that inventory (parts and road materials) are sold to employees and the public.

Criteria: The Opinion of the Attorney General (OAG) dated September 25, 1933, Sale of Road Materials: The power to purchase implies the power to sell surplus supplies and materials a county may have on hand for which they have no use. However, a county may not purchase in such quantities with the object in view of creating a surplus for the purpose of sale. This would amount to making a business of the sale of supplies and material and a county may not engage in a business unless expressly authorized by statute.

Recommendation: We recommend that the Road Commission discontinue selling inventory to employees and the public unless it is for obsolete or surplus supplies or materials.

Management Response:

- Contact Person(s) Responsible for Correction
Douglas J. Mills, Engineer/Manager

Management will provide the Road Commission Board with the recommendation stated above at a regularly scheduled meeting.

BARAGA COUNTY ROAD COMMISSION

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

STATUTORY COMPLIANCE (Continued)

Board of County Road Commissioners--Conflict of Interest Policy

Finding 2008-3

Condition: The Road Commission has not adopted and communicated to employees/elected officials a specific policy on conflict of interest that specifies that personnel in a position of trust are not related to each other; employees are prohibited from having business dealings with companies affiliated with, or acting as major customers or suppliers of, the governmental unit; transactions with officials of the governmental unit are adequately controlled and disclosed in the records; and such transactions occur only in the normal course of business and are legally authorized.

Criteria: Michigan Compiled Laws (MCL) 15.328, states: "It is the intention that this act shall constitute the sole law in this state and shall supersede all other acts in respect to conflicts of interest relative to public contracts, involving public servants other than members of the legislature and state officers, including but not limited to section 30 of 1851 PA 156, MCL 46.30. This act does not prohibit a unit of local government from adopting an ordinance or enforcing an existing ordinance relating to conflict of interest in subjects other than public contracts involving public servants."

Note: MCL 46.30, states: "A member of the county board of commissioners shall not be interested directly or indirectly in any contract or other business transaction with the county, or a board, office, or commission thereof, during the time for which he is elected or appointed, nor for one year thereafter unless the contract or transaction has been approved by 3/4 of the members of the county board of commissioners and so shown on the minutes of the board together with a showing that the board is cognizant of the member's interest. This prohibition is not intended to apply to appointments or employment by the county, or its officers, boards, committees, or other authority, which appointments and employment shall be governed by the provisions of section 30a of this act."

Recommendation: We recommend that the Road Commission adopt and communicate to employees /elected officials a Conflict of Interest Policy.

Management Response:

- Contact Person(s) Responsible for Correction
Douglas J. Mills, Engineer/Manager

Management will provide the Road Commission Board with the recommendation stated above at a regularly scheduled meeting.

BARAGA COUNTY ROAD COMMISSION

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

OTHER MATTERS

Board of County Road Commissioners--Fraud Risk Management Policy

Finding 2008-6

Condition: The management of the Road Commission has not developed a fraud risk management program that is appropriate for the size and complexity of the entity, including identifying fraud risks and taking appropriate action to reduce or eliminate the risks.

Criteria: American Institute of Certified Public Accountants, Statements in Auditing Standards (SAS), Section AU 110.03 states, in part: "that Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements." Management, along with those who have responsibility for oversight of the financial reporting process (such as the audit committee, board of trustees, board of directors, or the owner in owner-managed entities), should set the proper tone; create and maintain a culture of honesty and high ethical standards; and establish appropriate controls to prevent, deter, and detect fraud. When management and those responsible for the oversight of the financial reporting process fulfill those responsibilities, the opportunities to commit fraud can be reduced significantly.

Recommendation: We recommend that the Road Commission develop and adopt a fraud risk management program, which includes identifying fraud risks and taking appropriate action to reduce or eliminate the risks.

Management Response:

- Contact Person(s) Responsible for Correction
Douglas J. Mills, Engineer/Manager

Management will provide the Road Commission board with the recommendation stated above at a regularly scheduled meeting.

Travel Reimbursement/Travel Policy

Finding 2008-7

Condition: Travel vouchers did not always indicate the location for the meals and did not always contain receipts for fuel or meals. The Road Commission has an informal travel policy which reimburses meals at the actual cost with no receipt required. The travel policy qualifies as a Nonaccountable Plan according to the Internal Revenue Service (IRS).

BARAGA COUNTY ROAD COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended September 30, 2009

OTHER MATTERS (Continued)

Criteria: The Uniform Accounting Procedures Manual for local Units of Government in Michigan states: Travel and expense reimbursement policy should contain:

- Authorization for any travel or business expense will be obtained prior to incurring the costs;
- All expenses requested for reimbursement will be substantiated with receipts or other evidence;
- All expenses requested for reimbursement will be for amounts that a reasonable, prudent person would conclude benefits the local unit.

According to IRS regulation 1.62(c)(3)--A Nonaccountable Plan is an allowance or reimbursement program that does not meet all three requirements for an Accountable Plan. Payments made under a Nonaccountable Plan are taxable wages when paid or when constructively received by an employee.

To qualify for an Accountable Plan, the following requirements must be met:

- a) Business Connection--The expense must be a deductible business expense incurred in connection with services performed as an employee.
- b) Adequate Accounting--The employee must verify the date, time, place, amount and business purpose of expenses. Receipts are required unless the reimbursement is made under a per diem plan.
- c) Timely Return of Excess Reimbursements--The employee must return any excess reimbursement within a reasonable period of time.

In order for a business travel expense (including meals and lodging) to be excluded from income, a taxpayer must travel "away from home." The travel time has to be long enough to require substantial sleep or rest in the pursuit of business on a temporary basis.

Recommendation: We recommend that the Road Commission adopt a written travel policy, taking the above considerations into account. If the Road Commission continues to use the current travel policy, all travel reimbursements are to be taxable according to IRS Regulations. The Road Commission may adopt a travel policy that complies with the IRS Accountable Plan. Keep in mind that if the meal allowances exceed the IRS maximum allowance, the meals would be taxable. All meal reimbursements received while doing business away from the worksite in a "single day trip" are also taxable to the employee and should be reported as taxable wages through the payroll system.

Management Response:

- Contact Person(s) Responsible for Correction
Douglas J. Mills, Engineer/Manager

Management will provide the Road Commission Board with the recommendation stated above at a regularly scheduled meeting.

BARAGA COUNTY ROAD COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended September 30, 2009

Summary Schedule of Prior Year Audit Findings

Old Outstanding Accounts Receivables

Finding 2008-4

Condition: Accounts receivable for a Ford Forestry in the amount of \$6,277.99; Mead Westvaco in the amount of \$395.70; Newpage Corp in the amount of \$622.62; Plum Creek Timber in the amount of \$791.04; and MIDNR in the amount of \$145.00 have been outstanding for over one year and are not expected to be collected within 60 days of year end.

Current Year Status: This finding has been corrected. There are no receivables outstanding for more than one year as of September 30, 2009.

Capital Assets

Finding 2008-5

Condition: The Road Commission does not have a formal capital assets threshold policy.

Current Year Status: This finding has been corrected. The board of county road commissioners adopted a Capital Assets Determination Policy on August 12, 2009.