

*Stephenson, Gracik & Co., P.C.*

Certified Public Accountants & Consultants

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COUNTY OF ARENAC  
STANDISH, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED DECEMBER 31, 2012

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**AUDITORS' REPORT**

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June 24, 2013

## Independent Auditors' Report

Board of Commissioners  
County of Arenac  
Standish, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the County of Arenac, Standish, Michigan, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the index.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Arenac County Road Commission, a component unit which represent 81%, 87% and 90%, respectively, of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to the amounts included for the Arenac County Road Commission, is based solely on the report of the other auditors. 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 from material misstatement.

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

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

### **Opinions**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the County of Arenac, Standish, Michigan, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As described in Note 2, the County of Arenac has implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and No. 65, Items previously reported as Assets and Liabilities, as of December 31, 2012. Our opinion is not modified with respect to this matter.

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**Other Matters**

**Required Supplementary Information**

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

**Other Information**

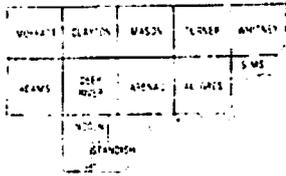
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Arenac's basic financial statements. The combining nonmajor fund financial statements, Arenac County Drain Commission - component unit fund financial statements, Economic Development Corporation - component unit fund financial statements, and the Brownfield Redevelopment Authority - component unit fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements, Arenac County Drain Commission - component unit fund financial statements, Economic Development Corporation - component unit fund financial statements, and the Brownfield Redevelopment Authority - component unit fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor and Arenac County Drain Commission - component unit fund financial statements, Economic Development Corporation - component unit fund financial statements, and the Brownfield Redevelopment Authority - component unit fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2013, included in the Single Audit Report issued under a separate cover, on our consideration of the County of Arenac's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County of Arenac's internal control over financial reporting and compliance.

*Stephenson, Grain & Co., P.C.*



## ARENAC COUNTY BOARD OF COMMISSIONERS

P.O. Box 747 • 120 North Grove Street • Standish, MI 48658  
(989) 846-6185

District #1 Robert Luce

District #3 Michael Snyder, Chairman

District #4 Jeffrey Trombley

District #2 Virginia Zygiel

District #5 Joseph Sancimino, Vice-Chair

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the County of Arenac's (the County) financial performance provides an overview of the County's financial activities for the fiscal year ended December 31, 2012. The intent of this discussion and analysis is to look at the County's financial performance as a whole. The discussion focuses on the County's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

#### Financial Highlights

In the 2012 fiscal year the Arenac County Board of Commissioners has steadily made budget changes and modifications to increase its accountability and monitoring of the county's fiscal position. Through its intentional increase in the supervision of the budget, the commission has through its conservative spending and monitoring policies, survived a period of economic turmoil. Of note, the following highlights are offered for consideration and review:

- The County's net position exceeded its liabilities by \$9,722,663.
- The County's total net position decreased by \$143,435.
- The County's governmental funds reported a combined ending fund balance of \$1,490,249 this year, a decrease of \$188,406. Of this amount, \$513,631 is available for spending (*unassigned fund balance*) on behalf of its citizens. The County General Fund 2012 fiscal year end *fund balance* is \$694,310.

In the fiscal year of 2012, the Commission continued its efforts to supervise the fiscal processes of the County. Designated Commission members sporadically checked their designated areas of the budget. Due to the extensive nature of this function, the objectives were met with limited success. The Treasurer and Clerk continue in their efforts to expand the participation of the Commissioners in the goals set up for this budgetary process. This procedure remains an ongoing effort of the County. The Commission is dedicated and committed in its attempt to uphold the public trust under the watchful eye of public scrutiny.

#### Overview of the Financial Statements

The financial statements are organized so the reader can understand the County as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The County's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

## Government -wide Financial Statements

The *statement of net position* and the *statement of activities* display information about the County as a whole. These statements include the financial activities of the primary government and its component units except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the County that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services.

The statement of net position presents the financial condition of the governmental and business-type activities of the County at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or functions of the County's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the County with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the County.

With this report, capital assets are listed for the County of Arenac. These assets are comprised of buildings, building improvements, vehicles, machinery and equipment, land improvements and land owned by the County. These assets total over \$7.2 million.

Property taxes for 2012 that will be received in the future are listed as *taxes receivable* and as *deferred inflows of resources*.

The County's component units are comprised of the Arenac County Drain Commission, Arenac County Economic Development Corporation, Brownfield Redevelopment Authority, Arenac County Road Commission and the Arenac County Land Bank Authority. These component units are described in the *Notes to the Financial Statements* under Note 1 – Summary of Significant Accounting Policies. The component units are separate and may buy, sell, lease, and mortgage property in their own name and can sue or be sued in their own name.

The Arenac County Drain Commission assets total \$3,039,989, and of that amount, \$1,613,514 is shown as net capital assets. The Arenac County Economic Development Corporation displays assets totaling \$57,482. The Brownfield Redevelopment Authority assets total \$5,544. The Arenac County Road Commission assets total \$14,340,212, and of that amount, \$12,554,410 is shown as net capital assets, primarily due to County roads. The Arenac County Land Bank Authority displays assets totaling \$62,161.

## Fund Financial Statements

The County uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: *Governmental, Proprietary and Fiduciary*.

### ***Governmental Funds:***

Governmental funds are those through which most governmental functions of the County are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the County's major governmental funds:

- General Fund – This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.
- 911 Service Fund – This fund accounts for property taxes, surcharges and state wireless surcharges used to support the 911 service provided by the County under the provisions of Public Act 29 of 1994.
- Road Patrol Millage Fund – This fund accounts for property taxes and other contributions used to support the road patrol provided by the County.
- Senior Citizen Millage Fund – This fund accounts for property taxes that are earmarked for the Arenac County Council on Aging that provides senior services to county residents.
- Housing Commission Fund – This fund accounts for federal, state and local funding used to obtain financing and construct or rehabilitate low income housing for qualified Arenac County residents.

***Proprietary Funds:***

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

The County’s enterprise funds may be used to account for any activity for which a fee is charged to external users (citizens) for goods and services. The following are the County’s major enterprise funds:

- Delinquent Tax Revolving Fund – This fund accounts for the County’s annual purchase of the delinquent real property taxes from other local taxing units and subsequent tax collections.
- County Park Fund – This fund accounts for fees collected for park services.

***Fiduciary Funds:***

Fiduciary fund reporting focuses on net position and changes in net position. The County’s agency funds account for assets held by the County for political subdivisions in which the County acts as fiscal agent for taxes, state-levied shared revenues, and fines and forfeitures collected and distributed to other political subdivisions.

**Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided on the County *government-wide* and *fund* financial statements. The notes to financial statements are presented following the Basic Financial Statements, and provide an expansive and thorough view of various aspects of the audited financial statements.

The Arenac County Drain Commission, Arenac County Economic Development Corporation, Brownfield Redevelopment Authority, Arenac County Road Commission, and the Arenac County Land Bank Authority related financial data are included throughout the notes to financial statements.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents combining and individual fund statements.

**Government -Wide Financial Analysis**

**Summary of Net Position :**

The following summarizes the net position of the County of Arenac at December 31, 2012 and 2011:

**Net Position Summary**

|  | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>December 31, 2012</u> | <u>December 31, 2011</u> |
|--|------------------------------------|-------------------------------------|--------------------------|--------------------------|
| Current Assets                           | \$ 3,489,187                       | \$ 2,909,448                        | \$ 6,398,635             | \$ 6,519,158             |
| Other Noncurrent Assets                  | 1,581,659                          | 0                                   | 1,581,659                | 1,591,548                |
| Capital Assets – net                     | <u>2,393,475</u>                   | <u>1,694,678</u>                    | <u>4,088,153</u>         | <u>4,255,158</u>         |
| <b>Total Assets</b>                      | <u>7,464,321</u>                   | <u>4,604,126</u>                    | <u>12,068,447</u>        | <u>12,365,864</u>        |
| <br>                                     |                                    |                                     |                          |                          |
| Current Liabilities                      | 235,906                            | 1,961                               | 237,867                  | 276,337                  |
| Long-Term Liabilities                    | <u>561,819</u>                     | <u>0</u>                            | <u>561,819</u>           | <u>683,636</u>           |
| <b>Total Liabilities</b>                 | <u>797,725</u>                     | <u>1,961</u>                        | <u>799,686</u>           | <u>959,973</u>           |
| <br>                                     |                                    |                                     |                          |                          |
| <b>Deferred Inflows of<br/>Resources</b> | <u>1,546,098</u>                   | <u>0</u>                            | <u>1,546,098</u>         | <u>1,539,793</u>         |
| <br>                                     |                                    |                                     |                          |                          |
| <b>Net Position</b>                      |                                    |                                     |                          |                          |
| Net Investment in                        |                                    |                                     |                          |                          |
| Capital Assets                           | 2,015,230                          | 1,694,678                           | 3,709,908                | 3,786,358                |
| Restricted                               | 2,373,538                          | 0                                   | 2,373,538                | 2,615,074                |
| Unrestricted                             | <u>731,730</u>                     | <u>2,907,487</u>                    | <u>3,639,217</u>         | <u>3,464,666</u>         |
| <br>                                     |                                    |                                     |                          |                          |
| <b>Total Net Position</b>                | <u>\$ 5,120,498</u>                | <u>\$ 4,602,165</u>                 | <u>\$ 9,722,663</u>      | <u>\$ 9,866,098</u>      |

**Summary of Changes in Net Position :**

Following is an analysis of the changes in net position for the periods ended December 31, 2012 and 2011:

Generally speaking, the County’s net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. The County of Arenac, through its governing body, i.e., Board of Commissioners, has taken a sensible approach regarding capital asset acquisition and amortization of the incurred debt. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

The County Board of Commissioners has prudently set aside funds to offset potential personnel and/or administrative liabilities. It is the County’s policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**Summary of Changes in Net Position: (Continued)**

|   | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>Year Ended<br/>December 31, 2012</u> | <u>Year Ended<br/>December 31, 2011</u> |
|---|------------------------------------|-------------------------------------|---|---|
| Program Revenue:                        |                                    |                                     |   |   |
| Charges for Services                    | \$ 1,180,434                       | \$ 250,854                          | \$ 1,431,288                            | \$ 1,410,665                            |
| Operating Grants and Contributions      | 1,266,523                          | 0                                   | 1,266,523                               | 1,331,567                               |
| Capital Grants and Contributions        | <u>60,919</u>                      | <u>0</u>                            | <u>60,919</u>                           | <u>68,917</u>                           |
| Total Program Revenue                   | <u>2,507,876</u>                   | <u>250,854</u>                      | <u>2,758,730</u>                        | <u>2,811,149</u>                        |
| General Revenue:                        |                                    |                                     |   |   |
| Property Taxes                          | 4,295,606                          | 0                                   | 4,295,606                               | 4,256,157                               |
| State Revenue Sharing                   | 225,827                            | 0                                   | 225,827                                 | 291,421                                 |
| Interest and Investment Earnings        | 3,050                              | 266,764                             | 269,814                                 | 283,340                                 |
| Rent Income                             | 13,329                             | 0                                   | 13,329                                  | 7,270                                   |
| Gain (Loss) on Sale of Capital Assets   | (398)                              | 0                                   | (398)                                   | (1,146)                                 |
| Other                                   | <u>235,233</u>                     | <u>0</u>                            | <u>235,233</u>                          | <u>171,898</u>                          |
| Total General Revenue                   | <u>4,772,647</u>                   | <u>266,764</u>                      | <u>5,039,411</u>                        | <u>5,008,940</u>                        |
| Total revenue                           | <u>7,280,523</u>                   | <u>517,618</u>                      | <u>7,798,141</u>                        | <u>7,820,089</u>                        |
| Program Expenses:                       |                                    |                                     |   |   |
| General Government                      | 3,232,908                          | 0                                   | 3,232,908                               | 3,052,421                               |
| Public Safety                           | 3,030,500                          | 0                                   | 3,030,500                               | 3,066,131                               |
| Public Works                            | 103,389                            | 0                                   | 103,389                                 | 98,198                                  |
| Health and Welfare                      | 1,141,299                          | 0                                   | 1,141,299                               | 1,220,252                               |
| Community and Economic Development      | 193,981                            | 0                                   | 193,981                                 | 173,420                                 |
| Recreation and Cultural                 | 15,427                             | 0                                   | 15,427                                  | 16,113                                  |
| Interest and Fees on Long-Term Debt     | 18,472                             | 0                                   | 18,472                                  | 22,258                                  |
| County Park                             | 0                                  | 98,168                              | 98,168                                  | 81,764                                  |
| Delinquent Tax Revolving                | 0                                  | 13,075                              | 13,075                                  | 4,119                                   |
| Tax Reversion                           | 0                                  | 84,776                              | 84,776                                  | 79,292                                  |
| Jail Commissary                         | <u>0</u>                           | <u>9,581</u>                        | <u>9,581</u>                            | <u>2,076</u>                            |
| Total expenses                          | <u>7,735,976</u>                   | <u>205,600</u>                      | <u>7,941,576</u>                        | <u>7,816,044</u>                        |
| Change in net position before transfers | (455,453)                          | 312,018                             | (143,435)                               | 4,045                                   |
| Transfers In (Out)                      | <u>213,838</u>                     | <u>(213,838)</u>                    | <u>0</u>                                | <u>0</u>                                |
| <b>Change in Net Position</b>           | (241,615)                          | 98,180                              | (143,435)                               | 4,045                                   |
| Beginning Net Position                  | <u>5,362,113</u>                   | <u>4,503,985</u>                    | <u>9,866,098</u>                        | <u>9,862,053</u>                        |
| <b>Ending Net Position</b>              | <u>\$ 5,120,498</u>                | <u>\$ 4,602,165</u>                 | <u>\$ 9,722,663</u>                     | <u>\$ 9,866,098</u>                     |

## **Governmental Activities**

The *Statement of Activities* illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$2,507,876 from *Charges for Services, Operating Grants and Contributions and Capital Grants and Contributions*. The *Charges for Services* are fees for real estate transfers/recordations, fine and forfeitures related to judicial activity, and licenses and permits. While revenue collected is substantial, operating expenses totaled \$7,735,976 for these same activities. The largest expenses were incurred by General Government (\$3,232,908), Health and Welfare (\$1,141,299) and Public Safety (\$3,030,500).

## **Business-Type Activities**

Arenac County's *Business-Type activities* include the County Park, Delinquent Tax Revolving, Tax Reversion and Jail Commissary activities. The business-type activities reveal revenues of \$250,854 from *Charges for Services*. The *Charges for Services* are for fees associated with the collection of property taxes, sales of property forfeited to the County for delinquent property taxes, commissary sales and for camping fees at the County Park. The operating expenses for these same activities totaled \$205,600.

## **Financial Analysis of County Funds**

As noted earlier in this report, the County uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

### **Governmental Funds**

Governmental funds are those through which most governmental functions of the County are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the County's major governmental funds: 1) General fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue; 2) 911 Service Fund – accounts for property taxes, surcharges and state wireless surcharges used to support the 911 service provided by the County under the provisions of Public Act 29 of 1994; 3) Road Patrol Millage Fund – accounts for property taxes and other contributions used to support the road patrol provided by the County; 4) Senior Citizen Millage Fund – accounts for property taxes that are earmarked for the Arenac County Council on Aging that provides senior services to county residents, and 5) Housing Commission Fund – accounts for federal, state and local funding used to obtain financing and construct or rehabilitate low income housing for qualified Arenac County residents.

The other governmental funds of the County account for property taxes, grants and other resources whose use is restricted for a particular purpose.

This year's County audit, following GASB 34 format, shows 32 funds. These funds are maintained by the County Treasurer as separate units in the general ledger.

The 911 Service Fund fund balance decreased by \$123,384 due to expenditures exceeding revenues, including an increase of capital outlay expenditures in the current year.

The Road Patrol Millage Fund's fund balance decreased by \$45,758 due to the fact that expenditures exceeded revenues collected.

### **Enterprise Funds**

The County's enterprise funds provide the same type of information found in the government-wide financial statements. Departments such as County Park, Delinquent Tax Revolving, Tax Reversion and Jail Commissary

comprise these funds. GASB 34 places such funds under the caption of *Proprietary Funds* under the appropriate statements, i.e., *Statement of Net Position*, *Statement of Cash Flows*, etc.

The Delinquent Tax Revolving Fund continues to increase its net position as revenues collected once again exceeded operating expenses and operating transfers out.

The County Park Fund net position decreased \$28,710 in spite of an operating transfer in of \$22,000 due to expenditures exceeding revenues in 2012.

### **Budgetary Highlights**

The year ending December 31, 2012 was a financially challenging year for the County of Arenac. Both external and internal pressures forced the Board of Commissioners, elected officials, department heads, and employees to work cohesively and in collaboration to mitigate potential problems.

The County began the year with a \$724,341 General Fund fund balance. At year's end, the General Fund fund balance decreased to \$694,310. The General Fund actual revenue of \$4,876,546 versus budgeted revenue of \$4,962,202 netted an unfavorable variance of \$85,656.

Actual expenditures of the General Fund were \$4,922,925 versus budgeted expenditures of \$4,986,259 showing a favorable variance of \$63,334. This was due to over budgeting for general government (\$34,253) and other activities (\$23,716).

### **Capital Asset and Debt Administration**

#### **Capital Assets**

Capital assets are defined by the County as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

The County does not possess any infrastructure. Improvements are capitalized, i.e., depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital Assets – Government Activities beginning balance was \$5,145,377 with an ending balance of \$5,185,589. Governmental Activities Total Capital Assets – Net of Depreciation was \$2,393,475.

During 2012, the County's governmental capital asset additions totaled \$272,658. The most significant additions were the District Court remodeling for \$42,591, installation of new boilers for \$92,810 and an addition to construction in progress for an ETI system of \$45,625. The County purchased two new police vehicles for a total of \$43,901, a water heater for \$6,080, BS&A software for \$20,340, GIS Mapping for \$20,919, and additional construction in progress for the telephone system of \$390. The County's disposals consisted of transferring \$127,015 out of construction in progress for the boilers and district court remodeling, the old telephone system, and a police vehicle in the current year.

Capital Assets - Business Type Activities beginning balance was \$2,015,809 and ending balance was \$2,038,009. Business-Type Activities Total Capital Assets – Net of Depreciation was \$1,694,678. An expanded and detailed presentation may be seen in Note 5 of the audit, notes to financial statements.

During 2012, the County's business type activities had capital asset additions of \$22,200 for a moveable filing storage system and did not have any disposals.

### **Long-Term Debt**

The Long-Term debt of the County of Arenac, as noted on the financial statements contained herein, is comprised of debt related to direct business transactions by the County Board of Commissioners or business trade activity on the part of a local unit of government.

At year's end, long-term debt (due in more than one year) amounted to \$455,636. Such debt includes *Bonds Payable*, *Loans Payable*, *Notes Payable* and *Compensated Absences*. That is, accumulated vested vacation benefits payable and contingent liability for the accumulated sick leave benefits of County employees. In the current year, the County issued the Loans Payable for the \$13,845 deferred billing from BS&A Software.

### **Economic Factors**

The State's Revenue Sharing program continued this year with a decrease in the amount received from the prior year which resulted in additional losses to the County. These losses and the depreciation of property values have put further strain on the public services the County provides the community. The continued increases in State non-funded programs further erode the budget making it harder to fund necessary programs.

As the budget continues to tighten, the necessity to upgrade phones, computer and data services have gone forward. This will result in significant savings to the County in the very near future. The Public Guardian's office is now fully operational and making further strides at assisting with the funding of its own operation.

Careful and diligent monitoring of the County's Budget has and continues to make the budget a workable and viable source to accomplish the County's business.

### **Component Units**

Complete financial statements for the Arenac County Drain Commission are included in this audit report.

Complete financial statements of the Arenac County Economic Development Corporation are included in this audit report.

Complete financial statements of the Brownfield Redevelopment Authority are included in this audit report.

Complete financial statements for the Arenac County Road Commission may be obtained from the Arenac County Road Commission's administrative office located at 116 Bridge Street, Omer, Michigan 48749.

Complete financial statements of the Arenac County Land Bank Authority are included in this audit report.

### **Requests for Information**

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Arenac County Board of Commissioners, 120 North Grove Street, Standish, Michigan 48658.

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF NET POSITION  
December 31, 2012

|   | Primary Government         |                             |                   | Component Units                      |  |  |                                     |  |
|---|----------------------------|-----------------------------|-------------------|--------------------------------------|--|--|-------------------------------------|--|
|   | Governmental<br>Activities | Business-Type<br>Activities | Total             | Arenac County<br>Drain<br>Commission | Economic<br>Development<br>Corporation | Brownfield<br>Redevelopment<br>Authority | Arenac County<br>Road<br>Commission | Arenac<br>County Land<br>Bank<br>Authority |
| <b>Assets</b>   |                            |                             |                   |                                      |  |  |                                     |  |
| Cash and Cash Equivalents (Note 3)                          | \$ 1,024,053               | \$ 1,564,269                | \$ 2,588,322      | \$ 353,832                           | \$ 30,207                              | \$ 5,544                                 | \$ 973,834                          | \$ 3,361                                   |
| Investments (Note 3)  | 103,107                    | 327,908                     | 431,015           | 0                                    | 0                                      | 0  | 0                                   | 0  |
| Receivables:  |                            |                             |                   |                                      |  |  |                                     |  |
| Property Taxes  | 1,827,906                  | 0                           | 1,827,906         | 0                                    | 0                                      | 0  | 0                                   | 0  |
| Delinquent Taxes  | 0                          | 993,662                     | 993,662           | 0                                    | 0                                      | 0  | 0                                   | 0  |
| Special Assessments   | 0                          | 0                           | 0                 | 104,796                              | 0                                      | 0  | 0                                   | 0  |
| Accounts, Net   | 14,256                     | 0                           | 14,256            | 0                                    | 100                                    | 0  | 406                                 | 0  |
| Due from Local Units  | 96,380                     | 23,609                      | 119,989           | 17,000                               | 0                                      | 0  | 17,082                              | 0  |
| Due from Component Units (Note 4)                           | 163,104                    | 0                           | 163,104           | 0                                    | 0                                      | 0  | 0                                   | 0  |
| Due from State  | 208,302                    | 0                           | 208,302           | 0                                    | 0                                      | 0  | 426,533                             | 0  |
| Due from Federal Government                                 | 2,195                      | 0                           | 2,195             | 0                                    | 27,175                                 | 0  | 0                                   | 0  |
| Prepaid Expenses  | 1,868                      | 0                           | 1,868             | 21,175                               | 0                                      | 0  | 36,971                              | 0  |
| Inventory   | 48,016                     | 0                           | 48,016            | 0                                    | 0                                      | 0  | 330,976                             | 58,800                                     |
| Noncurrent Assets:  |                            |                             |                   |                                      |  |  |                                     |  |
| Long-Term Mortgages Receivable (Note 1)                     | 1,581,659                  | 0                           | 1,581,659         | 0                                    | 0                                      | 0  | 0                                   | 0  |
| Due from Local Units  | 0                          | 0                           | 0                 | 307,000                              | 0                                      | 0  | 0                                   | 0  |
| Special Assessments   | 0                          | 0                           | 0                 | 622,672                              | 0                                      | 0  | 0                                   | 0  |
| Capital Assets Not Being Depreciated (Note 5)               | 256,162                    | 1,458,771                   | 1,714,933         | 201                                  | 0                                      | 0  | 204,552                             | 0  |
| Capital Assets, Net of Accumulated<br>Depreciation (Note 5) | 2,137,313                  | 235,907                     | 2,373,220         | 1,613,313                            | 0                                      | 0  | 12,349,858                          | 0  |
| Total Assets  | <u>7,464,321</u>           | <u>4,604,126</u>            | <u>12,068,447</u> | <u>3,039,989</u>                     | <u>57,482</u>                          | <u>5,544</u>                             | <u>14,340,212</u>                   | <u>62,161</u>                              |
| <b>Liabilities</b>  |                            |                             |                   |                                      |  |  |                                     |  |
| Accounts Payable  | 157,019                    | 1,961                       | 158,980           | 27,356                               | 0                                      | 0  | 50,170                              | 0  |
| Due to Primary Government (Note 4)                          | 0                          | 0                           | 0                 | 154,000                              | 0                                      | 0  | 9,104                               | 0  |
| Due to State  | 20,291                     | 0                           | 20,291            | 0                                    | 0                                      | 0  | 122,801                             | 0  |
| Accrued Interest Payable                                    | 2,858                      | 0                           | 2,858             | 4,286                                | 0                                      | 0  | 0                                   | 0  |
| Escrow Deposits Payable                                     | 4,499                      | 0                           | 4,499             | 0                                    | 0                                      | 0  | 0                                   | 0  |
| Accrued Liabilities   | 44,545                     | 0                           | 44,545            | 9,297                                | 0                                      | 0  | 30,687                              | 0  |
| Unearned Revenue  | 6,694                      | 0                           | 6,694             | 29,000                               | 0                                      | 0  | 121,009                             | 0  |
| Long Term Liabilities: (Note 6)                             |                            |                             |                   |                                      |  |  |                                     |  |
| Due Within One Year   | 106,183                    | 0                           | 106,183           | 67,209                               | 0                                      | 0  | 5,750                               | 0  |
| Due In More Than One Year                                   | 455,636                    | 0                           | 455,636           | 993,053                              | 0                                      | 0  | 145,502                             | 0  |
| Total Liabilities   | <u>797,725</u>             | <u>1,961</u>                | <u>799,686</u>    | <u>1,284,201</u>                     | <u>0</u>                               | <u>0</u>                                 | <u>485,023</u>                      | <u>0</u>                                   |
| <b>Deferred Inflows of Resources</b>                        |                            |                             |                   |                                      |  |  |                                     |  |
| Property Taxes Levied for 2013                              | <u>1,546,098</u>           | <u>0</u>                    | <u>1,546,098</u>  | <u>0</u>                             | <u>0</u>                               | <u>0</u>                                 | <u>0</u>                            | <u>0</u>                                   |

The accompanying notes to financial statements are an integral part of this statement.

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF NET POSITION  
December 31, 2012

|                                    | Primary Government      |                          |                     | Component Units                |                                  |                                    |                               |                                   |
|------------------------------------|-------------------------|--------------------------|---------------------|--------------------------------|----------------------------------|------------------------------------|-------------------------------|-----------------------------------|
|                                    | Governmental Activities | Business-Type Activities | Total               | Arenac County Drain Commission | Economic Development Corporation | Brownfield Redevelopment Authority | Arenac County Road Commission | Arenac County Land Bank Authority |
| <b>Net Position</b>                |                         |                          |                     |                                |                                  |                                    |                               |                                   |
| Net Investment in Capital Assets   | \$ 2,015,230            | \$ 1,694,678             | \$ 3,709,908        | \$ 877,252                     | \$ 0                             | \$ 0                               | \$ 12,554,410                 | \$ 0                              |
| Restricted For:                    |                         |                          |                     |                                |                                  |                                    |                               |                                   |
| Public Safety                      | 453,744                 | 0                        | 453,744             | 0                              | 0                                | 0                                  | 0                             | 0                                 |
| Health and Welfare                 | 128,628                 | 0                        | 128,628             | 0                              | 0                                | 0                                  | 0                             | 0                                 |
| Tribal Grant Projects              | 9,801                   | 0                        | 9,801               | 0                              | 0                                | 0                                  | 0                             | 0                                 |
| County Roads                       | 0                       | 0                        | 0                   | 0                              | 0                                | 0                                  | 1,300,779                     | 0                                 |
| Land Bank Authority                | 0                       | 0                        | 0                   | 0                              | 0                                | 0                                  | 0                             | 62,161                            |
| Debt Service                       | 0                       | 0                        | 0                   | 121,914                        | 0                                | 0                                  | 0                             | 0                                 |
| Capital Projects                   | 18,225                  | 0                        | 18,225              | 756,622                        | 0                                | 0                                  | 0                             | 0                                 |
| Community and Economic Development | 1,650,625               | 0                        | 1,650,625           | 0                              | 57,482                           | 0                                  | 0                             | 0                                 |
| Brownfield Redevelopment Authority | 0                       | 0                        | 0                   | 0                              | 0                                | 5,544                              | 0                             | 0                                 |
| Other State Mandated Programs      | 112,515                 | 0                        | 112,515             | 0                              | 0                                | 0                                  | 0                             | 0                                 |
| Unrestricted                       | <u>731,730</u>          | <u>2,907,487</u>         | <u>3,639,217</u>    | <u>0</u>                       | <u>0</u>                         | <u>0</u>                           | <u>0</u>                      | <u>0</u>                          |
| Total Net Position                 | <u>\$ 5,120,498</u>     | <u>\$ 4,602,165</u>      | <u>\$ 9,722,663</u> | <u>\$ 1,755,788</u>            | <u>\$ 57,482</u>                 | <u>\$ 5,544</u>                    | <u>\$ 13,855,189</u>          | <u>\$ 62,161</u>                  |

The accompanying notes to financial statements are an integral part of this statement.

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2012

| Function/Program                      | Net (Expense) Revenue and Changes in Net Position |                      |                                    |                                  |                         |                          |                    |                                |                                  |                                    |                               |                                   |
|---------------------------------------|---|----------------------|------------------------------------|----------------------------------|-------------------------|--------------------------|--------------------|--------------------------------|----------------------------------|------------------------------------|-------------------------------|-----------------------------------|
|                                       | Program Revenues                                  |                      |                                    |                                  | Primary Government      |                          |                    | Component Units                |                                  |                                    |                               |                                   |
|                                       | Expenses  | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total              | Arenac County Drain Commission | Economic Development Corporation | Brownfield Redevelopment Authority | Arenac County Road Commission | Arenac County Land Bank Authority |
| <b>Primary Government</b>             |   |                      |                                    |                                  |                         |                          |                    |                                |                                  |                                    |                               |                                   |
| Governmental Activities:              |   |                      |                                    |                                  |                         |                          |                    |                                |                                  |                                    |                               |                                   |
| General Government                    | \$ 3,232,908                                      | \$ 862,431           | \$ 797,355                         | \$ 0                             | \$ (1,573,122)          | \$ 0                     | \$(1,573,122)      |                                |                                  |                                    |                               |                                   |
| Public Safety                         | 3,030,500   | 249,823              | 293,636                            | 60,919                           | (2,426,122)             | 0                        | (2,426,122)        |                                |                                  |                                    |                               |                                   |
| Public Works                          | 103,389   | 0                    | 0                                  | 0                                | (103,389)               | 0                        | (103,389)          |                                |                                  |                                    |                               |                                   |
| Health and Welfare                    | 1,141,299   | 0                    | 60,466                             | 0                                | (1,080,833)             | 0                        | (1,080,833)        |                                |                                  |                                    |                               |                                   |
| Community and Economic Development    | 193,981   | 68,180               | 115,066                            | 0                                | (10,735)                | 0                        | (10,735)           |                                |                                  |                                    |                               |                                   |
| Recreation and Cultural               | 15,427  | 0                    | 0                                  | 0                                | (15,427)                | 0                        | (15,427)           |                                |                                  |                                    |                               |                                   |
| Interest and Fees on Long-Term Debt   | 18,472  | 0                    | 0                                  | 0                                | (18,472)                | 0                        | (18,472)           |                                |                                  |                                    |                               |                                   |
| <b>Total Governmental Activities</b>  | <b>7,735,976</b>                                  | <b>1,180,434</b>     | <b>1,266,523</b>                   | <b>60,919</b>                    | <b>(5,228,100)</b>      | <b>0</b>                 | <b>(5,228,100)</b> |                                |                                  |                                    |                               |                                   |
| Business-Type Activities:             |   |                      |                                    |                                  |                         |                          |                    |                                |                                  |                                    |                               |                                   |
| County Park                           | 98,168  | 47,458               | 0                                  | 0                                | 0                       | (50,710)                 | (50,710)           |                                |                                  |                                    |                               |                                   |
| Delinquent Tax Revolving              | 13,075  | 84,003               | 0                                  | 0                                | 0                       | 70,928                   | 70,928             |                                |                                  |                                    |                               |                                   |
| Tax Reversion                         | 84,776  | 115,046              | 0                                  | 0                                | 0                       | 30,270                   | 30,270             |                                |                                  |                                    |                               |                                   |
| Jail Commissary                       | 9,581   | 4,347                | 0                                  | 0                                | 0                       | (5,234)                  | (5,234)            |                                |                                  |                                    |                               |                                   |
| <b>Total Business-Type Activities</b> | <b>205,600</b>                                    | <b>250,854</b>       | <b>0</b>                           | <b>0</b>                         | <b>0</b>                | <b>45,254</b>            | <b>45,254</b>      |                                |                                  |                                    |                               |                                   |
| <b>Total Primary Government</b>       | <b>\$ 7,941,576</b>                               | <b>\$ 1,431,288</b>  | <b>\$ 1,266,523</b>                | <b>\$ 60,919</b>                 | <b>(5,228,100)</b>      | <b>45,254</b>            | <b>(5,182,846)</b> |                                |                                  |                                    |                               |                                   |
| <b>Component Units</b>                |   |                      |                                    |                                  |                         |                          |                    |                                |                                  |                                    |                               |                                   |
| Drain Commission                      | \$ 361,884  | \$ 206,921           | \$ 94,021                          | \$ 0                             |                         |                          | \$(60,942)         | \$ 0                           | \$ 0                             | \$ 0                               | \$ 0                          | \$ 0                              |
| Economic Development                  | 41,283  | 0                    | 34,096                             | 0                                |                         |                          | 0                  | (7,187)                        | 0                                | 0                                  | 0                             | 0                                 |
| Road Commission                       | 3,640,098   | 924,391              | 2,328,921                          | 592,760                          |                         |                          | 0                  | 0                              | 0                                | 205,974                            | 0                             | 0                                 |
| Land Bank Authority                   | 4,200   | 3,361                | 0                                  | 0                                |                         |                          | 0                  | 0                              | 0                                | 0                                  | 0                             | (839)                             |
| <b>Total Component Units</b>          | <b>\$ 4,047,465</b>                               | <b>\$ 1,134,673</b>  | <b>\$ 2,457,038</b>                | <b>\$ 592,760</b>                |                         |                          | <b>(60,942)</b>    | <b>(7,187)</b>                 | <b>0</b>                         | <b>205,974</b>                     | <b>0</b>                      | <b>(839)</b>                      |

The accompanying notes to financial statements are an integral part of this statement.

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2012

| Function/Program                         | Net (Expense) Revenue and Changes in Net Position |                      |                                    |                                  |                         |                          |                     |                                |                                  |                                    |                               |                                   |
|--|---|----------------------|------------------------------------|----------------------------------|-------------------------|--------------------------|---------------------|--------------------------------|----------------------------------|------------------------------------|-------------------------------|-----------------------------------|
|  | Program Revenues                                  |                      |                                    | Primary Government               |                         |                          | Component Units     |                                |                                  |                                    |                               |                                   |
|  | Expenses  | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total               | Arenac County Drain Commission | Economic Development Corporation | Brownfield Redevelopment Authority | Arenac County Road Commission | Arenac County Land Bank Authority |
| General Revenue:                         |   |                      |                                    |                                  |                         |                          |                     |                                |                                  |                                    |                               |                                   |
| Property Taxes Levied For:               |   |                      |                                    |                                  |                         |                          |                     |                                |                                  |                                    |                               |                                   |
| General Operating                        |   |                      |                                    |                                  | \$ 2,756,865            | \$ 0                     | \$ 2,756,865        | \$ 0                           | \$ 0                             | \$ 0                               | \$ 0                          | \$ 0                              |
| Public Safety                            |   |                      |                                    |                                  | 853,502                 | 0                        | 853,502             | 0                              | 0                                | 0                                  | 0                             | 0                                 |
| Senior Citizens                          |   |                      |                                    |                                  | 410,691                 | 0                        | 410,691             | 0                              | 0                                | 0                                  | 0                             | 0                                 |
| Ambulance Services                       |   |                      |                                    |                                  | 274,548                 | 0                        | 274,548             | 0                              | 0                                | 0                                  | 0                             | 0                                 |
| State Revenue Sharing                    |   |                      |                                    |                                  | 225,827                 | 0                        | 225,827             | 0                              | 0                                | 0                                  | 0                             | 0                                 |
| Interest and Investment Earnings         |   |                      |                                    |                                  | 3,050                   | 266,764                  | 269,814             | 0                              | 0                                | 0                                  | 1,056                         | 0                                 |
| Rent Income                              |   |                      |                                    |                                  | 13,329                  | 0                        | 13,329              | 0                              | 0                                | 0                                  | 0                             | 0                                 |
| Gain or (Loss) on Sale of Capital Assets |   |                      |                                    |                                  | (398)                   | 0                        | (398)               | 0                              | 0                                | 0                                  | 7,311                         | 0                                 |
| Other                                    |   |                      |                                    |                                  | 235,233                 | 0                        | 235,233             | 0                              | 0                                | 0                                  | 0                             | 0                                 |
| Transfers                                |   |                      |                                    |                                  | 213,838                 | (213,838)                | 0                   | 0                              | 0                                | 0                                  | 0                             | 0                                 |
| Total General Revenue and Transfers      |   |                      |                                    |                                  | <u>4,986,485</u>        | <u>52,926</u>            | <u>5,039,411</u>    | <u>0</u>                       | <u>0</u>                         | <u>0</u>                           | <u>8,367</u>                  | <u>0</u>                          |
| Change in Net Position                   |   |                      |                                    |                                  | (241,615)               | 98,180                   | (143,435)           | (60,942)                       | (7,187)                          | 0                                  | 214,341                       | (839)                             |
| Net Position - Beginning (Restated)      |   |                      |                                    |                                  | <u>5,362,113</u>        | <u>4,503,985</u>         | <u>9,866,098</u>    | <u>1,816,730</u>               | <u>64,669</u>                    | <u>5,544</u>                       | <u>13,640,848</u>             | <u>63,000</u>                     |
| Net Position - Ending                    |   |                      |                                    |                                  | <u>\$ 5,120,498</u>     | <u>\$ 4,602,165</u>      | <u>\$ 9,722,663</u> | <u>\$ 1,755,788</u>            | <u>\$ 57,482</u>                 | <u>\$ 5,544</u>                    | <u>\$ 13,855,189</u>          | <u>\$ 62,161</u>                  |

The accompanying notes to financial statements are an integral part of this statement.

COUNTY OF ARENAC  
Standish, Michigan

BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2012

|  | Special Revenue Funds |                   |                     |                        |                     |                          |                          |
|--|-----------------------|-------------------|---------------------|------------------------|---------------------|--------------------------|--------------------------|
|  | General Fund          | 911 Service Fund  | Road Patrol Millage | Senior Citizen Millage | Housing Commission  | Other Governmental Funds | Total Governmental Funds |
| <b>Assets</b>  |                       |                   |                     |                        |                     |                          |                          |
| Cash and Cash Equivalents (Note 3)                                       | \$ 499,135            | \$ 112,836        | \$ 36,225           | \$ 2,290               | \$ 9,768            | \$ 363,799               | \$ 1,024,053             |
| Investments (Note 3)   | 0                     | 103,107           | 0                   | 0                      | 0                   | 0                        | 103,107                  |
| Receivables:   |                       |                   |                     |                        |                     |                          |                          |
| Property Taxes   | 281,808               | 321,932           | 536,554             | 412,567                | 0                   | 275,045                  | 1,827,906                |
| Accounts, Net  | 2,274                 | 11,982            | 0                   | 0                      | 0                   | 0                        | 14,256                   |
| Due from Local Units   | 96,380                | 0                 | 0                   | 0                      | 0                   | 0                        | 96,380                   |
| Due from Component Units (Note 4)  | 56,104                | 107,000           | 0                   | 0                      | 0                   | 0                        | 163,104                  |
| Due from State   | 81,491                | 32,799            | 0                   | 0                      | 25,573              | 68,439                   | 208,302                  |
| Due from Federal Government  | 600                   | 0                 | 0                   | 0                      | 0                   | 1,595                    | 2,195                    |
| Prepaid Expenses   | 1,868                 | 0                 | 0                   | 0                      | 0                   | 0                        | 1,868                    |
| Inventory (Note 4)   | 0                     | 0                 | 0                   | 0                      | 48,016              | 0                        | 48,016                   |
| Noncurrent Assets:   |                       |                   |                     |                        |                     |                          |                          |
| Long-Term Mortgages Receivable (Note 1)                                  | 0                     | 0                 | 0                   | 0                      | 1,581,659           | 0                        | 1,581,659                |
| <b>Total Assets</b>  | <b>\$ 1,019,660</b>   | <b>\$ 689,656</b> | <b>\$ 572,779</b>   | <b>\$ 414,857</b>      | <b>\$ 1,665,016</b> | <b>\$ 708,878</b>        | <b>\$ 5,070,846</b>      |
| <b>Liabilities</b>   |                       |                   |                     |                        |                     |                          |                          |
| Accounts Payable   | \$ 99,960             | \$ 2,216          | \$ 2,857            | \$ 0                   | \$ 3                | \$ 51,983                | \$ 157,019               |
| Due to State   | 0                     | 0                 | 0                   | 0                      | 0                   | 20,291                   | 20,291                   |
| Escrow Deposits Payable  | 0                     | 0                 | 0                   | 0                      | 4,499               | 0                        | 4,499                    |
| Accrued Liabilities  | 25,062                | 7,692             | 9,252               | 0                      | 0                   | 2,539                    | 44,545                   |
| Unearned Revenue   | 0                     | 0                 | 0                   | 0                      | 0                   | 6,694                    | 6,694                    |
| <b>Total Liabilities</b>   | <b>125,022</b>        | <b>9,908</b>      | <b>12,109</b>       | <b>0</b>               | <b>4,502</b>        | <b>81,507</b>            | <b>233,048</b>           |
| <b>Deferred Inflows of Resources</b>                                     |                       |                   |                     |                        |                     |                          |                          |
| Property Taxes Levied for 2013   | 0                     | 321,932           | 536,554             | 412,567                | 0                   | 275,045                  | 1,546,098                |
| Unavailable Revenue - Property Taxes                                     | 200,328               | 0                 | 0                   | 0                      | 0                   | 0                        | 200,328                  |
| Unavailable Revenue - Mortgages  | 0                     | 0                 | 0                   | 0                      | 1,581,659           | 0                        | 1,581,659                |
| Unavailable Revenue - Grants   | 0                     | 0                 | 0                   | 0                      | 0                   | 19,464                   | 19,464                   |
| <b>Total Deferred Inflows of Resources</b>                               | <b>200,328</b>        | <b>321,932</b>    | <b>536,554</b>      | <b>412,567</b>         | <b>1,581,659</b>    | <b>294,509</b>           | <b>3,347,549</b>         |
| <b>Fund Equity</b>   |                       |                   |                     |                        |                     |                          |                          |
| Fund Balances:   |                       |                   |                     |                        |                     |                          |                          |
| Nonspendable   | 48,868                | 107,000           | 0                   | 0                      | 48,016              | 0                        | 203,884                  |
| Restricted   | 7,814                 | 250,816           | 24,116              | 2,290                  | 30,839              | 332,862                  | 648,737                  |
| Assigned   | 123,997               | 0                 | 0                   | 0                      | 0                   | 0                        | 123,997                  |
| Unassigned   | 513,631               | 0                 | 0                   | 0                      | 0                   | 0                        | 513,631                  |
| <b>Total Fund Equity</b>   | <b>694,310</b>        | <b>357,816</b>    | <b>24,116</b>       | <b>2,290</b>           | <b>78,855</b>       | <b>332,862</b>           | <b>1,490,249</b>         |
| <b>Total Liabilities, Deferred Inflows of Resources, and Fund Equity</b> | <b>\$ 1,019,660</b>   | <b>\$ 689,656</b> | <b>\$ 572,779</b>   | <b>\$ 414,857</b>      | <b>\$ 1,665,016</b> | <b>\$ 708,878</b>        | <b>\$ 5,070,846</b>      |

The accompanying notes to financial statements are an integral part of this statement.

COUNTY OF ARENAC  
Standish, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
December 31, 2012

|  |                    |                     |
|--|--------------------|---------------------|
| Total Governmental Fund Balances   |                    | \$ 1,490,249        |
| Amounts reported for governmental activities in the statement of net position are different because:   |                    |                     |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:          |                    |                     |
| Capital Asset Cost   | \$ 5,185,589       |                     |
| Accumulated Depreciation   | <u>(2,792,114)</u> | 2,393,475           |
| Other assets are not available to pay for current period expenditures and, therefore, are unavailable in the governmental funds:   |                    |                     |
| Real and Personal Property Taxes   | 200,328            |                     |
| Mortgages Receivable   | 1,581,659          |                     |
| Grants Receivable  | <u>19,464</u>      | 1,801,451           |
| Net Difference   |                    |                     |
| Accrued Interest on Long-Term Liabilities  |                    | (2,858)             |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of: |                    |                     |
| Bonds Payable  | (305,000)          |                     |
| Loans Payable  | (8,845)            |                     |
| Notes Payable  | (64,400)           |                     |
| Compensated Absences Payable   | <u>(183,574)</u>   |                     |
| Total Long-Term Liabilities  |                    | <u>(561,819)</u>    |
| Total Net Position - Governmental Activities   |                    | <u>\$ 5,120,498</u> |

The accompanying notes to financial statements are an integral part of this statement.

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2012

|  | <u>Special Revenue Funds</u> |                             |                                |                                   |                               | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|------------------------------|-----------------------------|--------------------------------|-----------------------------------|-------------------------------|--------------------------------|--------------------------------|
|  | <u>General Fund</u>          | <u>911 Service<br/>Fund</u> | <u>Road Patrol<br/>Millage</u> | <u>Senior Citizen<br/>Millage</u> | <u>Housing<br/>Commission</u> |                                |                                |
| <b><u>Revenue</u></b>                          |                              |                             |                                |                                   |                               |                                |                                |
| Property Taxes                                 | \$ 2,729,468                 | \$ 319,575                  | \$ 533,927                     | \$ 410,691                        | \$ 0                          | \$ 329,170                     | \$ 4,322,831                   |
| Federal Grants and Revenue                     | 104,470                      | 0                           | 0                              | 0                                 | 155,068                       | 129,899                        | 389,437                        |
| State Grants and Revenue                       | 736,054                      | 144,201                     | 0                              | 0                                 | 37,960                        | 66,223                         | 984,438                        |
| Contributions from Local Units                 | 16,028                       | 0                           | 0                              | 0                                 | 0                             | 0                              | 16,028                         |
| Licenses and Permits                           | 12,995                       | 0                           | 0                              | 0                                 | 0                             | 42,063                         | 55,058                         |
| Charges for Services                           | 851,465                      | 50,267                      | 0                              | 0                                 | 107                           | 86,420                         | 988,259                        |
| Fines and Forfeits                             | 58,241                       | 0                           | 0                              | 0                                 | 0                             | 200                            | 58,441                         |
| Interest and Rentals                           | 13,095                       | 1,809                       | 0                              | 0                                 | 37                            | 0                              | 14,941                         |
| Other Revenue                                  | <u>354,730</u>               | <u>45,023</u>               | <u>9,256</u>                   | <u>0</u>                          | <u>0</u>                      | <u>58,691</u>                  | <u>467,700</u>                 |
| Total Revenue                                  | <u>4,876,546</u>             | <u>560,875</u>              | <u>543,183</u>                 | <u>410,691</u>                    | <u>193,172</u>                | <u>712,666</u>                 | <u>7,297,133</u>               |
| <b><u>Expenditures</u></b>                     |                              |                             |                                |                                   |                               |                                |                                |
| Current:                                       |                              |                             |                                |                                   |                               |                                |                                |
| General Government                             | 2,306,317                    | 0                           | 0                              | 0                                 | 0                             | 278,130                        | 2,584,447                      |
| Public Safety                                  | 1,127,358                    | 598,781                     | 555,323                        | 0                                 | 0                             | 111,958                        | 2,393,420                      |
| Public Works                                   | 109,018                      | 0                           | 0                              | 0                                 | 0                             | 0                              | 109,018                        |
| Health and Welfare                             | 344,983                      | 0                           | 0                              | 411,396                           | 0                             | 384,920                        | 1,141,299                      |
| Community and Economic Development             | 3,000                        | 0                           | 0                              | 0                                 | 178,630                       | 0                              | 181,630                        |
| Recreation and Cultural                        | 7,949                        | 0                           | 0                              | 0                                 | 0                             | 0                              | 7,949                          |
| Other  | 1,016,184                    | 0                           | 0                              | 0                                 | 0                             | 0                              | 1,016,184                      |
| Capital Outlay                                 | 8,116                        | 72,807                      | 46,868                         | 0                                 | 0                             | 42,113                         | 169,904                        |
| Debt Service:                                  |                              |                             |                                |                                   |                               |                                |                                |
| Principal                                      | 0                            | 0                           | 0                              | 0                                 | 0                             | 104,400                        | 104,400                        |
| Interest and Fiscal Charges                    | 0                            | 0                           | 0                              | 0                                 | 0                             | 19,109                         | 19,109                         |
| Total Expenditures                             | <u>4,922,925</u>             | <u>671,588</u>              | <u>602,191</u>                 | <u>411,396</u>                    | <u>178,630</u>                | <u>940,630</u>                 | <u>7,727,360</u>               |
| Excess of Revenue Over (Under)<br>Expenditures | <u>(46,379)</u>              | <u>(110,713)</u>            | <u>(59,008)</u>                | <u>(705)</u>                      | <u>14,542</u>                 | <u>(227,964)</u>               | <u>(430,227)</u>               |

The accompanying notes to financial statements are an integral part of this statement.

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2012

|  | <u>Special Revenue Funds</u> |                             |                                |                                   |                               | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|------------------------------|-----------------------------|--------------------------------|-----------------------------------|-------------------------------|---|---|
|  | <u>General Fund</u>          | <u>911 Service<br/>Fund</u> | <u>Road Patrol<br/>Millage</u> | <u>Senior Citizen<br/>Millage</u> | <u>Housing<br/>Commission</u> |   |   |
| <u>Other Financing Sources (Uses)</u>  |                              |                             |                                |                                   |                               |   |   |
| Loan Proceeds  | \$ 0                         | \$ 0                        | \$ 0                           | \$ 0                              | \$ 0                          | \$ 13,845                               | \$ 13,845                               |
| Sale of Capital Assets   | 888                          | 0                           | 13,250                         | 0                                 | 0                             | 0                                       | 14,138                                  |
| Operating Transfers In   | 137,161                      | 0                           | 0                              | 0                                 | 0                             | 218,210                                 | 355,371                                 |
| Operating Transfers Out  | <u>(121,701)</u>             | <u>(12,671)</u>             | <u>0</u>                       | <u>0</u>                          | <u>0</u>                      | <u>(7,161)</u>                          | <u>(141,533)</u>                        |
| Total Other Financing Sources (Uses)   | <u>16,348</u>                | <u>(12,671)</u>             | <u>13,250</u>                  | <u>0</u>                          | <u>0</u>                      | <u>224,894</u>                          | <u>241,821</u>                          |
| Excess of Revenue and Other Sources<br>Over (Under) Expenditures and Other<br>Uses | (30,031)                     | (123,384)                   | (45,758)                       | (705)                             | 14,542                        | (3,070)                                 | (188,406)                               |
| Fund Balances - Beginning of Year  | <u>724,341</u>               | <u>481,200</u>              | <u>69,874</u>                  | <u>2,995</u>                      | <u>64,313</u>                 | <u>335,932</u>                          | <u>1,678,655</u>                        |
| Fund Balances - End of Year  | <u>\$ 694,310</u>            | <u>\$ 357,816</u>           | <u>\$ 24,116</u>               | <u>\$ 2,290</u>                   | <u>\$ 78,855</u>              | <u>\$ 332,862</u>                       | <u>\$ 1,490,249</u>                     |

The accompanying notes to financial statements are an integral part of this statement.

COUNTY OF ARENAC  
Standish, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2012

|   |                 |                    |
|---|-----------------|--------------------|
| Total Net Change in Fund Balances - Governmental Funds  |                 | \$                 |
| Amounts reported for governmental activities in the statement of activities are different because:  |                 |                    |
| Receivables not currently available are reported as revenue when collected or when currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements:  |                 |                    |
| Real and Personal Property Taxes  | \$ (25,787)     |                    |
| Grants Receivable   | <u>19,464</u>   |                    |
| Net difference  |                 | (6,323)            |
| 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.  |                 |                    |
| Capital Outlay  | 145,643         |                    |
| Current Year Depreciation Expense   | (290,558)       |                    |
| Gain (Loss) on Sale of Capital Assets   | <u>(14,536)</u> |                    |
| Net difference  |                 | (159,451)          |
| Note receivable repayments and note disbursements are revenue and expenditures respectively in the governmental funds, but the repayments and disbursements reduce and increase the note receivable balances in the statement of net position. The activity reported in the governmental funds is as follows: |                 |                    |
| Current year note receivable principal receipts   |                 | (9,889)            |
| Debt issued provides current financial resources to governmental funds, but issuing debt increases liabilities in the statement of net position. Proceeds from debt issued consists of the following:   |                 |                    |
| Loan Proceeds   |                 | (13,845)           |
| Principal repayments on long-term debt are reported as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The amount of repayments reported as expenditures in the governmental funds consist of:                                      |                 |                    |
| Bonds Payable   | 35,000          |                    |
| Loans Payable   | 5,000           |                    |
| Notes Payable   | <u>64,400</u>   |                    |
| Net difference  |                 | 104,400            |
| 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 the governmental funds:   |                 |                    |
| Net Change in Accrued Interest  | 637             |                    |
| Net Change in Accrued Compensated Absences  | <u>31,262</u>   |                    |
|   |                 | <u>31,899</u>      |
| Change in Net Position of Governmental Activities   |                 | \$ <u>(53,209)</u> |

The accompanying notes to financial statements are an integral part of this statement.

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
December 31, 2012

|  | Enterprise Funds         |                     |                        |                     |
|--|--------------------------|---------------------|------------------------|---------------------|
|  | Major Funds              |                     | Other Enterprise Funds | Total               |
|  | Delinquent Tax Revolving | County Park         |                        |                     |
| <u>Assets</u>  |                          |                     |                        |                     |
| Current Assets:  |                          |                     |                        |                     |
| Cash and Cash Equivalents (Note 3)                       | \$ 1,287,167             | \$ 1,648            | \$ 275,454             | \$ 1,564,269        |
| Investments (Note 3)                                     | 327,908                  | 0                   | 0                      | 327,908             |
| Receivables:   |                          |                     |                        |                     |
| Delinquent Taxes   | 993,662                  | 0                   | 0                      | 993,662             |
| Due from Local Units                                     | 23,609                   | 0                   | 0                      | 23,609              |
| Total Current Assets                                     | <u>2,632,346</u>         | <u>1,648</u>        | <u>275,454</u>         | <u>2,909,448</u>    |
| Noncurrent Assets:                                       |                          |                     |                        |                     |
| Capital Assets Not Being Depreciated (Note 5)            | 0                        | 1,458,771           | 0                      | 1,458,771           |
| Capital Assets, Net of Accumulated Depreciation (Note 5) | <u>0</u>                 | <u>215,742</u>      | <u>20,165</u>          | <u>235,907</u>      |
| Total Noncurrent Assets                                  | <u>0</u>                 | <u>1,674,513</u>    | <u>20,165</u>          | <u>1,694,678</u>    |
| Total Assets   | <u>2,632,346</u>         | <u>1,676,161</u>    | <u>295,619</u>         | <u>4,604,126</u>    |
| <u>Liabilities</u>                                       |                          |                     |                        |                     |
| Current Liabilities:                                     |                          |                     |                        |                     |
| Accounts Payable   | <u>0</u>                 | <u>256</u>          | <u>1,705</u>           | <u>1,961</u>        |
| <u>Net Position</u>                                      |                          |                     |                        |                     |
| Net Investment in Capital Assets Unrestricted            | <u>2,632,346</u>         | <u>1,674,513</u>    | <u>20,165</u>          | <u>1,694,678</u>    |
|  | <u>2,632,346</u>         | <u>1,392</u>        | <u>273,749</u>         | <u>2,907,487</u>    |
| Total Net Position                                       | <u>\$ 2,632,346</u>      | <u>\$ 1,675,905</u> | <u>\$ 293,914</u>      | <u>\$ 4,602,165</u> |

The accompanying notes to financial statements are an integral part of this statement.

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2012

|  | Enterprise Funds            |                     |                           |                     |
|--|-----------------------------|---------------------|---------------------------|---------------------|
|  | Major Funds                 |                     | Other Enterprise<br>Funds | Total               |
|  | Delinquent Tax<br>Revolving | County Park         |                           |                     |
| <u>Operating Revenue</u>                 |                             |                     |                           |                     |
| Charges For Services                     | \$ 0                        | \$ 47,458           | \$ 119,393                | \$ 166,851          |
| Tax Collection Fees                      | 84,003                      | 0                   | 0                         | 84,003              |
| Interest and Penalties on Taxes          | 255,984                     | 0                   | 0                         | 255,984             |
| Total Operating Revenue                  | <u>339,987</u>              | <u>47,458</u>       | <u>119,393</u>            | <u>506,838</u>      |
| <u>Operating Expenses</u>                |                             |                     |                           |                     |
| Salaries and Wages                       | 0                           | 37,757              | 0                         | 37,757              |
| Payroll Taxes and Employee Benefits      | 0                           | 4,709               | 0                         | 4,709               |
| Contractual Services                     | 6,132                       | 12,416              | 62,880                    | 81,428              |
| Depreciation                             | 0                           | 27,719              | 2,035                     | 29,754              |
| Dues and Subscriptions                   | 0                           | 0                   | 500                       | 500                 |
| Equipment                                | 0                           | 0                   | 5,859                     | 5,859               |
| Gasoline and Oil                         | 0                           | 2,697               | 0                         | 2,697               |
| Operating Supplies                       | 0                           | 1,318               | 1,084                     | 2,402               |
| Postage                                  | 0                           | 80                  | 236                       | 316                 |
| Printing and Advertising                 | 6,943                       | 516                 | 1,692                     | 9,151               |
| Professional Fees and Services           | 0                           | 0                   | 9,861                     | 9,861               |
| Repair and Maintenance                   | 0                           | 5,759               | 5,720                     | 11,479              |
| Janitorial Supplies                      | 0                           | 1,429               | 0                         | 1,429               |
| Telephone                                | 0                           | 576                 | 0                         | 576                 |
| Travel and Training                      | 0                           | 1,814               | 655                       | 2,469               |
| Utilities                                | 0                           | 1,378               | 0                         | 1,378               |
| Other                                    | 0                           | 0                   | 3,835                     | 3,835               |
| Total Operating Expenses                 | <u>13,075</u>               | <u>98,168</u>       | <u>94,357</u>             | <u>205,600</u>      |
| Operating Income (Loss)                  | 326,912                     | (50,710)            | 25,036                    | 301,238             |
| <u>Nonoperating Revenue</u>              |                             |                     |                           |                     |
| Interest and Investment Earnings         | <u>10,780</u>               | <u>0</u>            | <u>0</u>                  | <u>10,780</u>       |
| Income (Loss) Before Operating Transfers | 337,692                     | (50,710)            | 25,036                    | 312,018             |
| Operating Transfers In                   | 0                           | 22,000              | 0                         | 22,000              |
| Operating Transfers Out                  | <u>(105,838)</u>            | <u>0</u>            | <u>(130,000)</u>          | <u>(235,838)</u>    |
| Change in Net Position                   | 231,854                     | (28,710)            | (104,964)                 | 98,180              |
| Net Position - Beginning of Year         | <u>2,400,492</u>            | <u>1,704,615</u>    | <u>398,878</u>            | <u>4,503,985</u>    |
| Net Position - End of Year               | <u>\$ 2,632,346</u>         | <u>\$ 1,675,905</u> | <u>\$ 293,914</u>         | <u>\$ 4,602,165</u> |

The accompanying notes to financial statements are an integral part of this statement.

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2012

|   | Enterprise Funds            |                    |                              |                     |
|---|-----------------------------|--------------------|------------------------------|---------------------|
|   | Major Funds                 |                    | Other<br>Enterprise<br>Funds | Total               |
|   | Delinquent Tax<br>Revolving | County Park        |                              |                     |
| <u>Cash Flows From Operating Activities</u>                     |                             |                    |                              |                     |
| Receipts From Customers and Taxpayers                           | \$ 339,987                  | \$ 47,458          | \$ 119,393                   | \$ 506,838          |
| Payments to Suppliers for Goods and Services                    | (13,075)                    | (27,727)           | (91,068)                     | (131,870)           |
| Payments to Employees for Services                              | 0                           | (42,466)           | 0                            | (42,466)            |
| Net Delinquent Tax Collections (Purchases)                      | <u>158,079</u>              | <u>0</u>           | <u>0</u>                     | <u>158,079</u>      |
| Net Cash Provided (Used) by Operating Activities                | <u>484,991</u>              | <u>(22,735)</u>    | <u>28,325</u>                | <u>490,581</u>      |
| <u>Cash Flows From Non-Capital Financing Activities</u>         |                             |                    |                              |                     |
| Operating Subsidies and Transfers From (To) Other Funds         | <u>(105,838)</u>            | <u>22,000</u>      | <u>(130,000)</u>             | <u>(213,838)</u>    |
| <u>Cash Flows From Capital and Related Financing Activities</u> |                             |                    |                              |                     |
| Acquisition and Construction of Capital Assets                  | <u>0</u>                    | <u>0</u>           | <u>(22,200)</u>              | <u>(22,200)</u>     |
| <u>Cash Flows From Investing Activities</u>                     |                             |                    |                              |                     |
| Interest Earned   | 10,780                      | 0                  | 0                            | 10,780              |
| Purchase of Investment Securities                               | <u>(3,712)</u>              | <u>0</u>           | <u>0</u>                     | <u>(3,712)</u>      |
| Net Cash Provided (Used) by Investing Activities                | <u>7,068</u>                | <u>0</u>           | <u>0</u>                     | <u>7,068</u>        |
| Net Increase (Decrease) in Cash and Cash Equivalents            | 386,221                     | (735)              | (123,875)                    | 261,611             |
| Cash and Cash Equivalents at Beginning of Year (Note 1)         | <u>900,946</u>              | <u>2,383</u>       | <u>399,329</u>               | <u>1,302,658</u>    |
| Cash and Cash Equivalents at End of Year (Note 1)               | <u>\$ 1,287,167</u>         | <u>\$ 1,648</u>    | <u>\$ 275,454</u>            | <u>\$ 1,564,269</u> |
| <u>Reconciliation of Operating Income (Loss) to Net Cash</u>    |                             |                    |                              |                     |
| <u>Provided (Used) by Operating Activities</u>                  |                             |                    |                              |                     |
| Operating Income (Loss)   | \$ 326,912                  | \$ (50,710)        | \$ 25,036                    | \$ 301,238          |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash    |                             |                    |                              |                     |
| Provided (Used) by Operating Activities:                        |                             |                    |                              |                     |
| Depreciation Expense  | 0                           | 27,719             | 2,035                        | 29,754              |
| Change in Assets and Liabilities:                               |                             |                    |                              |                     |
| Receivables   | 128,743                     | 0                  | 0                            | 128,743             |
| Due from Local Units  | 38,602                      | 0                  | 0                            | 38,602              |
| Accounts Payable/Due to Local Units                             | <u>(9,266)</u>              | <u>256</u>         | <u>1,254</u>                 | <u>(7,756)</u>      |
| Net Cash Provided (Used) by Operating Activities                | <u>\$ 484,991</u>           | <u>\$ (22,735)</u> | <u>\$ 28,325</u>             | <u>\$ 490,581</u>   |

The accompanying notes to financial statements are an integral part of this statement.

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
 FIDUCIARY FUNDS  
December 31, 2012

| <u>Assets</u>                         | <u>Trust and Agency</u> | <u>Library Penal<br/>Fines</u> | <u>Total</u>      |
|---------------------------------------|-------------------------|--------------------------------|-------------------|
| Cash and Cash Equivalents (Note 3)    | \$ 303,352              | \$ 97,259                      | \$ 400,611        |
| Due from Local Units                  | <u>15,057</u>           | <u>0</u>                       | <u>15,057</u>     |
| Total Assets                          | <u>\$ 318,409</u>       | <u>\$ 97,259</u>               | <u>\$ 415,668</u> |
| <br><u>Liabilities</u>                |                         |                                |                   |
| Due to Local Units                    | \$ 400                  | \$ 0                           | \$ 400            |
| Due to State                          | 23,769                  | 0                              | 23,769            |
| Due to Other Agencies and Individuals | 214,005                 | 97,259                         | 311,264           |
| Undistributed Tax Collections         | <u>80,235</u>           | <u>0</u>                       | <u>80,235</u>     |
| Total Liabilities                     | <u>\$ 318,409</u>       | <u>\$ 97,259</u>               | <u>\$ 415,668</u> |

The accompanying notes to financial statements are an integral part of this statement.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of Arenac (County) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The following is a summary of the significant accounting policies:

A. Description of County Operations and Fund Types

The County of Arenac, (the County), was organized in 1883 and covers an area of 366 square miles divided into 12 townships, 3 villages and 3 cities. The County seat is located in the City of Standish. The County is governed by an elected five member board of commissioners and provides services to its more than 17,269 residents in many areas including law enforcement, administration of justice, community enrichment and development, and human services.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the County are not misleading. The primary government of the County consists of all funds, departments, boards, and agencies that are not legally separate from the County.

Component units are legally separate organizations for which the County is financially accountable. The County is financially accountable for an organization if the County appoints a voting majority of the organization's governing board and (1) the County is able to significantly influence the programs of services performed or provided by the organization; or (2) the County is legally entitled to or can otherwise access the organization's resources; the County is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the County is obligated for the debt of the organization. Component units may also include organizations for which the County approves the budget, the issuance of debt, or the levying of taxes.

1. Blended Component Units

a. Governmental Activity and Fund Type Component Units

**Building Authority** - The Arenac County Building Authority is governed by a five member board appointed by the County Board of Commissioners. Although it is legally separate from the County, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the County's public buildings.

**Arenac County Housing Commission** - The Arenac County Housing Commission was created on March 17, 1975, in the State of Michigan, under the provision of Public Act 18 of the Extra Session of 1933, as amended. A five member board appointed by the County Board of Commissioners administers the Housing Commission. Although it is legally separate from the County, the Housing Commission is reported as if it were part of the primary government because its sole purpose is to rehabilitate and make safe inhabited dwellings existing in the County. The County Board of commissioners approves all grants received by the Housing Commission.

2. Discretely Presented Component Units

The component unit columns on the combined financial statements include the financial data of the County's component units. They are reported in a separate column to emphasize that they are legally separate from the County.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity (Continued)

a. Governmental Activity and Fund Type Component Units

**The Arenac County Drain Commission** - The Arenac County Drain Commission is the Agency through which the County carries on the activities related to construction and maintenance of County drains. The Drain Commission is fiscally dependent on Arenac County. Public Act 40 (The Drain Code) of 1956 established each drainage district as a separate legal entity with the power to contract, to sue and be sued, to hold, manage and dispose of real and personal property. The Drain Commission may issue debt and levy special assessments without the prior approval of the County Board of Commissioners. The full faith and credit of the County may be given for debt of the drainage districts. The Drain Commission deposits its receipts with the County Treasurer. The financial statements of the Drain Commission are presented as part of Other Supplementary Information and are not audited separately.

**The Arenac County Economic Development Corporation** - The EDC was established pursuant to the provisions of Public Act 338 of 1974, as amended. The EDC is governed by an 11 member board appointed by the County Board of Commissioners. The EDC's purpose is to support, enhance and sustain economic development in Arenac County. The financial statements of the EDC are presented as part of Other Supplementary Information and are not audited separately.

**The Brownfield Redevelopment Authority** - The Arenac County Brownfield Redevelopment Authority (BRA) was established pursuant to the provisions of Public Act 381 of 1996, as amended. The BRA is governed by an 11 member board appointed by the County Board of Commissioners. The BRA may not issue debt without the County's approval and the BRA administers the County's Brownfield Redevelopment Authority Fund established to facilitate the implementation of Brownfield plans relating to the identification and treatment of environmentally distressed (functionally obsolete and/or blighted) areas so as to promote revitalization within the municipal limits of the County. The financial statements of the BRA are presented as part of Other Supplementary Information and are not audited separately.

**The Arenac County Road Commission** - The governing body of this component unit is elected by the residents of the County of Arenac. The Road Commission was established to control the expenditures of Michigan Transportation Fund money distributed to the County which is earmarked by law for street and highway construction and repair purposes. Complete financial statements for the Arenac County Road Commission can be obtained from the Arenac County Road Commission's administrative office located at 116 Bridge Street, Omer, Michigan 48649.

b. Business-Type Activity and Proprietary Fund Type Component Units

**The Arenac County Land Bank Authority** - The Arenac County Land Bank Authority is a public corporation organized pursuant to the Michigan Land Bank Fast Track Public Act 258 and an intergovernmental agreement entered into between the Michigan Land Bank Fast Track Authority and the Treasurer of the County of Arenac. The Authority was legally established September 16, 2008. The Authority Board is comprised of five members, as follows: Treasurer of Arenac County, the Arenac County Board Chairperson, a member at large, a member representing City or Township government and a member representing the local EDC or Brownfield Board. All members, except the County Treasurer and the Chairperson of the County Board are appointed by the Arenac County Board. The Land Bank Authority was created to acquire, hold, manage, develop and dispose of vacant, abandoned and tax-foreclosed properties. The financial statements of the Authority, a Business-Type Activity, are presented as part of the Government-Wide Financial Statements and are not audited separately.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Joint Ventures

The County has entered into several joint ventures with various municipalities as follows:

Central Michigan District Health Department

The County, in conjunction with Gladwin, Isabella, Osceola and Roscommon counties, has created the Central Michigan District Health Department under the authority of the Public Health Code. The District Health Board is composed of two members from each of the counties who are appointed by each participating County Board of Commissioners. All of the financial operations of the District Health Department are recorded in the records of Isabella County, as a discretely presented component unit. Complete financial statements for Isabella County can be obtained from the Isabella County Administration Office, 200 N. Main St., Mt. Pleasant, Michigan 48858. The funding formula approved by the member counties is based pro rata on each unit's population and State equalized valuation to the District's population and valuation. The County's appropriation for the year ended December 31, 2012 was \$124,926.

Bay Arenac Community Mental Health Services Board

The County, in conjunction with Bay County, has created the Bay Arenac Community Mental Health Services Board which is a community mental health organization defined in the Mental Health Code, MCL 330.1001, et seq., as amended. Community Mental Health Services Board is composed of 12 members apportioned between the member counties on the basis of population. The board appointments are approved by the respective County Board of Commissioners. All of the financial operations of the Mental Health Authority are recorded in the records of Bay County, as a discretely presented component unit. Complete financial statements for Bay County can be obtained from the Finance Office, Bay County Building, 515 Center Avenue, Suite 701, Bay City, Michigan 48708-5128. The funding of the Mental Health Authority operations is based pro rata on each unit's population to the district's total population. The County's 2012 appropriation to the Mental Health Board was \$104,812.

Iosco-Arenac District Library

Iosco County and Arenac County contribute to the Iosco-Arenac District Library Board. This Board operates autonomously under an appointed board (8 members) and provides library services to the residents of Iosco County and Arenac County. Arenac County's 2012 contribution to the Iosco-Arenac District Library for property taxes and penal fines was \$237,766 and \$199,964, respectively. The Iosco-Arenac District Library deposits their receipts with the Iosco County Treasurer through the common cash bank account. At December 31, 2012 the Iosco-Arenac District Library had total net position of \$1,841,722. Complete financial statements for the Iosco-Arenac District Library can be obtained from the Library's administrative offices at 120 W. Westover, East Tawas, Michigan 48730.

D. Basis of Presentation

The County's basic financial statements consist of government-wide financial statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

**Government-Wide Financial Statements**

The statement of net position and the statement of activities display information about the County as a whole. These statements include the financial activities of the primary government and its component units, except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the County that are governmental and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support.

The statement of net position presents the financial condition of the governmental and business-type activities of the County at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the County's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the County, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the County.

**Fund Financial Statements**

During the year, the County segregates transactions related to certain County functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the County at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type, and are excluded from the government-wide financial statements.

E. Fund Accounting

The County uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain County functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

**Governmental Funds**

Governmental funds are those through which most governmental functions of the County are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the County's major governmental funds:

General Fund - This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

911 Service Fund - This fund accounts for property taxes, surcharges and state wireless surcharges used to support the 911 service provided by the County under the provisions of Public Act 29 of 1994.

Road Patrol Millage Fund - This fund accounts for property taxes and other contributions used to support the road patrol provided by the County.

Senior Citizen Millage Fund - This fund accounts for property taxes that are earmarked for the Arenac County Council on Aging that provides senior services to county residents.

Housing Commission Fund - This fund accounts for federal, state and local funding used to obtain financing and construct or rehabilitate low income housing for qualified Arenac County residents.

The other governmental funds of the County account for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt; and the acquisition or construction of major capital facilities.

**Proprietary Funds**

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

The County's enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the County's major enterprise funds:

Delinquent Tax Revolving Fund - This fund accounts for the County's annual purchase of the delinquent real property taxes from other local taxing units and subsequent tax collections.

County Park Fund - This fund accounts for fees collected for park services.

The other enterprise funds of the County account for the sale of property that was forfeited by property owners to pay delinquent property taxes and commissary sales.

**Fiduciary Funds**

Fiduciary fund reporting focuses on net position and changes in net position. The County's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amounts held for others in an agency capacity, primarily property tax collections, state-levied shared revenues, and fines and forfeitures.

F. Measurement Focus

**Government-Wide Financial Statements**

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the County are included on the statement of net position.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Measurement Focus (Continued)

**Fund Financial Statements**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in revenue, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows reflects how the County finances and meets the cash flow needs of its enterprise activities.

G. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide, proprietary and fiduciary funds financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of unavailable revenue as deferred inflows of resources, and in the presentation of expenses versus expenditures.

**Revenues – Exchange and Non-exchange Transactions**

Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the County, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the County receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the period in which the sales are made. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the County must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the County on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: sales taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including sales tax), grants, interest and rent.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Basis of Accounting (Continued)

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two types of items that qualify for reporting in this category. Accordingly, the items, unavailable revenue and property taxes levied for use in 2013, are reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from five sources: property taxes, special assessments, grants receivable, due from local units and mortgages receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available under the modified accrual basis of accounting and accordingly are not reported on the statement of net position prepared under the accrual basis of accounting. Property taxes levied for use in 2013 is reported as a deferred inflow of resources for the statement of financial position as well.

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

H. Cash and Cash Equivalents

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the County are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost which approximates fair value. Fair value is based on quoted market prices.

I. Receivables

Receivables generally consist of accounts (fees), sales taxes, shared revenues, property taxes, mortgages receivable, special assessments, intergovernmental grants, and interest. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectability.

The allowance for doubtful accounts at December 31, 2012 was \$0 for the primary government and the component units.

The special assessment receivable balance not expected to be collected in one year is \$622,672. The due from local units not expected to be collected in one year is \$307,000.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Interfund Receivables and Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "due from/to other funds". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net position. Balances due from/to component units are reported on the government-wide statement of net position.

K. Prepaid Items

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

L. Inventory

Housing Commission inventory represents the cost of properties purchased to be refurbished for future sales through the Housing Commission Fund. Road Commission inventory, consisting of various operating parts, supplies and road material is stated at cost, as determined on the average unit cost method. Inventory items are charged to road construction, maintenance, equipment repairs, and operations as they are used. No other County inventories have been recognized in the financial statements as they are not material and have been expensed when purchased.

Arenac County Land Bank Authority inventory, consisting of properties held for sale, are stated at the lower of cost or market value.

M. Long-Term Mortgages Receivable

Long-term mortgages receivable represent amounts due from individuals for housing loans and grants received, and are reported at their gross value.

Mortgages receivable have a set payment schedule for monthly payments to be made to the County. Due to the nature of these loans, loan payments are not always made in accordance with the payment schedule. As such, the estimate of the amount not expected to be collected in one year is \$1,581,659.

N. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide statement of net position and in the respective funds.

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 for the primary government and Drain Commission component unit; and more than \$1,000 for the Road Commission component unit; and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The County's infrastructure consists of roads, bridges, dams and water and sewer lines. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Capital Assets (Continued)

Capital assets are depreciated using the straight-line method for the primary government and Drain Commission component unit; and using the sum-of-years digits method for road equipment and the straight-line method for all other capital assets for the Road Commission component unit; over the following useful lives:

| <u>Descriptions</u>     | <u>Estimated Lives</u> |
|-------------------------|------------------------|
| Land Improvements       | 20 - 25 years          |
| Buildings               | 15 - 50 years          |
| Machinery and Equipment | 3 - 10 years           |
| Road Equipment          | 5 - 8 years            |
| Vehicles                | 5 - 10 years           |
| Infrastructure          | 5 - 50 years           |

O. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise fund statement. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

P. Compensated Absences

The County reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation and sick leave benefits are accrued as a liability using the vesting method. An accrual for earned vacation and sick leave is made based on accumulated vacation and sick leave and the employee wage rates at year end taking into consideration limits specified in the County's termination policy. The County records a liability for vacation and sick leave earned at varying rates depending on County policy.

The entire compensated absences liability is reported on the government-wide financial statements. On the governmental fund financial statements, the current portion of unpaid compensated absences is recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts, if any, are recorded in the account "Accrued Compensated Absences Payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The County reports three categories of net position as follows:

Net investment in capital assets - consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Restricted net position - net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the County's bonds. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position - consists of all other net position that does not meet the definition of the above two components and is available for general use by the County.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies restricted net position first, unless a determination is made to use unrestricted net position. The County's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expenditure.

R. Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form—pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Commissioners—the County's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board of Commissioners removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. This classification reflects the amounts constrained by the County's "intent" to be used for specific purposes, but are neither restricted nor committed. The Board of Commissioners or the County Treasurer have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed. If any portion of existing fund balance will be used to eliminate a projected deficit in the budget for the subsequent year, this amount will also be categorized as Assigned fund balance.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Fund Balances (Continued)

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the County's policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

S. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the County, these revenues are charges for services for camping at the County Park, commissary sales, tax collections and title collection fees. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

T. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

U. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended December 31, 2012.

V. Budgets and Budgetary Accounting

The County of Arenac normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to December 1, the departments submit to the Board of Commissioners a proposed departmental operating budget for the fiscal year commencing the following January 1. This operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the governmental center to obtain taxpayer comments.
3. Prior to January 1, the budget is legally enacted through passage of an ordinance.
4. All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the Board of Commissioners throughout the operating year.

The County adopts budgets for the General Fund and Special Revenue Funds.

The budgets of the County are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the activity level.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Budgets and Budgetary Accounting (Continued)

The legal level of control is at the activity level for the General Fund, and at fund expenditure totals for the Special Revenue Funds.

The County Treasurer is authorized to transfer budgeted amounts between accounts within the same department. Revisions that alter the total expenditures of any fund or total department expenditures must be approved by the County Board of Commissioners. The financial statements include budgetary amounts as amended.

W. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

X. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

Change in Accounting Principles

For 2012, the County has implemented Governmental Accounting Standards Board (GASB) Statement Number 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities".

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Statement amends the net asset reporting requirements in GASB Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement No. 65 establishes standards that reclassify and recognize certain items that were previously reported as assets and liabilities, as deferred outflows of resources or deferred inflows of resources. GASB No. 65 also provides guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in major fund determination and limited use of the term deferred in financial statement presentations.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 3 - DEPOSITS AND INVESTMENTS

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

|                           | <u>Governmental<br/>Activities</u> | <u>Business-<br/>Type<br/>Activities</u> | <u>Fiduciary<br/>Funds</u> | <u>Total Primary<br/>Government</u> | <u>Component<br/>Units</u> |
|---------------------------|------------------------------------|--|----------------------------|-------------------------------------|----------------------------|
| Cash and Cash Equivalents | \$ 1,024,053                       | \$ 1,564,269                             | \$ 400,611                 | \$ 2,988,933                        | \$ 1,366,778               |
| Investments               | <u>103,107</u>                     | <u>327,908</u>                           | <u>0</u>                   | <u>431,015</u>                      | <u>0</u>                   |
| Total                     | <u>\$ 1,127,160</u>                | <u>\$ 1,892,177</u>                      | <u>\$ 400,611</u>          | <u>\$ 3,419,948</u>                 | <u>\$ 1,366,778</u>        |

The breakdown between deposits and investments is as follows:

|   | <u>Primary<br/>Government</u> | <u>Component<br/>Units</u> |
|---|-------------------------------|----------------------------|
| Bank Deposits (Checking and Savings Accounts and<br>Certificates of Deposit)  | \$ 1,642,942                  | \$ 1,366,478               |
| Investments in Money Market Accounts, Municipal<br>Investment Account Pooled Funds, Repurchase<br>Agreement Securities and Similar Vehicles | 1,775,506                     | 0                          |
| Petty Cash and Cash on Hand   | <u>1,500</u>                  | <u>300</u>                 |
| Total   | <u>\$ 3,419,948</u>           | <u>\$ 1,366,778</u>        |

As of December 31, 2012, the County had the following investments.

| <u>Investment Type</u>                  | <u>Fair<br/>Value</u> | <u>Weighted Average<br/>Maturities</u> |
|---|-----------------------|--|
| Primary Government:<br>Investment Pools | \$ 419,428            | Daily                                  |
| Repurchase Agreements -<br>Public Funds | <u>1,356,078</u>      | Daily                                  |
|   | <u>\$ 1,775,506</u>   |  |

Interest Rate Risk

In accordance with its investment policy, the County will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the County's known cash requirements.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

State law authorizes investments in accordance with Act 196, PA 1997 and in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a local government unit in Michigan. The County's repurchase sweep accounts at Chemical Bank are unrated. The County's investment pools at MBIA Asset Management Group are rated AAAM by Standard and Poors.

Custodial Credit Risk - Deposits - Primary Government

In the case of deposits, this is the risk that in the event of a bank failure, the County's deposits may not be returned to it. As of December 31, 2012, \$759,291 of the County's bank balance of \$1,699,481 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Deposits - Component Units

In the case of deposits, this is the risk that in the event of a bank failure, the component unit's deposits may not be returned to it. As of December 31, 2012, \$353,832 of the Drain Commission's bank balance of \$353,832 was exposed to custodial credit risk; \$30,207 of the Economic Development Corporation's bank balance of \$30,207 was exposed to custodial credit risk; \$5,544 of the Brownfield Redevelopment Authority's bank balance of \$5,544 was exposed to custodial credit risk; and \$902,110 of the Road Commission's bank balance of \$1,042,947 was exposed to custodial credit risk because they were uninsured and uncollateralized.

Concentration of Credit Risk - Primary Government

The County will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The County's investment policy requires that no more than 60% of the total investment portfolio, with the exception of U.S. Treasury Securities and authorized investment pools, can be invested in a single security type or with a single financial institution. The following are investments of the County that represent more than 5% of the County's total investments:

Chemical Bank investment sweep account consisting of repurchase agreements of public funds which represents 76% of the County's total investments, which is considered an authorized investment pool.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The County will minimize custodial credit risk, by; limiting investments to the types of securities approved in the County's investment policy which is in accordance with State law, and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the County will do business.

At year end the County's investment in Chemical Bank's investment sweep account consisting of repurchase agreements of public funds was \$1,356,078. This investment was exposed to custodial credit risk because it was uninsured and held by the counterparty's trust department or agent, not in the County's name.

Foreign Currency Risk

The County is not authorized to invest in investments which have this type of risk.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

The County Board has adopted an investment policy in accordance with Act 20, PA 1943 which authorizes the County to deposit and invest in the following:

- λ Accounts of federally insured banks, credit unions and savings and loan associations
- λ Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- λ United States government or federal agency obligation repurchase agreements
- λ Banker's acceptances of United States banks
- Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The County's deposits and investments are in accordance with statutory authority.

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of December 31, 2012 were as follows:

| <u>Fund</u>                     | <u>Interfund<br/>Receivable</u> | <u>Fund</u>                      | <u>Interfund<br/>Payable</u> |
|---------------------------------|---------------------------------|----------------------------------|------------------------------|
| <u>Due from Component Units</u> |                                 | <u>Due to Primary Government</u> |                              |
| General Fund                    | \$ 47,000                       | Drain Commission                 | \$ 47,000                    |
| General Fund                    | 9,104                           | Arenac County Road Commission    | 9,104                        |
| 911 Service Fund                | <u>107,000</u>                  | Drain Commission                 | <u>107,000</u>               |
| Total                           | <u>\$ 163,104</u>               | Total                            | <u>\$ 163,104</u>            |

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

The County's due from component unit balance represents long-term loans to the Drain Commission and a receivable from the Road Commission for December employee benefits at December 31, 2012.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the primary government for the fiscal year ended December 31, 2012, was as follows:

|                                       | <u>Balance</u><br><u>01/01/12</u> | <u>Additions</u>   | <u>Deletions</u>    | <u>Balance</u><br><u>12/31/12</u> |
|---------------------------------------|-----------------------------------|--------------------|---------------------|-----------------------------------|
| <u>Governmental Activities</u>        |                                   |                    |                     |                                   |
| Capital Assets Not Being Depreciated: |                                   |                    |                     |                                   |
| Land                                  | \$ 160,517                        | \$ 0               | \$ 0                | \$ 160,517                        |
| Construction in Progress              | <u>176,645</u>                    | <u>46,015</u>      | <u>(127,015)</u>    | <u>95,645</u>                     |
| Subtotal                              | <u>337,162</u>                    | <u>46,015</u>      | <u>(127,015)</u>    | <u>256,162</u>                    |
| Capital Assets Being Depreciated:     |                                   |                    |                     |                                   |
| Land Improvements                     | 7,809                             | 0                  | 0                   | 7,809                             |
| Buildings                             | 3,423,561                         | 135,401            | 0                   | 3,558,962                         |
| Machinery and Equipment               | 1,048,751                         | 47,341             | (37,753)            | 1,058,339                         |
| Vehicles                              | <u>328,094</u>                    | <u>43,901</u>      | <u>(67,678)</u>     | <u>304,317</u>                    |
| Subtotal                              | <u>4,808,215</u>                  | <u>226,643</u>     | <u>(105,431)</u>    | <u>4,929,427</u>                  |
| Less Accumulated Depreciation for:    |                                   |                    |                     |                                   |
| Land Improvements                     | (6,433)                           | (152)              | 0                   | (6,585)                           |
| Buildings                             | (1,878,209)                       | (103,598)          | 0                   | (1,981,807)                       |
| Machinery and Equipment               | (480,914)                         | (149,746)          | 37,753              | (592,907)                         |
| Vehicles                              | <u>(226,895)</u>                  | <u>(37,062)</u>    | <u>53,142</u>       | <u>(210,815)</u>                  |
| Subtotal                              | <u>(2,592,451)</u>                | <u>(290,558)</u>   | <u>90,895</u>       | <u>(2,792,114)</u>                |
| Capital Assets Being Depreciated      | <u>2,215,764</u>                  | <u>(63,915)</u>    | <u>(14,536)</u>     | <u>2,137,313</u>                  |
| Governmental Activities Total         |                                   |                    |                     |                                   |
| Capital Assets - Net of Depreciation  | <u>\$ 2,552,926</u>               | <u>\$ (17,900)</u> | <u>\$ (141,551)</u> | <u>\$ 2,393,475</u>               |

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 5 - CAPITAL ASSETS (CONTINUED)

|                                       | Balance<br>01/01/12 | Additions  | Deletions | Balance<br>12/31/12 |
|---------------------------------------|---------------------|------------|-----------|---------------------|
| <u>Business-Type Activities</u>       |                     |            |           |                     |
| Capital Assets Not Being Depreciated: |                     |            |           |                     |
| Land                                  | \$ 1,458,771        | \$ 0       | \$ 0      | \$ 1,458,771        |
| Capital Assets Being Depreciated:     |                     |            |           |                     |
| Land Improvements                     | 94,796              | 0          | 0         | 94,796              |
| Buildings                             | 426,108             | 0          | 0         | 426,108             |
| Machinery and Equipment               | 12,690              | 22,200     | 0         | 34,890              |
| Vehicles                              | 23,444              | 0          | 0         | 23,444              |
| Subtotal                              | 557,038             | 22,200     | 0         | 579,238             |
| Less Accumulated Depreciation for:    |                     |            |           |                     |
| Land Improvements                     | (37,914)            | (4,740)    | 0         | (42,654)            |
| Buildings                             | (242,067)           | (21,710)   | 0         | (263,777)           |
| Machinery and Equipment               | (10,152)            | (3,304)    | 0         | (13,456)            |
| Vehicles                              | (23,444)            | 0          | 0         | (23,444)            |
| Subtotal                              | (313,577)           | (29,754)   | 0         | (343,331)           |
| Capital Assets Being Depreciated      | 243,461             | (7,554)    | 0         | 235,907             |
| Business-Type Activities Total        |                     |            |           |                     |
| Capital Assets - Net of Depreciation  | \$ 1,702,232        | \$ (7,554) | \$ 0      | \$ 1,694,678        |

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

|                                 |            |
|---------------------------------|------------|
| <u>Governmental Activities</u>  |            |
| General Government              | \$ 93,614  |
| Public Safety                   | 188,600    |
| Public Works                    | 866        |
| Recreation and Cultural         | 7,478      |
| Total Governmental Activities   | \$ 290,558 |
| <u>Business-Type Activities</u> |            |
| County Park                     | \$ 27,719  |
| Tax Reversion                   | 2,035      |
| Total Business-Type Activities  | \$ 29,754  |

Capital asset activity of the Drain Commission for the current year is as follows:

|                                       | Balance<br>01/01/12 | Additions | Deletions    | Balance<br>12/31/12 |
|---------------------------------------|---------------------|-----------|--------------|---------------------|
| <u>Governmental Activities</u>        |                     |           |              |                     |
| Capital Assets Not Being Depreciated: |                     |           |              |                     |
| Construction in Progress              | \$ 673,290          | \$ 201    | \$ (673,290) | \$ 201              |

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 5 - CAPITAL ASSETS (CONTINUED)

|  | Balance<br>01/01/2012 | Additions  | Deletions    | Balance<br>12/31/2012 |
|--|-----------------------|------------|--------------|-----------------------|
| <u>Governmental Activities (Continued)</u> |                       |            |              |                       |
| Capital Assets Being Depreciated:          |                       |            |              |                       |
| Infrastructure - 1913 Drains               | \$ 115,440            | \$ 0       | \$ 0         | \$ 115,440            |
| Infrastructure - 1933 Drains               | 1,829,190             | 0          | 0            | 1,829,190             |
| Infrastructure - 1953 Drains               | 1,692,600             | 0          | 0            | 1,692,600             |
| Infrastructure - Bodwin Drain              | 192,167               | 0          | 0            | 192,167               |
| Infrastructure - Whitney Drain             | 440,761               | 0          | 0            | 440,761               |
| Infrastructure - Stone Drain               | 0                     | 26,713     | 0            | 26,713                |
| Infrastructure - AuGres Drain              | 0                     | 608,773    | 0            | 608,773               |
| Infrastructure - Sims Drain                | 0                     | 71,144     | 0            | 71,144                |
| Subtotal                                   | 4,270,158             | 706,630    | 0            | 4,976,788             |
| Less Accumulated Depreciation for:         |                       |            |              |                       |
| Infrastructure - 1913 Drains               | (115,440)             | 0          | 0            | (115,440)             |
| Infrastructure - 1933 Drains               | (1,829,190)           | 0          | 0            | (1,829,190)           |
| Infrastructure - 1953 Drains               | (1,271,494)           | (22,568)   | 0            | (1,294,062)           |
| Infrastructure - Bodwin Drain              | (77,952)              | (2,563)    | 0            | (80,515)              |
| Infrastructure - Whitney Drain             | (29,385)              | (5,877)    | 0            | (35,262)              |
| Infrastructure - Stone Drain               | 0                     | (178)      | 0            | (178)                 |
| Infrastructure - AuGres Drain              | 0                     | (8,117)    | 0            | (8,117)               |
| Infrastructure - Sims Drain                | 0                     | (711)      | 0            | (711)                 |
| Subtotal                                   | (3,323,461)           | (40,014)   | 0            | (3,363,475)           |
| Capital Assets Being Depreciated           | 946,697               | 666,616    | 0            | 1,613,313             |
| Governmental Activities Total              |                       |            |              |                       |
| Capital Assets - Net of Depreciation       | \$ 1,619,987          | \$ 666,817 | \$ (673,290) | \$ 1,613,514          |

Depreciation expense was charged to programs of the Drain Commission as follows:

Governmental Activities

Public Works \$ 40,014

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Capital asset activity of the Road Commission for the current year is as follows:

|                                       | <u>Balance</u><br><u>01/01/12</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u><br><u>12/31/12</u> |
|---------------------------------------|-----------------------------------|------------------|------------------|-----------------------------------|
| <u>Governmental Activities</u>        |                                   |                  |                  |                                   |
| Capital Assets Not Being Depreciated: |                                   |                  |                  |                                   |
| Land and Improvements                 | \$ 138,361                        | \$ 0             | \$ 0             | \$ 138,361                        |
| Construction in Progress              | <u>22,200</u>                     | <u>43,991</u>    | <u>0</u>         | <u>66,191</u>                     |
| Subtotal                              | <u>160,561</u>                    | <u>43,991</u>    | <u>0</u>         | <u>204,552</u>                    |
| Capital Assets Being Depreciated:     |                                   |                  |                  |                                   |
| Buildings and Improvements            | 384,931                           | 0                | 0                | 384,931                           |
| Equipment - Road                      | 3,167,427                         | 200,018          | 0                | 3,367,445                         |
| Equipment - Shop                      | 112,731                           | 0                | 0                | 112,731                           |
| Equipment - Office                    | 106,596                           | 1,419            | 0                | 108,015                           |
| Equipment - Engineer's                | 43,447                            | 0                | 0                | 43,447                            |
| Equipment - Yard and Storage          | 137,103                           | 0                | 0                | 137,103                           |
| Infrastructure - Bridges              | 3,605,998                         | 0                | 0                | 3,605,998                         |
| Infrastructure - Roads                | <u>12,237,572</u>                 | <u>817,647</u>   | <u>(271,567)</u> | <u>12,783,652</u>                 |
| Subtotal                              | <u>19,795,805</u>                 | <u>1,019,084</u> | <u>(271,567)</u> | <u>20,543,322</u>                 |
| Less Accumulated Depreciation for:    |                                   |                  |                  |                                   |
| Buildings and Improvements            | (384,931)                         | 0                | 0                | (384,931)                         |
| Equipment - Road                      | (2,849,436)                       | (125,632)        | 0                | (2,975,068)                       |
| Equipment - Shop                      | (103,527)                         | (1,019)          | 0                | (104,546)                         |
| Equipment - Office                    | (93,508)                          | (3,915)          | 0                | (97,423)                          |
| Equipment - Engineer's                | (43,447)                          | 0                | 0                | (43,447)                          |
| Equipment - Yard and Storage          | (137,103)                         | 0                | 0                | (137,103)                         |
| Infrastructure - Bridges              | (384,916)                         | (78,184)         | 0                | (463,100)                         |
| Infrastructure - Roads                | <u>(3,495,274)</u>                | <u>(764,139)</u> | <u>271,567</u>   | <u>(3,987,846)</u>                |
| Subtotal                              | <u>(7,492,142)</u>                | <u>(972,889)</u> | <u>271,567</u>   | <u>(8,193,464)</u>                |
| Capital Assets Being Depreciated      | <u>12,303,663</u>                 | <u>46,195</u>    | <u>0</u>         | <u>12,349,858</u>                 |
| Governmental Activities Total         |                                   |                  |                  |                                   |
| Capital Assets - Net of Depreciation  | <u>\$ 12,464,224</u>              | <u>\$ 90,186</u> | <u>\$ 0</u>      | <u>\$ 12,554,410</u>              |

Depreciation expense was charged to programs of the Road Commission as follows:

|               |                   |
|---------------|-------------------|
| <u>County</u> |                   |
| Public Works  | <u>\$ 972,889</u> |

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 6 - LONG-TERM LIABILITIES

Primary Government:

A. Bonds Payable

\$905,000 Arenac County Building Authority Bonds dated October 1, 2001; maturing serially through 2021 with amounts ranging from \$25,000 to \$250,000 at an interest rate ranging from 3.8% to 5.0%. Said bonds were issued for the acquisition of new park land, construction of new 911 facilities, and construction for additional administration offices for the county jail. Payments are made from the Building Authority Debt Fund.

| <u>Governmental</u> | <u>Business-Type</u> |
|---------------------|----------------------|
| \$ <u>305,000</u>   | \$ <u>0</u>          |

B. Loans Payable

\$13,845 BS&A Software deferred billing dated March 26, 2012 to be paid over 3 years, bearing interest at a rate of 0%. The billing was issued for BS&A Software .Net Program for the Building Department. Payments are made from the Building Department Fund.

| <u>Governmental</u> | <u>Business-Type</u> |
|---------------------|----------------------|
| \$ <u>8,845</u>     | \$ <u>0</u>          |

C. Notes Payable

\$322,000 installment purchase agreement dated June 26, 2008, due in annual installments through May 1, 2013, bearing interest at a rate of 3.49%. The purchase agreement was issued for building renovations. Payments are made from the Building Authority Debt Fund.

| <u>Governmental</u> | <u>Business-Type</u> |
|---------------------|----------------------|
| \$ <u>64,400</u>    | \$ <u>0</u>          |

Total Primary Government

|                |          |
|----------------|----------|
| <u>378,245</u> | <u>0</u> |
|----------------|----------|

Component Units:

D. Bonds Payable

Drain Commission - \$532,000 Village of Twining Sanitary Sewer Drain, original bonds dated October 9, 1989, due in annual installments through May 1, 2018, bearing interest at the rate of 6%. Said bonds were issued for the purpose of improvements to the Twining Sanitary Drainage District. Payments are made from the Twining Village Sewer Debt Fund. \$143,000 of these bonds were paid early in the prior year with proceeds from the 2011 Twining Sanitary Drain Bonds.

| <u>Governmental</u> | <u>Business-Type</u> |
|---------------------|----------------------|
| \$ 65,000           | \$ 0                 |

Drain Commission - \$525,000 2009 Au Gres River and East Branch Drain Bonds, dated October 13, 2009, due in annual installments through June 1, 2025, bearing interest at the rates of 2.25% - 5.25%. Said bonds were issued for the purpose of improvements to the Au Gres River and East Branch Drainage District. Payments are made from the Au Gres River Drain Debt Fund.

|         |   |
|---------|---|
| 475,000 | 0 |
|---------|---|

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

D. Bonds Payable (Continued)

|  | <u>Governmental</u> | <u>Business-Type</u> |
|--|---------------------|----------------------|
| <p>Drain Commission - \$1,690,000 Whitney Intercounty Drain Bonds, dated October 1, 2007, due in annual installments through June 1, 2022, bearing interest at the rate of 4%. Said bonds were issued for the purpose of constructing a drain in Ogemaw, Iosco and Arenac Counties. Arenac County's portion of said bonds is 22.92% or \$387,348. Payments are made from the Drain Capital Project Fund.</p>   | \$ 261,262          | \$ 0                 |
| <p>Drain Commission - \$286,000 2011 Twining Sanitary Drain Bonds, original bonds dated November 1, 2011, due in annual installments through May 1, 2041, bearing interest at the rate of 2.25%. Said bonds were issued for the purpose of paying on prior debt and to make improvements to the Twining Sanitary Drainage District. Payments are made from the Twining Sewer Construction Debt Fund. The County requests for funds to Rural Development as needed for construction expenses.</p> | <u>259,000</u>      | <u>0</u>             |
| <p>Total Bonds Payable/Component Units</p>   | <u>\$ 1,060,262</u> | <u>\$ 0</u>          |

E. Compensated Absences Payable

The County has an accrued liability for accumulated vested vacation and sick leave benefits of its employees. As of December 31, 2012, the accumulated vested vacation and sick leave benefits of the employees of various County departments and its component units were as follows:

|  | <u>Current Liability</u> | <u>Long-Term Liability</u> | <u>Total Balance</u> |
|--|--------------------------|----------------------------|----------------------|
| <u>Accrued Employee Benefits Payable</u> |                          |                            |                      |
| <u>Primary Government</u>                |                          |                            |                      |
| Governmental Activities                  | \$ <u>2,361</u>          | \$ <u>181,213</u>          | \$ <u>183,574</u>    |
| <u>Component Unit</u>                    |                          |                            |                      |
| Road Commission                          | \$ <u>5,750</u>          | \$ <u>43,668</u>           | \$ <u>49,418</u>     |

The employment policies for accumulation of vacation and sick leave benefits vary based on union membership and employee group. For the governmental activities, compensated absences are generally liquidated by the General Fund and the 911 Service Fund.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

F. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the County for the year ended December 31, 2012:

|                                | <u>Balance</u><br><u>01/01/12</u> | <u>Issues or</u><br><u>Additions</u> | <u>Payments or</u><br><u>Expenditures</u> | <u>Balance</u><br><u>12/31/12</u> | <u>Due Within</u><br><u>One Year</u> |
|--------------------------------|-----------------------------------|--------------------------------------|---|-----------------------------------|--------------------------------------|
| <u>Governmental Activities</u> |                                   |                                      |   |                                   |                                      |
| Primary Government:            |                                   |                                      |   |                                   |                                      |
| Bonds Payable                  | \$ 340,000                        | \$ 0                                 | \$ (35,000)                               | \$ 305,000                        | \$ 35,000                            |
| Loans Payable                  | 0                                 | 13,845                               | (5,000)                                   | 8,845                             | 4,422                                |
| Notes Payable                  | 128,800                           | 0                                    | (64,400)                                  | 64,400                            | 64,400                               |
| Compensated Absences           | <u>214,836</u>                    | <u>0</u>                             | <u>(31,262) *</u>                         | <u>183,574</u>                    | <u>2,361</u>                         |
| Total Primary Government       | <u>\$ 683,636</u>                 | <u>\$ 13,845</u>                     | <u>\$ (135,662)</u>                       | <u>\$ 561,819</u>                 | <u>\$ 106,183</u>                    |
| Component Units:               |                                   |                                      |   |                                   |                                      |
| Bonds Payable                  | \$ 1,041,471                      | \$ 105,000                           | \$ (86,209)                               | \$ 1,060,262                      | \$ 67,209                            |
| Notes Payable                  | 30,000                            | 0                                    | (30,000)                                  | 0                                 | 0                                    |
| Net OPEB Obligation            | 81,340                            | 53,760                               | (33,266)                                  | 101,834                           | 0                                    |
| Compensated Absences           | <u>47,972</u>                     | <u>43,533</u>                        | <u>(42,087)</u>                           | <u>49,418</u>                     | <u>5,750</u>                         |
| Total Component Units          | <u>\$ 1,200,783</u>               | <u>\$ 202,293</u>                    | <u>\$ (191,562)</u>                       | <u>\$ 1,211,514</u>               | <u>\$ 72,959</u>                     |

\*Represents net of additions and retirements for the year.

See Note 11 for further detail of the Net OPEB Obligation.

The interest expenditures on long-term obligations for the year were \$62,011.

Net OPEB Obligation for the governmental funds is generally liquidated by the General Fund of the Arenac County Road Commission.

The annual aggregate maturities for all debt outstanding (excluding compensated absences) as of December 31, 2012 are as follows:

Primary Government

| <b>Bonds Payable</b> | <u>Governmental Activities</u> |                  | <u>Business-Type Activities</u> |                 | <u>Total</u>      |
|----------------------|--------------------------------|------------------|---------------------------------|-----------------|-------------------|
|                      | <u>Principal</u>               | <u>Interest</u>  | <u>Principal</u>                | <u>Interest</u> |                   |
| 2013                 | \$ 35,000                      | \$ 14,095        | \$ 0                            | \$ 0            | \$ 49,095         |
| 2014                 | 35,000                         | 12,468           | 0                               | 0               | 47,468            |
| 2015                 | 35,000                         | 10,805           | 0                               | 0               | 45,805            |
| 2016                 | 35,000                         | 9,108            | 0                               | 0               | 44,108            |
| 2017                 | 35,000                         | 7,375            | 0                               | 0               | 42,375            |
| 2018 - 2021          | <u>130,000</u>                 | <u>12,250</u>    | <u>0</u>                        | <u>0</u>        | <u>142,250</u>    |
| Total                | <u>\$ 305,000</u>              | <u>\$ 66,101</u> | <u>\$ 0</u>                     | <u>\$ 0</u>     | <u>\$ 371,101</u> |

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

| <b>Notes Payable</b> | <u>Governmental Activities</u> |                 | <u>Business-Type Activities</u> |                 | <u>Total</u>     |
|----------------------|--------------------------------|-----------------|---------------------------------|-----------------|------------------|
|                      | <u>Principal</u>               | <u>Interest</u> | <u>Principal</u>                | <u>Interest</u> |                  |
| 2013                 | \$ <u>64,400</u>               | \$ <u>1,124</u> | \$ <u>0</u>                     | \$ <u>0</u>     | \$ <u>65,524</u> |

| <b>Loans Payable</b> | <u>Governmental Activities</u> |                 | <u>Business-Type Activities</u> |                 | <u>Total</u>    |
|----------------------|--------------------------------|-----------------|---------------------------------|-----------------|-----------------|
|                      | <u>Principal</u>               | <u>Interest</u> | <u>Principal</u>                | <u>Interest</u> |                 |
| 2013                 | \$ 4,422                       | \$ 0            | \$ 0                            | \$ 0            | \$ 4,422        |
| 2014                 | <u>4,423</u>                   | <u>0</u>        | <u>0</u>                        | <u>0</u>        | <u>4,423</u>    |
| Total                | \$ <u>8,845</u>                | \$ <u>0</u>     | \$ <u>0</u>                     | \$ <u>0</u>     | \$ <u>8,845</u> |

Component Units

| <b>Bonds Payable</b> | <u>Governmental Activities</u> |                   | <u>Business-Type Activities</u> |                 | <u>Total</u>        |
|----------------------|--------------------------------|-------------------|---------------------------------|-----------------|---------------------|
|                      | <u>Principal</u>               | <u>Interest</u>   | <u>Principal</u>                | <u>Interest</u> |                     |
| 2013                 | \$ 67,209                      | \$ 40,823         | \$ 0                            | \$ 0            | \$ 108,032          |
| 2014                 | 72,209                         | 38,179            | 0                               | 0               | 110,388             |
| 2015                 | 74,355                         | 35,332            | 0                               | 0               | 109,687             |
| 2016                 | 75,355                         | 32,314            | 0                               | 0               | 107,669             |
| 2017                 | 75,355                         | 29,160            | 0                               | 0               | 104,515             |
| 2018 - 2022          | 372,779                        | 97,077            | 0                               | 0               | 469,856             |
| 2023 - 2027          | 185,000                        | 29,785            | 0                               | 0               | 214,785             |
| 2028 - 2032          | 51,000                         | 13,278            | 0                               | 0               | 64,278              |
| 2033 - 2037          | 57,000                         | 7,292             | 0                               | 0               | 64,292              |
| 2038 - 2040          | <u>30,000</u>                  | <u>1,218</u>      | <u>0</u>                        | <u>0</u>        | <u>31,218</u>       |
| Total                | \$ <u>1,060,262</u>            | \$ <u>324,458</u> | \$ <u>0</u>                     | \$ <u>0</u>     | \$ <u>1,384,720</u> |

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real property and tangible personal property located in the County. Property taxes become an enforceable lien on property as of December 1, 2011 for winter taxes and July 1, 2012 for summer taxes. Taxes are levied on December 1, 2011 and July 1, 2012 and are payable by February 28, 2012 and September 15, 2012, respectively. The cities and townships within the County bill and collect the property taxes for the County.

County taxes levied December 1, 2011, are collected in and are intended to finance 2012 operations. The taxable value of real and personal property for the December 1, 2011 levy was \$549,404,320. The 2011 tax rate is currently .5000 mills for ambulance, 1.0000 mills for road patrol, .7500 mills for seniors and .6000 mills for 911 services.

County taxes levied July 1, 2012, are collected in and are intended to finance 2012 operations. The taxable value of real and personal property for the July 1, 2012 levy was \$551,070,653. The 2012 tax rate is currently 4.9176 mills for operations.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 7 - PROPERTY TAXES (CONTINUED)

By resolution of the Board of Commissioners and agreement with various taxing authorities, the County purchased at face value the real property taxes receivable returned delinquent on March 1, 2012. County funds were used to liquidate the amounts due the General Fund and various other funds and governmental agencies for purchase of the receivables. Subsequent collections on delinquent taxes receivable, plus interest and collection fees thereon and investment earnings, are used to replenish County funds. This activity is recorded in the Delinquent Tax Revolving Fund, which is an Enterprise Fund.

NOTE 8 - OPERATING TRANSFERS

During the year ended December 31, 2012, the following transfers were made:

| Description                         | Operating<br>Transfers In | Operating<br>Transfers Out |
|-------------------------------------|---------------------------|----------------------------|
| <u>Major Funds</u>                  |                           |                            |
| Major Governmental Funds:           |                           |                            |
| General Fund                        | \$ 137,161                | \$ 121,701                 |
| 911 Service Fund                    | 0                         | 12,671                     |
| Major Business-Type Activity Funds: |                           |                            |
| Delinquent Tax Revolving Fund       | 0                         | 105,838                    |
| County Park Fund                    | 22,000                    | 0                          |
| Total Major Funds                   | 159,161                   | 240,210                    |
| Non-major Governmental Funds        | 218,210                   | 7,161                      |
| Non-major Enterprise Funds          | 0                         | 130,000                    |
|                                     | \$ 377,371                | \$ 377,371                 |
| <br>                                |                           |                            |
| Description                         | Operating<br>Transfers In | Operating<br>Transfers Out |
| <u>Component Units</u>              |                           |                            |
| Arenac County Drain Commission:     |                           |                            |
| Twining Village Sewer               | \$ 20,000                 | \$ 0                       |
| Twining Sewer Construction          | 0                         | 20,000                     |
|                                     | \$ 20,000                 | \$ 20,000                  |

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the County's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the County for these budgetary funds were adopted at the activity level.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

**NOTE 9 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS (CONTINUED)**

During the year ended December 31, 2012, the County incurred expenditures which were in excess of the amounts appropriated as follows:

| <u>Fund/Activity</u>                    | <u>Total Appropriations</u> | <u>Amount of Expenditures</u> | <u>Budget Variance</u> |
|---|-----------------------------|-------------------------------|------------------------|
| General Fund/Public Works               | \$ 104,778                  | \$ 109,018                    | \$ 4,240               |
| Road Patrol Millage Fund/Capital Outlay | \$ 37,450                   | \$ 46,868                     | \$ 9,418               |

**NOTE 10 - RETIREMENT SYSTEM - MERS OPERATED**

**Defined Benefit Plan**

**Primary Government**

Plan Description

The County's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple-employer, state-wide, public employee pension created under Public Act 135 of 1945, and now operating under Public Act 220 of 1996, and the MERS Plan Document as revised. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy

The County is required to contribute at actuarially determined amount/rates. The current amount/rate is \$3,888 per month for General-Other Members, \$13,218 per month for Sheriff Members, \$3,313 for Steelworkers Local Members, \$164 per month for District Court-Other Members, \$5,151 per month for Elected County Officials Members, 10.00% for District Court Steelworker Members, and 15.26% for Teamsters Members. The contribution requirements of plan members are 2.92% for Sheriff Members, 3% for District Court-Other Members and 0% for all others. The required and actual contributions by plan members in 2012 were \$19,472. If a member leaves the employment of the County, or dies, without a retirement allowance or other benefit payable on his/her account, the members' accumulated contributions (with interest) are refunded with spousal consent to the member, if living, or to the members' surviving spouse or beneficiary. The contribution requirements are established and may be amended by the MERS Retirement Board.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 10 - RETIREMENT SYSTEM - MERS OPERATED (CONTINUED)

Annual Pension Cost

For the year ended December 31, 2012, the County's annual pension cost of \$334,173 was equal to the County's required and actual contributions. The required contribution was determined as part of the December 31, 2010 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases of 1.0% per year compounded annually, and (c) additional projected salary increases of 0% to 8.4% per year, depending on age, attributable to merit, longevity and promotions, and (d) 2.5% per year cost-of-living adjustments. Both (a) and (b) include an inflation component. The actuarial value of the plan assets was determined using techniques that spread the effect of short-term volatility in the market value of investments over a ten-year period. The plans unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2010 was 28 years.

Trend Information

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|---------------------------|----------------------------------|--------------------------------------|-------------------------------|
| December 31, 2010         | \$ 347,942                       | 100 %                                | \$ 0                          |
| December 31, 2011         | \$ 361,191                       | 100 %                                | \$ 0                          |
| December 31, 2012         | \$ 334,173                       | 100 %                                | \$ 0                          |

Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was 75% funded. The actuarial accrued liability for benefits was \$9,969,399, and the actuarial value of assets was \$7,434,308, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,535,091. The covered payroll (annual payroll of active employees covered by the plan) was \$1,835,102, and the ratio of the UAAL to the covered payroll was 138%.

Schedule of Funding Progress

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Liability (AAL) - Entry Age (b)</u> | <u>Unfunded AAL (UAAL) (b-a)</u> | <u>Funded Ratio (a/b)</u> | <u>Covered Payroll (c)</u> | <u>UAAL as a Percentage of Covered Payroll ((b-a) / c)</u> |
|---------------------------------|--------------------------------------|--|----------------------------------|---------------------------|----------------------------|--|
| 12/31/09                        | \$ 6,780,212                         | \$ 9,353,868                                     | \$ 2,573,656                     | 72 %                      | \$ 2,101,993               | 122 %  |
| 12/31/10                        | \$ 7,157,393                         | \$ 9,414,613                                     | \$ 2,257,220                     | 76 %                      | \$ 1,973,973               | 114 %  |
| 12/31/11                        | \$ 7,434,308                         | \$ 9,969,399                                     | \$ 2,535,091                     | 75 %                      | \$ 1,835,102               | 138 %  |

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 10 - RETIREMENT SYSTEM - MERS OPERATED (CONTINUED)

**Road Commission**

Following are the Road Commission Retirement System disclosures as presented in the Road Commission's audit and its report dated December 31, 2012.

Plan Description

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple-employer, state-wide, public employee pension created under Public Act 135 of 1945, and now operating under Public Act 220 of 1996, and the MERS Plan Document as revised. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate. The current rate is 21.00% of annual covered payroll for the General unit, 42.44% for the Administrative unit, and 11.88% for the Office Manager/Clerk unit. Employees in the General and Administrative units of the Road Commission are required to contribute 9.61% and 2.00% of their gross income to the plan, respectively. If a member leaves the employ of the Road Commission, or dies, without a retirement allowance or other benefit payable on his/her account, the member's accumulated contributions (with interest) are refunded with spousal consent to the member, if living, or to the members' surviving spouse or beneficiary. The contribution requirements of the Road Commission are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the Board of County Road Commissioners in accordance with negotiated labor agreements.

Annual Pension Cost

For the year ended December 31, 2012, the Road Commission's annual pension cost of \$191,145 was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2010 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases of 4.5% per year compounded annually, (c) additional projected salary increases of 0% to 13.0% per year, depending on age, attributable to seniority/merit, and (d) final average compensation increases of 3%. Both (a) and (b) include an inflation component. The actuarial value of the plan assets was determined using techniques that spread the effect of short-term volatility in the market value of investments over a ten-year period. The plans unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2011 was 27 years.

Trend Information

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|---------------------------|----------------------------------|--------------------------------------|-------------------------------|
| December 31, 2010         | \$ 203,547                       | 100 %                                | \$ 0                          |
| December 31, 2011         | \$ 191,298                       | 100 %                                | \$ 0                          |
| December 31, 2012         | \$ 191,145                       | 100 %                                | \$ 0                          |

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 10 - RETIREMENT SYSTEM - MERS OPERATED (CONTINUED)

Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was 42% funded. The actuarial accrued liability for benefits was \$6,313,257, and the actuarial value of assets was \$2,677,298, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,635,959. The covered payroll (annual payroll of active employees covered by the plan) was \$818,258, and the ratio of the UAAL to the covered payroll was 451%.

Schedule of Funding Progress

| Actuarial<br>Valuation Date | Actuarial Value<br>of Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL) -<br>Entry Age<br>(b) | Unfunded AAL<br>(UAAL)<br>(b-a) | Funded Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered<br>Payroll<br>((b-a) / c) |
|-----------------------------|-------------------------------------|---|---------------------------------|-----------------------|---------------------------|---|
| 12/31/09                    | \$ 2,794,317                        | \$ 5,934,918  | \$ 3,140,601                    | 47 %                  | \$ 917,662                | 342 %   |
| 12/31/10                    | \$ 2,733,788                        | \$ 5,936,585  | \$ 3,202,797                    | 46 %                  | \$ 833,008                | 384 %   |
| 12/31/11                    | \$ 2,621,097                        | \$ 6,313,257  | \$ 3,692,160                    | 42 %                  | \$ 818,258                | 451 %   |

**Defined Contribution Plan**

**Primary Government**

Plan Description

The County's defined contribution pension plan provides retirement benefits to plan members and beneficiaries. The plan covers employees hired on or after January 1, 2006 for new employees that would have formerly been eligible as part of the General-Other Members, Sheriff Members, Steelworkers Members, and Elected County Officials Members of the defined benefit plan. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple-employer, state-wide, public employee pension created under Public Act 135 of 1945, and now operated under Public Act 220 of 1996, and the MERS Plan Document as revised. The plan services are by MERS, the plan administrator. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing MERS of Michigan, 1134 Municipal Way, Lansing, Michigan, 48917 or by calling 1-800-767-6377.

Funding Policy

The County is required to contribute 9% of each eligible employee's earnings for the plan year, subject to the limitations of sections 415(c) and (e) of the Internal Revenue Code. Employees are required to contribute 3% of eligible earnings.

Vesting

Employees become vested in the plan at the rate of 20% per year after one year of service with 100% vesting after five years of service.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 10 - RETIREMENT SYSTEM - MERS OPERATED (CONTINUED)

Plan Contributions

During the year ended December 31, 2012, the County contributed \$71,884 on behalf of eligible employees. Employee contributions amounted to \$23,998.

NOTE 11 - POSTEMPLOYMENT BENEFITS

**Road Commission**

Plan Description

The Road Commission provides postemployment healthcare to eligible employees who retire from the Road Commission and meet certain criteria identified in the funding policy. These benefits are offered under a single employer defined benefit plan that is administered by the Road Commission. These benefits are provided under the collective bargaining agreement for union employees and work agreements between the Board of County Road Commissioners and nonunion employees.

Funding Policy

The Road Commission provides postemployment health care benefits to employees retiring after February 9, 1994 and hired full-time before February 10, 2006. The Road Commission pays the cost of the single subscriber portion of the health insurance monthly premium until retirees qualify for Medicare, provided that the employees retire from all active employment commensurate with their retirement from the Road Commission, the retiree is eligible to receive a pension benefit under the Road Commission's pension plan, the retiree must have had at least ten continuous years of service with the Road Commission at the time of retirement, and finally the employee must be at least 55 years of age at the time of retirement. Such retirees may, at their own expense, include their dependents under coverage of the Road Commission's group health plan by paying the monthly premium cost for such dependent coverage. Currently, 2 retirees meet those eligibility requirements. The Road Commission has no obligation to make contributions in advance of when the insurance premiums or claims are due for payment (in other words, this may be financed on a "pay-as-you-go" basis).

Funding Progress

The Road Commission's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Road Commission has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than 100 (one hundred) total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Road Commission's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Road Commission's net OPEB obligation:

|  |    |                       |
|--|----|-----------------------|
| Annual required contribution               | \$ | 50,100                |
| Interest on net OPEB obligation            |    | 3,660                 |
| Adjustment to annual required contribution |    | <u>(18,698)</u>       |
| Annual OPEB cost                           |    | 35,062                |
| Contributions made                         |    | <u>(14,568)</u>       |
| Increase in net OPEB obligation            |    | 20,494                |
| Net OPEB obligation, beginning of year     |    | <u>81,340</u>         |
| Net OPEB obligation, end of year           | \$ | <u><u>101,834</u></u> |

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 11 - POSTEMPLOYMENT BENEFITS (CONTINUED)

The Road Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the three most current years is as follows:

Trend Information

| <u>Fiscal Year Ending</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|---------------------------|-------------------------|---|----------------------------|
| December 31, 2010         | \$ 39,973               | 24.9 %  | \$ 64,215                  |
| December 31, 2011         | \$ 34,425               | 50.3 %  | \$ 81,340                  |
| December 31, 2012         | \$ 35,062               | 41.5 %  | \$ 101,834                 |

The funded status of the plan as of the most recent actuarial valuation date of December 31, 2011 is as follows:

Schedule of Funding Progress

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Liability (AAL) - Entry Age (b)</u> | <u>Unfunded AAL (UAAL) (b-a)</u> | <u>Funded Ratio (a/b)</u> | <u>Covered Payroll (c)</u> | <u>UAAL as a Percentage of Covered Payroll ((b-a) / c)</u> |
|---------------------------------|--------------------------------------|--|----------------------------------|---------------------------|----------------------------|--|
| 12/31/08                        | \$ 0                                 | \$ 442,403                                       | \$ 442,403                       | 0 %                       | \$ 904,642                 | 49 %   |
| 12/31/09                        | \$ 0                                 | \$ 491,390                                       | \$ 491,390                       | 0 %                       | \$ 917,662                 | 54 %   |
| 12/31/11                        | \$ 0                                 | \$ 289,969                                       | \$ 289,969                       | 0 %                       | \$ 818,258                 | 35 %   |

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities or benefits.

The accompanying schedule of employer contributions presents trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 11 - POSTEMPLOYMENT BENEFITS (CONTINUED)

The following actuarial assumptions were used in the development of the Road Commission's retiree health cost projections:

1. Actuarial Cost Method: Alternate Method as provided under GASB 45 for plans with fewer than 100 employees
2. Retirement age for active employees: Based on the historical average retirement age for the covered group, active plan members were generally assumed to retire at age 55, or at the first subsequent year in which the member would qualify for benefits.
3. Marital status: Marital status of members at the calculation date was assumed to continue throughout retirement.
4. Mortality: Life expectancies were based on mortality tables from the United States Social Security Administration. The 2007 Period Life Table for males and females was used.
5. Employee Turnover/Withdrawal: Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.
6. Healthcare cost trend rate: The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 9.9% initially, with gradual decreases to 5.9% through 2018 and later was used.
7. Healthcare premiums: 2009 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.
8. Inflation rate: The expected long-term inflation assumption of 2.8% was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in the 2009 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds for an intermediate growth scenario.
9. Payroll growth rate: The expected long-term payroll growth rate was assumed to be 2.5%; relatively consistent with the rate of inflation.

NOTE 12 - DEFERRED COMPENSATION PLAN

The County and the Road Commission, a component unit, offers to their employees deferred compensation plans created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the County for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the County's financial statements.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 13 - RISK MANAGEMENT

The County 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 County is self-insured for comprehensive liability; motor vehicle physical damage; and comprehensive, property and crime coverage through the Michigan Municipal Risk Management Authority (the Authority). The County has purchased commercial insurance for all other types of risks of loss.

All liability claims up to \$75,000 per claim are paid from the net contribution account of the County held by the Authority. In addition, after meeting certain deductible requirements, all vehicle claims up to \$15,000 per vehicle, up to \$30,000 per occurrence and property, and crime claims up to \$1,000 per occurrence and 10% of the remaining up to \$100,000 are also paid from the County's contribution account. The Authority is responsible for any claims in excess of the above amounts up to a maximum limit of \$10,000,000.

The Authority may make additional assessments to its member participants based upon the results of insurance pool operations.

Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

Road Commission (Component Unit)

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The Pool operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, trunkline liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. The Road Commission's exposure is limited to \$1,000 per claim; all other risk is transferred to the Pool. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three (3) fiscal years.

The Road Commission is a member of the County Road Association Self-Insurance Fund for workers' compensation claims. As a member of the fund, the Road Commission is fully insured for workers' compensation claim incurred.

NOTE 14 - CONTINGENCIES AND COMMITMENTS

The County participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended December 31, 2012, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the County expects such amounts, if any, to be immaterial.

At December 31, 2012, the County is party to two separate lawsuits. Both lawsuits are being handled through the County's participation in Michigan Municipal Risk Management Authority. County officials and the County's attorney believe that the outcome of these proceedings, either singularly or in the aggregate will not have a materially adverse effect on the accompanying financial statement. However, the amount of any damages cannot be reasonably determined at this time.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 14 - CONTINGENCIES AND COMMITMENTS (CONTINUED)

The County has contractual commitments in the amount of \$45,625 outstanding at December 31, 2012.

**Construction contracts**

As of December 31, 2012, the County had the following construction contract in progress:

| <u>Project</u>   | <u>Total Contract</u> | <u>Remaining<br/>Construction<br/>Commitment at<br/>December 31, 2012</u> | <u>Contract Payable at<br/>December 31, 2012</u> |
|------------------|-----------------------|---|--|
| E-911 ETI System | \$ <u>91,250</u>      | \$ <u>45,625</u>  | \$ <u>0</u>                                      |

Road Commission (Component Unit)

The Road Commission has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, the Road Commission believes such disallowances, if any, will be immaterial.

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit. Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the financial statements.

NOTE 15 - PRIOR PERIOD ADJUSTMENT AND CHANGES IN ACCOUNTING PRINCIPLES

In prior years, bond issuance costs were recorded in the Drain Commission governmental activities as assets, however, GASB Statement No. 65 now requires that debt issuance costs are expensed when incurred. Therefore, a prior period adjustment was made to decrease the Drain Commission governmental activities net position by \$12,629. Also, a prior period adjustment was made to adjust special assessment balances to their proper balance by decreasing the Drain Commission governmental activities net position by \$81,375.

|                                     | <u>Arenac County Drain<br/>Commission</u> |
|-------------------------------------|---|
| Net Position - Beginning            | \$ 1,910,734                              |
| Adjustment for GASB 65              | (12,629)                                  |
| Adjustment for Special Assessments  | <u>(81,375)</u>                           |
| Net Position - Beginning (Restated) | \$ <u>1,816,730</u>                       |

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2012

NOTE 16 - FUND CHANGES AND FUND BALANCES

Amounts for specific purposes by fund and fund balance classifications for the year ended December 31, 2012, are as follows:

| <u>Classification/Fund</u>              | <u>Purpose</u>                              |                     |
|---|---|---------------------|
| Nonspendable                            |   |                     |
| General Fund                            | Long-Term Advances to Component Units       | \$ 47,000           |
| General Fund                            | Prepaid Expenses                            | 1,868               |
| 911 Service Fund                        | Long-Term Advances to Component Units       | 107,000             |
| Housing Commission Fund                 | Inventory                                   | 48,016              |
| Restricted                              |   |                     |
| General Fund                            | Veterans Relief                             | 3,769               |
| General Fund                            | Health and Human Services                   | 4,045               |
| 911 Service Fund                        | 911 Services                                | 250,816             |
| Road Patrol Millage Fund                | Road Patrol Activities                      | 24,116              |
| Senior Citizen Millage Fund             | Care of Senior Citizens                     | 2,290               |
| Housing Commission Fund                 | Home Rehabilitation                         | 30,839              |
| Ambulance Fund                          | EMS Services                                | 103,683             |
| Friend of Court Fund                    | Child Support Establishment and Enforcement | 34,766              |
| Circuit Court Counseling Fund           | Counseling Services                         | 35,255              |
| Survey and Remonumentation Fund         | Remonumentation Activities                  | 3,548               |
| Building Department Fund                | Building Department Activities              | 17,740              |
| Residence Exemption Administration Fund | PA 105 Enforcement/PRE Denials              | 13,415              |
| Register of Deeds Automation Fund       | Register of Deeds Equipment                 | 27,516              |
| Stonegarden Homeland Security Fund      | Homeland Security                           | 536                 |
| MCOLES Deputy Training Fund             | Training of Deputies                        | 3,928               |
| Correction Officer Training Fund        | Training of Correction Officers             | 12,633              |
| Drug Law Enforcement Fund               | Prosecutor's Office Drug Enforcement        | 12,820              |
| School Officer Fund                     | School Officer Activities                   | 2,760               |
| Sheriff Department Donations Fund       | Sheriff Department Law Enforcement          | 13,676              |
| Chippewa Indian 2% Money Fund           | Various Tribal Grants                       | 9,801               |
| Family Court Juvenile Fund              | Youth Mentor Grant                          | 4,815               |
| Child Care Probate Fund                 | Child Care                                  | 9,688               |
| Veterans Trust Fund                     | Veterans Relief                             | 338                 |
| Animal Welfare Fund                     | Donations for Education/Improvements        | 7,719               |
| Building Renovation Fund                | Building Renovations                        | 18,225              |
| Assigned                                |   |                     |
| General Fund                            | 2013 Budgeted Expenditures                  | 123,997             |
| Unassigned                              |   |                     |
| General Fund                            | County Operations                           | 513,631             |
| Total fund balances                     |   | <u>\$ 1,490,249</u> |

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF ARENAC  
Standish, Michigan

POSTEMPLOYMENT BENEFITS SCHEDULES OF FUNDING  
PROGRESS AND EMPLOYER CONTRIBUTIONS  
For the Year Ended December 31, 2012

**Road Commission**

Schedule of Funding Progress

| <u>Actuarial<br/>Valuation Date</u> | <u>Actuarial Value<br/>of Assets<br/>(a)</u> | <u>Actuarial<br/>Accrued<br/>Liability (AAL) -<br/>Simplified Entry<br/>Age<br/>(b)</u> | <u>Unfunded AAL<br/>(UAAL)<br/>(b-a)</u> | <u>Funded Ratio<br/>(a/b)</u> | <u>Covered<br/>Payroll<br/>(c)</u> | <u>UAAL as a<br/>Percentage of<br/>Covered<br/>Payroll<br/>((b-a) / c)</u> |
|-------------------------------------|--|---|--|-------------------------------|------------------------------------|--|
| 12/31/08                            | \$ 0   | \$ 442,403  | \$ 442,403                               | 0 %                           | \$ 904,642                         | 49 %   |
| 12/31/09                            | \$ 0   | \$ 491,390  | \$ 491,390                               | 0 %                           | \$ 917,662                         | 54 %   |
| 12/31/11                            | \$ 0   | \$ 289,969  | \$ 289,969                               | 0 %                           | \$ 818,258                         | 35 %   |

Schedule of Employer Contributions

| <u>Fiscal Year<br/>Ended</u> | <u>Annual<br/>Required<br/>Contribution</u> | <u>Percentage<br/>Contributed</u> |
|------------------------------|---|-----------------------------------|
| 12/31/10                     | \$ 39,973                                   | 24.9 %                            |
| 12/31/11                     | \$ 34,425                                   | 50.3 %                            |
| 12/31/12                     | \$ 35,062                                   | 41.5 %                            |

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
For the Year Ended December 31, 2012

|   | <u>Original<br/>Budget</u> | <u>Final<br/>Amended<br/>Budget</u> | <u>Actual</u>     | <u>Variance -<br/>Favorable<br/>(Unfavorable)</u> |
|---|----------------------------|-------------------------------------|-------------------|---|
| <u>Revenue</u>  |                            |                                     |                   |   |
| Property Taxes  | \$ 2,739,500               | \$ 2,750,500                        | \$ 2,729,468      | \$ (21,032)                                       |
| Federal Grants and Revenue  | 122,423                    | 122,423                             | 104,470           | (17,953)  |
| State Grants and Revenue  | 762,171                    | 774,221                             | 736,054           | (38,167)  |
| Contributions from Local Units  | 24,000                     | 24,000                              | 16,028            | (7,972)   |
| Licenses and Permits  | 14,000                     | 14,000                              | 12,995            | (1,005)   |
| Charges for Services  | 825,325                    | 880,357                             | 851,465           | (28,892)  |
| Fines and Forfeits  | 57,500                     | 57,500                              | 58,241            | 741   |
| Interest and Rentals  | 21,000                     | 21,000                              | 13,095            | (7,905)   |
| Other Revenue   | <u>303,501</u>             | <u>318,201</u>                      | <u>354,730</u>    | <u>36,529</u>                                     |
| Total Revenue   | <u>4,869,420</u>           | <u>4,962,202</u>                    | <u>4,876,546</u>  | <u>(85,656)</u>                                   |
| <u>Expenditures</u>   |                            |                                     |                   |   |
| Current:  |                            |                                     |                   |   |
| General Government  | 2,265,939                  | 2,340,570                           | 2,306,317         | 34,253  |
| Public Safety   | 1,094,328                  | 1,128,678                           | 1,127,358         | 1,320   |
| Public Works  | 99,778                     | 104,778                             | 109,018           | (4,240)   |
| Health and Welfare  | 354,184                    | 350,784                             | 344,983           | 5,801   |
| Community and Economic Development  | 4,600                      | 3,100                               | 3,000             | 100   |
| Recreation and Cultural   | 7,949                      | 7,949                               | 7,949             | 0   |
| Other   | 1,029,900                  | 1,039,900                           | 1,016,184         | 23,716  |
| Capital Outlay  | <u>25,000</u>              | <u>10,500</u>                       | <u>8,116</u>      | <u>2,384</u>                                      |
| Total Expenditures  | <u>4,881,678</u>           | <u>4,986,259</u>                    | <u>4,922,925</u>  | <u>63,334</u>                                     |
| Excess of Revenue Over (Under) Expenditures                                     | <u>(12,258)</u>            | <u>(24,057)</u>                     | <u>(46,379)</u>   | <u>(22,322)</u>                                   |
| <u>Other Financing Sources (Uses)</u>   |                            |                                     |                   |   |
| Sale of Capital Assets  | 0                          | 0                                   | 888               | 888   |
| Operating Transfers In  | 131,400                    | 131,400                             | 137,161           | 5,761   |
| Operating Transfers Out   | <u>(203,500)</u>           | <u>(211,701)</u>                    | <u>(121,701)</u>  | <u>90,000</u>                                     |
| Total Other Financing Sources (Uses)  | <u>(72,100)</u>            | <u>(80,301)</u>                     | <u>16,348</u>     | <u>96,649</u>                                     |
| Excess of Revenue and Other Sources Over (Under)<br>Expenditures and Other Uses | (84,358)                   | (104,358)                           | (30,031)          | 74,327  |
| Fund Balances - Beginning of Year   | <u>724,341</u>             | <u>724,341</u>                      | <u>724,341</u>    | <u>0</u>  |
| Fund Balances - End of Year   | <u>\$ 639,983</u>          | <u>\$ 619,983</u>                   | <u>\$ 694,310</u> | <u>\$ 74,327</u>                                  |

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
911 SERVICE FUND - SPECIAL REVENUE FUND  
For the Year Ended December 31, 2012

|   | <u>Original<br/>Budget</u> | <u>Final<br/>Amended<br/>Budget</u> | <u>Actual</u>     | <u>Variance -<br/>Favorable<br/>(Unfavorable)</u> |
|---|----------------------------|-------------------------------------|-------------------|---|
| <u>Revenue</u>  |                            |                                     |                   |   |
| Property Taxes  | \$ 320,000                 | \$ 320,000                          | \$ 319,575        | \$ (425)  |
| State Grants and Revenue                                      | 138,000                    | 139,174                             | 144,201           | 5,027   |
| Charges for Services  | 52,000                     | 52,000                              | 50,267            | (1,733)   |
| Interest and Rentals  | 3,760                      | 3,760                               | 1,809             | (1,951)   |
| Other Revenue   | 200                        | 200                                 | 45,023            | 44,823  |
| Total Revenue   | <u>513,960</u>             | <u>515,134</u>                      | <u>560,875</u>    | <u>45,741</u>                                     |
| <u>Expenditures</u>   |                            |                                     |                   |   |
| Current:  |                            |                                     |                   |   |
| Public Safety   | 636,286                    | 654,731                             | 598,781           | 55,950  |
| Capital Outlay  | <u>300,000</u>             | <u>280,800</u>                      | <u>72,807</u>     | <u>207,993</u>                                    |
| Total Expenditures  | <u>936,286</u>             | <u>935,531</u>                      | <u>671,588</u>    | <u>263,943</u>                                    |
| Excess of Revenue Over (Under) Expenditures                   | (422,326)                  | (420,397)                           | (110,713)         | 309,684   |
| <u>Other Financing Uses</u>                                   |                            |                                     |                   |   |
| Operating Transfers Out                                       | <u>(12,671)</u>            | <u>(12,671)</u>                     | <u>(12,671)</u>   | <u>0</u>  |
| Excess of Revenue Over (Under) Expenditures and<br>Other Uses | (434,997)                  | (433,068)                           | (123,384)         | 309,684   |
| Fund Balances - Beginning of Year                             | <u>481,200</u>             | <u>481,200</u>                      | <u>481,200</u>    | <u>0</u>  |
| Fund Balances - End of Year                                   | <u>\$ 46,203</u>           | <u>\$ 48,132</u>                    | <u>\$ 357,816</u> | <u>\$ 309,684</u>                                 |

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
ROAD PATROL MILLAGE - SPECIAL REVENUE FUND  
For the Year Ended December 31, 2012

|  | <u>Original<br/>Budget</u> | <u>Final<br/>Amended<br/>Budget</u> | <u>Actual</u>    | <u>Variance -<br/>Favorable<br/>(Unfavorable)</u> |
|--|----------------------------|-------------------------------------|------------------|---|
| <u>Revenue</u>   |                            |                                     |                  |   |
| Property Taxes   | \$ 535,646                 | \$ 535,646                          | \$ 533,927       | \$ (1,719)  |
| Other Revenue  | <u>8,000</u>               | <u>8,000</u>                        | <u>9,256</u>     | <u>1,256</u>                                      |
| Total Revenue  | <u>543,646</u>             | <u>543,646</u>                      | <u>543,183</u>   | <u>(463)</u>                                      |
| <u>Expenditures</u>  |                            |                                     |                  |   |
| Current:   |                            |                                     |                  |   |
| Public Safety  | 581,646                    | 579,196                             | 555,323          | 23,873  |
| Capital Outlay   | <u>35,000</u>              | <u>37,450</u>                       | <u>46,868</u>    | <u>(9,418)</u>                                    |
| Total Expenditures   | <u>616,646</u>             | <u>616,646</u>                      | <u>602,191</u>   | <u>14,455</u>                                     |
| Excess of Revenue Over (Under) Expenditures                      | (73,000)                   | (73,000)                            | (59,008)         | 13,992  |
| <u>Other Financing Sources</u>                                   |                            |                                     |                  |   |
| Sale of Capital Assets   | <u>0</u>                   | <u>0</u>                            | <u>13,250</u>    | <u>13,250</u>                                     |
| Excess of Revenue and Other Sources Over (Under)<br>Expenditures | (73,000)                   | (73,000)                            | (45,758)         | 27,242  |
| Fund Balances - Beginning of Year                                | <u>69,874</u>              | <u>69,874</u>                       | <u>69,874</u>    | <u>0</u>  |
| Fund Balances (Deficits) - End of Year                           | <u>\$ (3,126)</u>          | <u>\$ (3,126)</u>                   | <u>\$ 24,116</u> | <u>\$ 27,242</u>                                  |

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
SENIOR CITIZEN MILLAGE - SPECIAL REVENUE FUND  
For the Year Ended December 31, 2012

|   | <u>Original<br/>Budget</u> | <u>Final<br/>Amended<br/>Budget</u> | <u>Actual</u>   | <u>Variance -<br/>Favorable<br/>(Unfavorable)</u> |
|---|----------------------------|-------------------------------------|-----------------|---|
| <u>Revenue</u>                              |                            |                                     |                 |   |
| Property Taxes                              | \$ 411,000                 | \$ 411,000                          | \$ 410,691      | \$ (309)  |
| <u>Expenditures</u>                         |                            |                                     |                 |   |
| Current:                                    |                            |                                     |                 |   |
| Health and Welfare                          | <u>411,000</u>             | <u>414,000</u>                      | <u>411,396</u>  | <u>2,604</u>                                      |
| Excess of Revenue Over (Under) Expenditures | 0                          | (3,000)                             | (705)           | 2,295   |
| Fund Balances - Beginning of Year           | <u>2,995</u>               | <u>2,995</u>                        | <u>2,995</u>    | <u>0</u>  |
| Fund Balances (Deficits) - End of Year      | <u>\$ 2,995</u>            | <u>\$ (5)</u>                       | <u>\$ 2,290</u> | <u>\$ 2,295</u>                                   |

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
HOUSING COMMISSION - SPECIAL REVENUE FUND  
For the Year Ended December 31, 2012

|  | <u>Original<br/>Budget</u> | <u>Final<br/>Amended<br/>Budget</u> | <u>Actual</u>    | <u>Variance -<br/>Favorable<br/>(Unfavorable)</u> |
|--|----------------------------|-------------------------------------|------------------|---|
| <u>Revenue</u>   |                            |                                     |                  |   |
| Federal Grants and Revenue                                       | \$ 330,500                 | \$ 340,500                          | \$ 155,068       | \$ (185,432)                                      |
| State Grants and Revenue   | 50,000                     | 0                                   | 37,960           | 37,960  |
| Charges for Services   | 2,500                      | 500                                 | 107              | (393)   |
| Interest and Rentals   | 0                          | 151                                 | 37               | (114)   |
| Other Revenue  | 62,000                     | 0                                   | 0                | 0   |
| Total Revenue  | <u>445,000</u>             | <u>341,151</u>                      | <u>193,172</u>   | <u>(147,979)</u>                                  |
| <u>Expenditures</u>  |                            |                                     |                  |   |
| Current:   |                            |                                     |                  |   |
| Community and Economic Development                               | 471,500                    | 421,000                             | 178,630          | 242,370   |
| Capital Outlay   | 1,000                      | 1,000                               | 0                | 1,000   |
| Total Expenditures   | <u>472,500</u>             | <u>422,000</u>                      | <u>178,630</u>   | <u>243,370</u>                                    |
| Excess of Revenue Over (Under) Expenditures                      | (27,500)                   | (80,849)                            | 14,542           | 95,391  |
| <u>Other Financing Sources</u>                                   |                            |                                     |                  |   |
| Operating Transfers In   | <u>30,000</u>              | <u>30,000</u>                       | 0                | <u>(30,000)</u>                                   |
| Excess of Revenue and Other Sources Over (Under)<br>Expenditures | 2,500                      | (50,849)                            | 14,542           | 65,391  |
| Fund Balances - Beginning of Year                                | <u>64,313</u>              | <u>64,313</u>                       | <u>64,313</u>    | <u>0</u>  |
| Fund Balances - End of Year                                      | <u>\$ 66,813</u>           | <u>\$ 13,464</u>                    | <u>\$ 78,855</u> | <u>\$ 65,391</u>                                  |

OTHER INFORMATION

COUNTY OF ARENAC  
Standish, Michigan

COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
December 31, 2012

|  | Special Revenue Funds |                  |                             |                               |                        |  |                                 |                                     |
|--|-----------------------|------------------|-----------------------------|-------------------------------|------------------------|--|---------------------------------|-------------------------------------|
|  | Ambulance Fund        | Friend of Court  | Circuit Court<br>Counseling | Survey and<br>Remonumentation | Building<br>Department | Residence<br>Exemption<br>Administration | Register of Deeds<br>Automation | Stonegarden<br>Homeland<br>Security |
| <b>Assets</b>  |                       |                  |                             |                               |                        |  |                                 |                                     |
| Cash and Cash Equivalents  | \$ 124,183            | \$ 13,194        | \$ 35,255                   | \$ 10,439                     | \$ 18,172              | \$ 13,415                                | \$ 27,516                       | \$ 536                              |
| Receivables:   |                       |                  |                             |                               |                        |  |                                 |                                     |
| Property Taxes   | 275,045               | 0                | 0                           | 0                             | 0                      | 0  | 0                               | 0                                   |
| Due from State   | 0                     | 34,660           | 0                           | 12,962                        | 0                      | 0  | 0                               | 19,464                              |
| Due from Federal Government  | 0                     | 0                | 0                           | 0                             | 0                      | 0  | 0                               | 0                                   |
| <b>Total Assets</b>  | <b>\$ 399,228</b>     | <b>\$ 47,854</b> | <b>\$ 35,255</b>            | <b>\$ 23,401</b>              | <b>\$ 18,172</b>       | <b>\$ 13,415</b>                         | <b>\$ 27,516</b>                | <b>\$ 20,000</b>                    |
| <b>Liabilities</b>   |                       |                  |                             |                               |                        |  |                                 |                                     |
| Accounts Payable   | \$ 20,500             | \$ 10,958        | \$ 0                        | \$ 19,853                     | \$ 23                  | \$ 0                                     | \$ 0                            | \$ 0                                |
| Due to State   | 0                     | 0                | 0                           | 0                             | 0                      | 0  | 0                               | 0                                   |
| Accrued Liabilities  | 0                     | 2,130            | 0                           | 0                             | 409                    | 0  | 0                               | 0                                   |
| Unearned Revenue   | 0                     | 0                | 0                           | 0                             | 0                      | 0  | 0                               | 0                                   |
| <b>Total Liabilities</b>   | <b>20,500</b>         | <b>13,088</b>    | <b>0</b>                    | <b>19,853</b>                 | <b>432</b>             | <b>0</b>                                 | <b>0</b>                        | <b>0</b>                            |
| <b>Deferred Inflows of Resources</b>                                     |                       |                  |                             |                               |                        |  |                                 |                                     |
| Property Taxes Levied for 2013   | 275,045               | 0                | 0                           | 0                             | 0                      | 0  | 0                               | 0                                   |
| Unavailable Revenue - Grants   | 0                     | 0                | 0                           | 0                             | 0                      | 0  | 0                               | 19,464                              |
| <b>Total Deferred Inflows of Resources</b>                               | <b>275,045</b>        | <b>0</b>         | <b>0</b>                    | <b>0</b>                      | <b>0</b>               | <b>0</b>                                 | <b>0</b>                        | <b>19,464</b>                       |
| <b>Fund Equity</b>   |                       |                  |                             |                               |                        |  |                                 |                                     |
| Fund Balances:   |                       |                  |                             |                               |                        |  |                                 |                                     |
| Restricted   | 103,683               | 34,766           | 35,255                      | 3,548                         | 17,740                 | 13,415                                   | 27,516                          | 536                                 |
| <b>Total Liabilities, Deferred Inflows of Resources, and Fund Equity</b> | <b>\$ 399,228</b>     | <b>\$ 47,854</b> | <b>\$ 35,255</b>            | <b>\$ 23,401</b>              | <b>\$ 18,172</b>       | <b>\$ 13,415</b>                         | <b>\$ 27,516</b>                | <b>\$ 20,000</b>                    |

COUNTY OF ARENAC  
Standish, Michigan

COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
December 31, 2012

|  | Special Revenue Funds     |                                |                         |                 |                                    |                             |                          |                       |
|--|---------------------------|--------------------------------|-------------------------|-----------------|------------------------------------|-----------------------------|--------------------------|-----------------------|
|  | MCOLES Deputy<br>Training | Correction Officer<br>Training | Drug Law<br>Enforcement | School Officer  | Sheriff<br>Department<br>Donations | Chippewa Indian<br>2% Money | Family Court<br>Juvenile | Child Care<br>Probate |
| <b>Assets</b>  |                           |                                |                         |                 |                                    |                             |                          |                       |
| Cash and Cash Equivalents  | \$ 3,928                  | \$ 12,643                      | \$ 12,820               | \$ 1,165        | \$ 13,676                          | \$ 16,495                   | \$ 3,462                 | \$ 30,618             |
| Receivables:   |                           |                                |                         |                 |                                    |                             |                          |                       |
| Property Taxes   | 0                         | 0                              | 0                       | 0               | 0                                  | 0                           | 0                        | 0                     |
| Due from State   | 0                         | 0                              | 0                       | 0               | 0                                  | 0                           | 1,353                    | 0                     |
| Due from Federal Government  | 0                         | 0                              | 0                       | 1,595           | 0                                  | 0                           | 0                        | 0                     |
| <b>Total Assets</b>  | <b>\$ 3,928</b>           | <b>\$ 12,643</b>               | <b>\$ 12,820</b>        | <b>\$ 2,760</b> | <b>\$ 13,676</b>                   | <b>\$ 16,495</b>            | <b>\$ 4,815</b>          | <b>\$ 30,618</b>      |
| <b>Liabilities</b>   |                           |                                |                         |                 |                                    |                             |                          |                       |
| Accounts Payable   | \$ 0                      | \$ 10                          | \$ 0                    | \$ 0            | \$ 0                               | \$ 0                        | \$ 0                     | \$ 639                |
| Due to State   | 0                         | 0                              | 0                       | 0               | 0                                  | 0                           | 0                        | 20,291                |
| Accrued Liabilities  | 0                         | 0                              | 0                       | 0               | 0                                  | 0                           | 0                        | 0                     |
| Unearned Revenue   | 0                         | 0                              | 0                       | 0               | 0                                  | 6,694                       | 0                        | 0                     |
| <b>Total Liabilities</b>   | <b>0</b>                  | <b>10</b>                      | <b>0</b>                | <b>0</b>        | <b>0</b>                           | <b>6,694</b>                | <b>0</b>                 | <b>20,930</b>         |
| <b>Deferred Inflows of Resources</b>                                     |                           |                                |                         |                 |                                    |                             |                          |                       |
| Property Taxes Levied for 2013   | 0                         | 0                              | 0                       | 0               | 0                                  | 0                           | 0                        | 0                     |
| Unavailable Revenue - Grants   | 0                         | 0                              | 0                       | 0               | 0                                  | 0                           | 0                        | 0                     |
| <b>Total Deferred Inflows of Resources</b>                               | <b>0</b>                  | <b>0</b>                       | <b>0</b>                | <b>0</b>        | <b>0</b>                           | <b>0</b>                    | <b>0</b>                 | <b>0</b>              |
| <b>Fund Equity</b>   |                           |                                |                         |                 |                                    |                             |                          |                       |
| Fund Balances:   |                           |                                |                         |                 |                                    |                             |                          |                       |
| Restricted   | 3,928                     | 12,633                         | 12,820                  | 2,760           | 13,676                             | 9,801                       | 4,815                    | 9,688                 |
| <b>Total Liabilities, Deferred Inflows of Resources, and Fund Equity</b> | <b>\$ 3,928</b>           | <b>\$ 12,643</b>               | <b>\$ 12,820</b>        | <b>\$ 2,760</b> | <b>\$ 13,676</b>                   | <b>\$ 16,495</b>            | <b>\$ 4,815</b>          | <b>\$ 30,618</b>      |

COUNTY OF ARENAC  
Standish, Michigan

COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
December 31, 2012

|  | <u>Special Revenue Funds</u> |                       | <u>Debt Retirement Fund</u>    | <u>Capital Project Funds</u> |                            | <u>Total Other Governmental Funds</u> |
|--|------------------------------|-----------------------|--------------------------------|------------------------------|----------------------------|---------------------------------------|
|  | <u>Veterans Trust</u>        | <u>Animal Welfare</u> | <u>Building Authority Debt</u> | <u>GIS Mapping Project</u>   | <u>Building Renovation</u> |                                       |
| <u>Assets</u>  |                              |                       |                                |                              |                            |                                       |
| Cash and Cash Equivalents  | \$ 338                       | \$ 7,719              | \$ 0                           | \$ 0                         | \$ 18,225                  | \$ 363,799                            |
| Receivables:   |                              |                       |                                |                              |                            |                                       |
| Property Taxes   | 0                            | 0                     | 0                              | 0                            | 0                          | 275,045                               |
| Due from State   | 0                            | 0                     | 0                              | 0                            | 0                          | 68,439                                |
| Due from Federal Government  | 0                            | 0                     | 0                              | 0                            | 0                          | 1,595                                 |
| <b>Total Assets</b>  | <b>\$ 338</b>                | <b>\$ 7,719</b>       | <b>\$ 0</b>                    | <b>\$ 0</b>                  | <b>\$ 18,225</b>           | <b>\$ 708,878</b>                     |
| <u>Liabilities</u>   |                              |                       |                                |                              |                            |                                       |
| Accounts Payable   | \$ 0                         | \$ 0                  | \$ 0                           | \$ 0                         | \$ 0                       | \$ 51,983                             |
| Due to State   | 0                            | 0                     | 0                              | 0                            | 0                          | 20,291                                |
| Accrued Liabilities  | 0                            | 0                     | 0                              | 0                            | 0                          | 2,539                                 |
| Unearned Revenue   | 0                            | 0                     | 0                              | 0                            | 0                          | 6,694                                 |
| <b>Total Liabilities</b>   | <b>0</b>                     | <b>0</b>              | <b>0</b>                       | <b>0</b>                     | <b>0</b>                   | <b>81,507</b>                         |
| <u>Deferred Inflows of Resources</u>                                     |                              |                       |                                |                              |                            |                                       |
| Property Taxes Levied for 2013   | 0                            | 0                     | 0                              | 0                            | 0                          | 275,045                               |
| Unavailable Revenue - Grants   | 0                            | 0                     | 0                              | 0                            | 0                          | 19,464                                |
| <b>Total Deferred Inflows of Resources</b>                               | <b>0</b>                     | <b>0</b>              | <b>0</b>                       | <b>0</b>                     | <b>0</b>                   | <b>294,509</b>                        |
| <u>Fund Equity</u>   |                              |                       |                                |                              |                            |                                       |
| Fund Balances:   |                              |                       |                                |                              |                            |                                       |
| Restricted   | 338                          | 7,719                 | 0                              | 0                            | 18,225                     | 332,862                               |
| <b>Total Liabilities, Deferred Inflows of Resources, and Fund Equity</b> | <b>\$ 338</b>                | <b>\$ 7,719</b>       | <b>\$ 0</b>                    | <b>\$ 0</b>                  | <b>\$ 18,225</b>           | <b>\$ 708,878</b>                     |

COUNTY OF ARENAC  
Standish, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2012

|  | Special Revenue Funds |                 |                             |                               |                        |  |                                 |                                  |
|--|-----------------------|-----------------|-----------------------------|-------------------------------|------------------------|--|---------------------------------|----------------------------------|
|  | Ambulance Fund        | Friend of Court | Circuit Court<br>Counseling | Survey and<br>Remonumentation | Building<br>Department | Residence<br>Exemption<br>Administration | Register of Deeds<br>Automation | Stonegarden<br>Homeland Security |
| <b>Revenue</b>   |                       |                 |                             |                               |                        |  |                                 |                                  |
| Property Taxes   | \$ 274,548            | \$ 0            | \$ 0                        | \$ 0                          | \$ 0                   | \$ 54,622                                | \$ 0                            | \$ 0                             |
| Federal Grants and Revenue   | 0                     | 124,156         | 0                           | 0                             | 0                      | 0  | 0                               | 0                                |
| State Grants and Revenue   | 0                     | 13,139          | 0                           | 21,604                        | 0                      | 0  | 0                               | 0                                |
| Licenses and Permits   | 0                     | 0               | 1,410                       | 0                             | 40,653                 | 0  | 0                               | 0                                |
| Charges for Services   | 0                     | 19,639          | 0                           | 0                             | 30,840                 | 0  | 25,460                          | 0                                |
| Fines and Forfeits   | 0                     | 0               | 0                           | 0                             | 0                      | 0  | 0                               | 0                                |
| Other Revenue  | 0                     | 0               | 0                           | 0                             | 0                      | 0  | 0                               | 0                                |
| <b>Total Revenue</b>   | <b>274,548</b>        | <b>156,934</b>  | <b>1,410</b>                | <b>21,604</b>                 | <b>71,493</b>          | <b>54,622</b>                            | <b>25,460</b>                   | <b>0</b>                         |
| <b>Expenditures</b>  |                       |                 |                             |                               |                        |  |                                 |                                  |
| Current:   |                       |                 |                             |                               |                        |  |                                 |                                  |
| General Government   | 0                     | 171,352         | 1,000                       | 22,169                        | 0                      | 66,128                                   | 14,729                          | 0                                |
| Public Safety  | 0                     | 0               | 0                           | 0                             | 70,300                 | 0  | 0                               | 19,464                           |
| Health and Welfare   | 246,264               | 0               | 0                           | 0                             | 0                      | 0  | 0                               | 0                                |
| Capital Outlay   | 0                     | 0               | 0                           | 0                             | 13,845                 | 886                                      | 2,227                           | 0                                |
| Debt Service:  |                       |                 |                             |                               |                        |  |                                 |                                  |
| Principal  | 0                     | 0               | 0                           | 0                             | 5,000                  | 0  | 0                               | 0                                |
| Interest and Fiscal Charges  | 0                     | 0               | 0                           | 0                             | 0                      | 0  | 0                               | 0                                |
| <b>Total Expenditures</b>  | <b>246,264</b>        | <b>171,352</b>  | <b>1,000</b>                | <b>22,169</b>                 | <b>89,145</b>          | <b>67,014</b>                            | <b>16,956</b>                   | <b>19,464</b>                    |
| Excess of Revenue Over (Under) Expenditures                                  | 28,284                | (14,418)        | 410                         | (565)                         | (17,652)               | (12,392)                                 | 8,504                           | (19,464)                         |
| <b>Other Financing Sources (Uses)</b>  |                       |                 |                             |                               |                        |  |                                 |                                  |
| Loan Proceeds  | 0                     | 0               | 0                           | 0                             | 13,845                 | 0  | 0                               | 0                                |
| Operating Transfers In   | 0                     | 18,500          | 0                           | 0                             | 0                      | 0  | 0                               | 20,000                           |
| Operating Transfers Out  | 0                     | 0               | 0                           | 0                             | 0                      | (1,400)                                  | 0                               | 0                                |
| <b>Total Other Financing Sources (Uses)</b>                                  | <b>0</b>              | <b>18,500</b>   | <b>0</b>                    | <b>0</b>                      | <b>13,845</b>          | <b>(1,400)</b>                           | <b>0</b>                        | <b>20,000</b>                    |
| Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses | 28,284                | 4,082           | 410                         | (565)                         | (3,807)                | (13,792)                                 | 8,504                           | 536                              |
| Fund Balances - Beginning of Year  | 75,399                | 30,684          | 34,845                      | 4,113                         | 21,547                 | 27,207                                   | 19,012                          | 0                                |
| Fund Balances - End of Year  | \$ 103,683            | \$ 34,766       | \$ 35,255                   | \$ 3,548                      | \$ 17,740              | \$ 13,415                                | \$ 27,516                       | \$ 536                           |

COUNTY OF ARENAC  
Standish, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2012

|  | Special Revenue Funds     |                                |                         |                |                                 |                             |                          |                    |
|--|---------------------------|--------------------------------|-------------------------|----------------|---------------------------------|-----------------------------|--------------------------|--------------------|
|  | MCOLES Deputy<br>Training | Correction Officer<br>Training | Drug Law<br>Enforcement | School Officer | Sheriff Department<br>Donations | Chippewa Indian<br>2% Money | Family Court<br>Juvenile | Child Care Probate |
| <b>Revenue</b>   |                           |                                |                         |                |                                 |                             |                          |                    |
| Property Taxes   | \$ 0                      | \$ 0                           | \$ 0                    | \$ 0           | \$ 0                            | \$ 0                        | \$ 0                     | \$ 0               |
| Federal Grants and Revenue   | 0                         | 0                              | 0                       | 5,743          | 0                               | 0                           | 0                        | 0                  |
| State Grants and Revenue   | 2,637                     | 0                              | 0                       | 0              | 0                               | 0                           | 14,011                   | 11,608             |
| Licenses and Permits   | 0                         | 0                              | 0                       | 0              | 0                               | 0                           | 0                        | 0                  |
| Charges for Services   | 0                         | 10,481                         | 0                       | 0              | 0                               | 0                           | 0                        | 0                  |
| Fines and Forfeits   | 0                         | 0                              | 200                     | 0              | 0                               | 0                           | 0                        | 0                  |
| Other Revenue  | 0                         | 0                              | 0                       | 0              | 14,967                          | 5,876                       | 0                        | 31,623             |
| <b>Total Revenue</b>   | <b>2,637</b>              | <b>10,481</b>                  | <b>200</b>              | <b>5,743</b>   | <b>14,967</b>                   | <b>5,876</b>                | <b>14,011</b>            | <b>43,231</b>      |
| <b>Expenditures</b>  |                           |                                |                         |                |                                 |                             |                          |                    |
| Current:   |                           |                                |                         |                |                                 |                             |                          |                    |
| General Government   | 0                         | 0                              | 0                       | 0              | 0                               | 0                           | 0                        | 0                  |
| Public Safety  | 1,820                     | 11,392                         | 0                       | 0              | 8,218                           | 0                           | 0                        | 0                  |
| Health and Welfare   | 0                         | 0                              | 0                       | 0              | 0                               | 0                           | 15,347                   | 117,812            |
| Capital Outlay   | 0                         | 0                              | 0                       | 0              | 0                               | 9,401                       | 0                        | 0                  |
| Debt Service:  |                           |                                |                         |                |                                 |                             |                          |                    |
| Principal  | 0                         | 0                              | 0                       | 0              | 0                               | 0                           | 0                        | 0                  |
| Interest and Fiscal Charges  | 0                         | 0                              | 0                       | 0              | 0                               | 0                           | 0                        | 0                  |
| <b>Total Expenditures</b>  | <b>1,820</b>              | <b>11,392</b>                  | <b>0</b>                | <b>0</b>       | <b>8,218</b>                    | <b>9,401</b>                | <b>15,347</b>            | <b>117,812</b>     |
| Excess of Revenue Over (Under) Expenditures                                  | 817                       | (911)                          | 200                     | 5,743          | 6,749                           | (3,525)                     | (1,336)                  | (74,581)           |
| <b>Other Financing Sources (Uses)</b>  |                           |                                |                         |                |                                 |                             |                          |                    |
| Loan Proceeds  | 0                         | 0                              | 0                       | 0              | 0                               | 0                           | 0                        | 0                  |
| Operating Transfers In   | 0                         | 0                              | 0                       | 0              | 0                               | 0                           | 0                        | 61,000             |
| Operating Transfers Out  | 0                         | 0                              | 0                       | (5,761)        | 0                               | 0                           | 0                        | 0                  |
| <b>Total Other Financing Sources (Uses)</b>                                  | <b>0</b>                  | <b>0</b>                       | <b>0</b>                | <b>(5,761)</b> | <b>0</b>                        | <b>0</b>                    | <b>0</b>                 | <b>61,000</b>      |
| Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses | 817                       | (911)                          | 200                     | (18)           | 6,749                           | (3,525)                     | (1,336)                  | (13,581)           |
| Fund Balances - Beginning of Year  | 3,111                     | 13,544                         | 12,620                  | 2,778          | 6,927                           | 13,326                      | 6,151                    | 23,269             |
| Fund Balances - End of Year  | \$ 3,928                  | \$ 12,633                      | \$ 12,820               | \$ 2,760       | \$ 13,676                       | \$ 9,801                    | \$ 4,815                 | \$ 9,688           |

COUNTY OF ARENAC  
Standish, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2012

|  | Special Revenue Funds |                | Debt Retirement Fund    | Capital Project Funds |                     | Total Other Governmental Funds |
|--|-----------------------|----------------|-------------------------|-----------------------|---------------------|--------------------------------|
|  | Veterans Trust        | Animal Welfare | Building Authority Debt | GIS Mapping Project   | Building Renovation |                                |
| <b>Revenue</b>   |                       |                |                         |                       |                     |                                |
| Property Taxes   | \$ 0                  | \$ 0           | \$ 0                    | \$ 0                  | \$ 0                | \$ 329,170                     |
| Federal Grants and Revenue   | 0                     | 0              | 0                       | 0                     | 0                   | 129,899                        |
| State Grants and Revenue   | 3,224                 | 0              | 0                       | 0                     | 0                   | 66,223                         |
| Licenses and Permits   | 0                     | 0              | 0                       | 0                     | 0                   | 42,063                         |
| Charges for Services   | 0                     | 0              | 0                       | 0                     | 0                   | 86,420                         |
| Fines and Forfeits   | 0                     | 0              | 0                       | 0                     | 0                   | 200                            |
| Other Revenue  | 0                     | 6,225          | 0                       | 0                     | 0                   | 58,691                         |
| <b>Total Revenue</b>   | <b>3,224</b>          | <b>6,225</b>   | <b>0</b>                | <b>0</b>              | <b>0</b>            | <b>712,666</b>                 |
| <b>Expenditures</b>  |                       |                |                         |                       |                     |                                |
| Current:   |                       |                |                         |                       |                     |                                |
| General Government   | 0                     | 0              | 0                       | 0                     | 2,752               | 278,130                        |
| Public Safety  | 0                     | 387            | 0                       | 377                   | 0                   | 111,958                        |
| Health and Welfare   | 5,497                 | 0              | 0                       | 0                     | 0                   | 384,920                        |
| Capital Outlay   | 0                     | 6,254          | 0                       | 0                     | 9,500               | 42,113                         |
| Debt Service:  |                       |                |                         |                       |                     |                                |
| Principal  | 0                     | 0              | 99,400                  | 0                     | 0                   | 104,400                        |
| Interest and Fiscal Charges  | 0                     | 0              | 19,109                  | 0                     | 0                   | 19,109                         |
| <b>Total Expenditures</b>  | <b>5,497</b>          | <b>6,641</b>   | <b>118,509</b>          | <b>377</b>            | <b>12,252</b>       | <b>940,630</b>                 |
| Excess of Revenue Over (Under) Expenditures                                  | (2,273)               | (416)          | (118,509)               | (377)                 | (12,252)            | (227,964)                      |
| <b>Other Financing Sources (Uses)</b>  |                       |                |                         |                       |                     |                                |
| Loan Proceeds  | 0                     | 0              | 0                       | 0                     | 0                   | 13,845                         |
| Operating Transfers In   | 0                     | 0              | 118,509                 | 201                   | 0                   | 218,210                        |
| Operating Transfers Out  | 0                     | 0              | 0                       | 0                     | 0                   | (7,161)                        |
| <b>Total Other Financing Sources (Uses)</b>                                  | <b>0</b>              | <b>0</b>       | <b>118,509</b>          | <b>201</b>            | <b>0</b>            | <b>224,894</b>                 |
| Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses | (2,273)               | (416)          | 0                       | (176)                 | (12,252)            | (3,070)                        |
| Fund Balances - Beginning of Year  | 2,611                 | 8,135          | 0                       | 176                   | 30,477              | 335,932                        |
| Fund Balances - End of Year  | \$ 338                | \$ 7,719       | \$ 0                    | \$ 0                  | \$ 18,225           | \$ 332,862                     |

COUNTY OF ARENAC  
Standish, Michigan

COMBINING STATEMENT OF NET POSITION  
OTHER ENTERPRISE FUNDS  
December 31, 2012

|   | Tax<br>Foreclosure | Jail<br>Commissary | Total      |
|---|--------------------|--------------------|------------|
| <u>Assets</u>                                   |                    |                    |            |
| Cash and Cash Equivalents                       | \$ 270,862         | \$ 4,592           | \$ 275,454 |
| Noncurrent Assets:                              |                    |                    |            |
| Capital Assets, Net of Accumulated Depreciation | 20,165             | 0                  | 20,165     |
| Total Assets                                    | 291,027            | 4,592              | 295,619    |
| <u>Liabilities</u>                              |                    |                    |            |
| Current Liabilities:                            |                    |                    |            |
| Accounts Payable                                | 1,705              | 0                  | 1,705      |
| <u>Net Position</u>                             |                    |                    |            |
| Net Investment in Capital Assets                | 20,165             | 0                  | 20,165     |
| Unrestricted                                    | 269,157            | 4,592              | 273,749    |
| Total Net Position                              | \$ 289,322         | \$ 4,592           | \$ 293,914 |

COUNTY OF ARENAC  
Standish, Michigan

COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION  
OTHER ENTERPRISE FUNDS  
For the Year Ended December 31, 2012

|                                  | <u>Tax</u><br><u>Foreclosure</u> | <u>Jail</u><br><u>Commissary</u> | <u>Total</u>      |
|----------------------------------|----------------------------------|----------------------------------|-------------------|
| <u>Operating Revenue</u>         |                                  |                                  |                   |
| Charges For Services             | \$ 115,046                       | \$ 4,347                         | \$ 119,393        |
| <u>Operating Expenses</u>        |                                  |                                  |                   |
| Contractual Services             | 62,880                           | 0                                | 62,880            |
| Depreciation                     | 2,035                            | 0                                | 2,035             |
| Dues and Subscriptions           | 500                              | 0                                | 500               |
| Equipment                        | 548                              | 5,311                            | 5,859             |
| Operating Supplies               | 1,084                            | 0                                | 1,084             |
| Postage                          | 236                              | 0                                | 236               |
| Printing and Advertising         | 1,692                            | 0                                | 1,692             |
| Professional Fees and Services   | 9,426                            | 435                              | 9,861             |
| Repair and Maintenance           | 5,720                            | 0                                | 5,720             |
| Travel and Training              | 655                              | 0                                | 655               |
| Other                            | 0                                | 3,835                            | 3,835             |
| Total Operating Expenses         | <u>84,776</u>                    | <u>9,581</u>                     | <u>94,357</u>     |
| Operating Income (Loss)          | 30,270                           | (5,234)                          | 25,036            |
| Operating Transfers Out          | <u>(130,000)</u>                 | <u>0</u>                         | <u>(130,000)</u>  |
| Change in Net Position           | (99,730)                         | (5,234)                          | (104,964)         |
| Net Position - Beginning of Year | <u>389,052</u>                   | <u>9,826</u>                     | <u>398,878</u>    |
| Net Position - End of Year       | <u>\$ 289,322</u>                | <u>\$ 4,592</u>                  | <u>\$ 293,914</u> |

COUNTY OF ARENAC  
Standish, Michigan

COMBINING STATEMENT OF CASH FLOWS  
OTHER ENTERPRISE FUNDS  
For the Year Ended December 31, 2012

|  | <u>Tax<br/>Foreclosure</u> | <u>Jail<br/>Commissary</u> | <u>Total</u>      |
|--|----------------------------|----------------------------|-------------------|
| <u>Cash Flows From Operating Activities</u>  |                            |                            |                   |
| Receipts from Customers and Taxpayers  | \$ 115,046                 | \$ 4,347                   | \$ 119,393        |
| Payments to Suppliers for Goods and Services   | <u>(81,487)</u>            | <u>(9,581)</u>             | <u>(91,068)</u>   |
| Net Cash Provided (Used) by Operating Activities   | <u>33,559</u>              | <u>(5,234)</u>             | <u>28,325</u>     |
| <u>Cash Flows From Non-Capital Financing Activities</u>  |                            |                            |                   |
| Operating Subsidies and Transfers To Other Funds   | <u>(130,000)</u>           | <u>0</u>                   | <u>(130,000)</u>  |
| <u>Cash Flows From Capital and Related Financing Activities</u>  |                            |                            |                   |
| Acquisition and Construction of Capital Assets   | <u>(22,200)</u>            | <u>0</u>                   | <u>(22,200)</u>   |
| Net Decrease in Cash and Cash Equivalents  | (118,641)                  | (5,234)                    | (123,875)         |
| Cash and Cash Equivalents at Beginning of Year   | <u>389,503</u>             | <u>9,826</u>               | <u>399,329</u>    |
| Cash and Cash Equivalents at End of Year   | <u>\$ 270,862</u>          | <u>\$ 4,592</u>            | <u>\$ 275,454</u> |
| <u>Reconciliation of Operating Income (Loss) to Net Cash Provided<br/>(Used) by Operating Activities</u> |                            |                            |                   |
| Operating Income (Loss)  | \$ 30,270                  | \$ (5,234)                 | \$ 25,036         |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash<br>Provided (Used) by Operating Activities: |                            |                            |                   |
| Depreciation Expense   | 2,035                      | 0                          | 2,035             |
| Change in Assets and Liabilities:  |                            |                            |                   |
| Accounts Payable   | <u>1,254</u>               | <u>0</u>                   | <u>1,254</u>      |
| Net Cash Provided (Used) by Operating Activities   | <u>\$ 33,559</u>           | <u>\$ (5,234)</u>          | <u>\$ 28,325</u>  |

COUNTY OF ARENAC  
Standish, Michigan

COMBINING BALANCE SHEET  
ARENAC COUNTY DRAIN COMMISSION - COMPONENT UNIT  
GOVERNMENTAL FUNDS  
December 31, 2012

|  | Debt Retirement Funds |                          |                                 | Capital Project Funds      |                                  |                 |                   | Total Governmental Funds |                     |
|--|-----------------------|--------------------------|---------------------------------|----------------------------|----------------------------------|-----------------|-------------------|--------------------------|---------------------|
|  | Twining Village Sewer | Au Gres River Drain Debt | Twining Sewer Construction Debt | Twining Sewer Construction | Au Gres River Drain Construction | Drain Equipment | Drain             |                          | Drain Revolving     |
| <b>Assets</b>  |                       |                          |                                 |                            |                                  |                 |                   |                          |                     |
| Cash and Cash Equivalents  | \$ 20                 | \$ 121,894               | \$ 0                            | \$ 7,794                   | \$ 1,014                         | \$ 2,587        | \$ 182,450        | \$ 38,073                | \$ 353,832          |
| Receivables:   |                       |                          |                                 |                            |                                  |                 |                   |                          |                     |
| Special Assessments  | 0                     | 384,497                  | 0                               | 0                          | 0                                | 0               | 342,971           | 0                        | 727,468             |
| Due from Local Units   | 65,000                | 0                        | 259,000                         | 0                          | 0                                | 0               | 0                 | 0                        | 324,000             |
| Due from Other Funds   | 0                     | 0                        | 0                               | 0                          | 0                                | 0               | 0                 | 8,927                    | 8,927               |
| Deferred Expense   | 0                     | 0                        | 0                               | 0                          | 0                                | 0               | 21,175            | 0                        | 21,175              |
| <b>Total Assets</b>  | <b>\$ 65,020</b>      | <b>\$ 506,391</b>        | <b>\$ 259,000</b>               | <b>\$ 7,794</b>            | <b>\$ 1,014</b>                  | <b>\$ 2,587</b> | <b>\$ 546,596</b> | <b>\$ 47,000</b>         | <b>\$ 1,435,402</b> |
| <b>Liabilities</b>   |                       |                          |                                 |                            |                                  |                 |                   |                          |                     |
| Accounts Payable   | \$ 0                  | \$ 0                     | \$ 0                            | \$ 0                       | \$ 0                             | \$ 0            | \$ 27,356         | \$ 0                     | \$ 27,356           |
| Due to Other Funds   | 0                     | 0                        | 0                               | 0                          | 0                                | 0               | 8,927             | 0                        | 8,927               |
| Due to Primary Government  | 0                     | 0                        | 0                               | 0                          | 0                                | 0               | 107,000           | 47,000                   | 154,000             |
| Accrued Liabilities  | 0                     | 0                        | 0                               | 0                          | 0                                | 0               | 9,297             | 0                        | 9,297               |
| Unearned Revenue   | 0                     | 0                        | 0                               | 0                          | 0                                | 0               | 29,000            | 0                        | 29,000              |
| <b>Total Liabilities</b>   | <b>0</b>              | <b>0</b>                 | <b>0</b>                        | <b>0</b>                   | <b>0</b>                         | <b>0</b>        | <b>181,580</b>    | <b>47,000</b>            | <b>228,580</b>      |
| <b>Deferred Inflows of Resources</b>                                     |                       |                          |                                 |                            |                                  |                 |                   |                          |                     |
| Unavailable Revenue - Due from Local Units                               | 65,000                | 0                        | 259,000                         | 0                          | 0                                | 0               | 0                 | 0                        | 324,000             |
| Unavailable Revenue - Special Assessments                                | 0                     | 384,497                  | 0                               | 0                          | 0                                | 0               | 342,971           | 0                        | 727,468             |
| <b>Total Deferred Inflows of Resources</b>                               | <b>65,000</b>         | <b>384,497</b>           | <b>259,000</b>                  | <b>0</b>                   | <b>0</b>                         | <b>0</b>        | <b>342,971</b>    | <b>0</b>                 | <b>1,051,468</b>    |
| <b>Fund Equity</b>   |                       |                          |                                 |                            |                                  |                 |                   |                          |                     |
| Fund Balances:   |                       |                          |                                 |                            |                                  |                 |                   |                          |                     |
| Nonspendable:  |                       |                          |                                 |                            |                                  |                 |                   |                          |                     |
| Deferred Expenses  | 0                     | 0                        | 0                               | 0                          | 0                                | 0               | 21,175            | 0                        | 21,175              |
| Restricted:  |                       |                          |                                 |                            |                                  |                 |                   |                          |                     |
| Debt Retirement  | 20                    | 121,894                  | 0                               | 0                          | 0                                | 0               | 0                 | 0                        | 121,914             |
| Capital Projects   | 0                     | 0                        | 0                               | 7,794                      | 1,014                            | 2,587           | 870               | 0                        | 12,265              |
| <b>Total Fund Equity</b>   | <b>20</b>             | <b>121,894</b>           | <b>0</b>                        | <b>7,794</b>               | <b>1,014</b>                     | <b>2,587</b>    | <b>22,045</b>     | <b>0</b>                 | <b>155,354</b>      |
| <b>Total Liabilities, Deferred Inflows of Resources, and Fund Equity</b> | <b>\$ 65,020</b>      | <b>\$ 506,391</b>        | <b>\$ 259,000</b>               | <b>\$ 7,794</b>            | <b>\$ 1,014</b>                  | <b>\$ 2,587</b> | <b>\$ 546,596</b> | <b>\$ 47,000</b>         | <b>\$ 1,435,402</b> |

COUNTY OF ARENAC  
Standish, Michigan

ARENAC COUNTY DRAIN COMMISSION - COMPONENT UNIT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
December 31, 2012

|  |    |                    |                    |
|--|----|--------------------|--------------------|
| Total Governmental Fund Balances   |    | \$                 | 155,354            |
| Amounts reported for governmental activities in the statement of net position are different because:   |    |                    |                    |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:          |    |                    |                    |
| Capital Asset Cost   | \$ | 4,976,989          |                    |
| Accumulated Depreciation   |    | <u>(3,363,475)</u> |                    |
|  |    |                    | 1,613,514          |
| Other assets are not available to pay for current period expenditures and, therefore, are unavailable in the governmental funds:   |    |                    |                    |
| Special Assessments  |    | 727,468            |                    |
| Due from Local Units   |    | <u>324,000</u>     |                    |
| Net Difference   |    |                    | 1,051,468          |
| Accrued Interest on Long-Term Liabilities  |    |                    | (4,286)            |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of: |    |                    |                    |
| Bonds Payable  |    |                    | <u>(1,060,262)</u> |
| Total Net Position - Governmental Activities   |    | \$                 | <u>1,755,788</u>   |

COUNTY OF ARENAC  
Standish, Michigan

COMBINING STATEMENT OF  
REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -  
ARENAC COUNTY DRAIN COMMISSION - COMPONENT UNIT - GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2012

|   | Debt Retirement Funds    |                                |                                       | Capital Project Funds         |  |                    |                  | Total<br>Governmental<br>Funds |                    |
|---|--------------------------|--------------------------------|---------------------------------------|-------------------------------|--|--------------------|------------------|--------------------------------|--------------------|
|   | Twining Village<br>Sewer | Au Gres<br>River Drain<br>Debt | Twining Sewer<br>Construction<br>Debt | Twining Sewer<br>Construction | Au Gres River<br>Drain<br>Construction | Drain<br>Equipment | Drain<br>Drain   |                                | Drain<br>Revolving |
| <b>Revenue</b>  |                          |                                |                                       |                               |  |                    |                  |                                |                    |
| Contributions from Local Units  | \$ 25,021                | \$ 0                           | \$ 0                                  | \$ 0                          | \$ 0                                   | \$ 0               | \$ 0             | \$ 0                           | \$ 25,021          |
| Special Assessments   | 0                        | 58,675                         | 0                                     | 0                             | 0                                      | 0                  | 252,769          | 0                              | 311,444            |
| Total Revenue   | <u>25,021</u>            | <u>58,675</u>                  | <u>0</u>                              | <u>0</u>                      | <u>0</u>                               | <u>0</u>           | <u>252,769</u>   | <u>0</u>                       | <u>336,465</u>     |
| <b>Expenditures</b>   |                          |                                |                                       |                               |  |                    |                  |                                |                    |
| Current:  |                          |                                |                                       |                               |  |                    |                  |                                |                    |
| Public Works  | 0                        | 100                            | 0                                     | 84,340                        | 0                                      | 0                  | 194,528          | 0                              | 278,968            |
| Capital Outlay  | 0                        | 0                              | 0                                     | 0                             | 0                                      | 0                  | 33,541           | 0                              | 33,541             |
| Debt Service:   |                          |                                |                                       |                               |  |                    |                  |                                |                    |
| Principal   | 36,000                   | 25,000                         | 0                                     | 0                             | 0                                      | 0                  | 55,209           | 0                              | 116,209            |
| Interest and Fiscal Charges   | 9,021                    | 21,847                         | 0                                     | 0                             | 0                                      | 0                  | 12,062           | 0                              | 42,930             |
| Total Expenditures  | <u>45,021</u>            | <u>46,947</u>                  | <u>0</u>                              | <u>84,340</u>                 | <u>0</u>                               | <u>0</u>           | <u>295,340</u>   | <u>0</u>                       | <u>471,648</u>     |
| Excess of Revenue Over (Under)<br>Expenditures                                  | <u>(20,000)</u>          | <u>11,728</u>                  | <u>0</u>                              | <u>(84,340)</u>               | <u>0</u>                               | <u>0</u>           | <u>(42,571)</u>  | <u>0</u>                       | <u>(135,183)</u>   |
| <b>Other Financing Sources (Uses)</b>   |                          |                                |                                       |                               |  |                    |                  |                                |                    |
| Bond Proceeds   | 0                        | 0                              | 0                                     | 105,000                       | 0                                      | 0                  | 0                | 0                              | 105,000            |
| Operating Transfers In  | 20,000                   | 0                              | 0                                     | 0                             | 0                                      | 0                  | 0                | 0                              | 20,000             |
| Operating Transfers Out   | 0                        | 0                              | 0                                     | (20,000)                      | 0                                      | 0                  | 0                | 0                              | (20,000)           |
| Total Other Financing Sources (Uses)  | <u>20,000</u>            | <u>0</u>                       | <u>0</u>                              | <u>85,000</u>                 | <u>0</u>                               | <u>0</u>           | <u>0</u>         | <u>0</u>                       | <u>105,000</u>     |
| Excess of Revenue and Other Sources Over<br>(Under) Expenditures and Other Uses | 0                        | 11,728                         | 0                                     | 660                           | 0                                      | 0                  | (42,571)         | 0                              | (30,183)           |
| Fund Balances - Beginning of Year   | <u>20</u>                | <u>110,166</u>                 | <u>0</u>                              | <u>7,134</u>                  | <u>1,014</u>                           | <u>2,587</u>       | <u>64,616</u>    | <u>0</u>                       | <u>185,537</u>     |
| Fund Balances - End of Year   | <u>\$ 20</u>             | <u>\$ 121,894</u>              | <u>\$ 0</u>                           | <u>\$ 7,794</u>               | <u>\$ 1,014</u>                        | <u>\$ 2,587</u>    | <u>\$ 22,045</u> | <u>\$ 0</u>                    | <u>\$ 155,354</u>  |

COUNTY OF ARENAC  
Standish, Michigan

ARENAC COUNTY DRAIN COMMISSION - COMPONENT UNIT  
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2012

|  |                 |                        |
|--|-----------------|------------------------|
| Total Net Change in Fund Balances - Governmental Funds   | \$              | (30,183)               |
| Amounts reported for governmental activities in the statement of activities are different because:   |                 |                        |
| Receivables not currently available are reported as revenue when collected or when currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements:   |                 |                        |
| Special Assessments  | \$ (104,523)    |                        |
| Due from Local Units   | <u>69,000</u>   |                        |
| Net difference   |                 | (35,523)               |
| 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.   |                 |                        |
| Capital Outlay   | 33,541          |                        |
| Current Year Depreciation Expense  | <u>(40,014)</u> |                        |
| Net difference   |                 | (6,473)                |
| Principal repayments on long-term debt are reported as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The amount of repayments reported as expenditures in the governmental funds consist of: |                 |                        |
| Bonds Payable  |                 | 116,209                |
| The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. The net effect of this difference in the treatment of long-term liabilities is as follows:                                    |                 |                        |
| Bond Proceeds  |                 | (105,000)              |
| 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 the governmental funds:  |                 |                        |
| Net Change in Accrued Interest   |                 | <u>28</u>              |
| Change in Net Position of Governmental Activities  | \$              | <u><u>(60,942)</u></u> |

COUNTY OF ARENAC  
Standish, Michigan

BALANCE SHEET  
ECONOMIC DEVELOPMENT CORPORATION - COMPONENT UNIT  
GOVERNMENTAL FUND  
December 31, 2012

|                                   | <u>Special Revenue<br/>Fund</u><br>Economic<br>Development<br>Corporation |
|-----------------------------------|---|
| <u>Assets</u>                     |   |
| Cash and Cash Equivalents         | \$ 30,207   |
| Receivables:                      |   |
| Accounts, Net                     | 100   |
| Due from Federal Government       | <u>27,175</u>   |
| Total Assets                      | <u>\$ 57,482</u>  |
| Liabilities                       | \$ 0  |
| <u>Fund Equity</u>                |   |
| Fund Balance:                     |   |
| Restricted For:                   |   |
| Economic Development              | <u>57,482</u>   |
| Total Liabilities and Fund Equity | <u>\$ 57,482</u>  |

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE -  
ECONOMIC DEVELOPMENT CORPORATION - COMPONENT UNIT - GOVERNMENTAL FUND  
For the Year Ended December 31, 2012

|   | <u>Special Revenue<br/>Fund</u><br>Economic<br>Development<br>Corporation |
|---|---|
| <u>Revenue</u>                              |   |
| Federal Grants and Revenue                  | \$ 27,175   |
| Contributions from Local Units              | 3,521   |
| Other Revenue                               | <u>3,400</u>  |
| Total Revenue                               | 34,096  |
| <u>Expenditures</u>                         |   |
| Current:                                    |   |
| Community and Economic Development          | <u>41,283</u>   |
| Excess of Revenue Over (Under) Expenditures | (7,187)   |
| Fund Balance - Beginning of Year            | <u>64,669</u>   |
| Fund Balance - End of Year                  | <u>\$ 57,482</u>  |

COUNTY OF ARENAC  
Standish, Michigan

BALANCE SHEET  
BROWNFIELD REDEVELOPMENT AUTHORITY - COMPONENT UNIT  
GOVERNMENTAL FUND  
December 31, 2012

|                                    | <u>Special<br/>Revenue<br/>Fund</u><br><u>Brownfield<br/>Redevelopment<br/>Authority</u> |
|------------------------------------|--|
| <u>Assets</u>                      |  |
| Cash and Cash Equivalents          | \$ <u>5,544</u>  |
| Liabilities                        | \$ 0   |
| <u>Fund Equity</u>                 |  |
| Fund Balance:                      |  |
| Restricted For:                    |  |
| Brownfield Redevelopment Authority | <u>5,544</u>   |
| Total Liabilities and Fund Equity  | \$ <u>5,544</u>  |

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BROWNFIELD REDEVELOPMENT AUTHORITY - COMPONENT UNIT - GOVERNMENTAL FUND  
For the Year Ended December 31, 2012

|   | <u>Special<br/>Revenue<br/>Fund<br/>Brownfield<br/>Redevelopment<br/>Authority</u> |
|---|--|
| Revenue                                     | \$ 0   |
| Expenditures                                | <u>0</u>   |
| Excess of Revenue Over (Under) Expenditures | 0  |
| Fund Balance - Beginning of Year            | <u>5,544</u>   |
| Fund Balance - End of Year                  | <u>\$ 5,544</u>  |



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COUNTY OF ARENAC  
STANDISH, MICHIGAN

SINGLE AUDIT REPORTS  
YEAR ENDED DECEMBER 31, 2012

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August 8, 2013

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Board of Commissioners  
County of Arenac  
Standish, Michigan

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Arenac, Standish, Michigan, as of and for the year ended December 31, 2012, and the related notes to the financial statements which collectively comprise the basic financial statements and have issued our report thereon dated August 8, 2013. Our report includes a reference to other auditors who audited the financial statements of the Arenac County Road Commission, as described in our report on the County of Arenac's financial statements.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies, 2012-001, 2012-002, 2012-005, 2012-006, 2012-007 and 2012-008, described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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. We consider the deficiencies, 2012-003 and 2012-004, described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Members of the Board of Commissioners  
County of Arenac  
August 8, 2013  
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Arenac's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

County of Arenac's Response to Findings

The County of Arenac's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The County of Arenac's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Stephenson, Grubb & Co., P.C.*



*Stephenson, Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Brannan, CPA  
Kyle E. Troyer, CPA

August 8, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
OMB CIRCULAR A-133

Members of the Board of Commissioners  
County of Arenac  
Standish, Michigan

Report on Compliance for Each Major Federal Program

We have audited the County of Arenac's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County of Arenac's major federal programs for the year ended December 31, 2012. The County of Arenac's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County of Arenac's major federal programs based on our audit of the types of compliance requirements referred to above. 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 County of Arenac'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County of Arenac's compliance.

Opinion on Each Major Federal Program

In our opinion, the County of Arenac complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-009. Our opinion on each major federal program is not modified with respect to this matter.

The County of Arenac's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The County of Arenac's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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Report on Internal Control Over Compliance

Management of the County of Arenac is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County of Arenac's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 County of Arenac's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-007 and 2012-008 to be material weaknesses.

The County of Arenac's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The County of Arenac's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the County of Arenac, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County of Arenac's basic financial statements. We issued our report thereon dated August 8, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Stephenson, Grain & Co., P.C.*

COUNTY OF ARENAC  
Standish, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended December 31, 2012

Findings – Financial Statements Audit

2011-001 Financial Statement Preparation

**Condition:** The County has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements, fund financial statements, and notes to financial statements as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered to be a part of the County's internal controls.

**Current Status:** The finding is repeated in 2012 as part of 2012-001.

2011-002 Central Management of Grant Documents

**Condition:** Grant documents were not readily available due to the fact that they had not been submitted to the County Clerk.

**Current Status:** The finding is repeated in 2012 as part of 2012-002.

2011-003 Board Review and Approval of Pre-Authorized Disbursements

**Condition:** The Accounting Procedures Manual for Local Units of Government in Michigan states that the legislative body may establish a formal policy to authorize limited payments prior to board approval, and these disbursements must be approved after payment is made. The Board has properly established a formal policy to authorize limited payments prior to board approval, but these disbursements are not being reviewed and approved after payment is made.

**Current Status:** The situation still exists and is included as a current year audit finding as part of 2012-003.

2011-004 Inmate Trust Bank Account

**Condition:** The Sheriff's Department inmate trust cash account is not reconciled on a monthly basis to the County's general ledger.

**Current Status:** The situation still exists and is included as a current year audit finding as part of 2012-004.

Findings and Questioned Costs – Major Federal Award Programs Audit

2011-005 Community Development Block Grant – Signed Approval of Bid Specification Forms

**Condition:** In the prior year, two new project files did not have signed bid specification forms from the homeowner which is required by the Administrative Home Improvement Guide.

**Current Status:** This situation has been corrected.

2011-006 Lack of Procurement Policy

**Condition:** The County's Water and Waste Disposal System for Rural Communities award has procurement compliance requirements. During our audit, it was determined that the County had no written procurement procedures in place.

**Current Status:** This situation still exists and is included as a current year finding as part of 2012-007.

COUNTY OF ARENAC  
Standish, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2012

Summary of Auditors' Results

- (1) The auditors' report expresses an unmodified opinion on the financial statements of the County of Arenac.
- (2) Four material weaknesses and two significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (3) No instances of noncompliance material to the financial statements of the County of Arenac, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (4) Two material weaknesses relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award programs for the County of Arenac expresses an unmodified opinion.
- (6) The auditors' report disclosed one audit finding relative to the major federal award programs for the County of Arenac.
- (7) The programs tested as major programs included:
  - CFDA #10.760 Water and Waste Disposal Systems for Rural Communities
  - CFDA #93.563 Child Support Enforcement
  - CFDA #93.560 Child Support Enforcement Incentive Payment
- (8) The threshold used for distinguishing between Type A and B programs was \$300,000.
- (9) The County of Arenac did not qualify as a low-risk auditee.

COUNTY OF ARENAC  
Standish, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2012

Summary of Auditors' Results (Continued)

Findings – Financial Statements Audit

2012-001 Financial Statement Preparation

The County of Arenac prepares various financial information throughout the year to assess operations and the financial condition of the County. However, prior to the closing of the year end, various entries material to the financial statements were proposed by the external auditors. Also, the County relies on the external auditors to assist in preparing the annual financial report and Schedule of Expenditures of Federal Awards in accordance with Generally Accepted Accounting Principles.

The County of Arenac has individuals on staff to review the financial report to ensure it is accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the County is considered to have a material weakness, since reporting errors or omissions could occur in the preparation of the annual financial report and Schedule of Expenditures of Federal Awards that would be departures from Generally Accepted Accounting Principles and the County would not be in a position to detect the errors or omissions.

**Criteria:** Accounting principles require personnel of the County have the knowledge to review and determine the financial report and the Schedule of Expenditures of Federal Awards is a complete presentation in accordance with Generally Accepted Accounting Principles.

**Condition:** The County of Arenac's personnel prepare various financial information throughout the year to assess operations and the financial condition of the County. However, prior to the closing of the year end, various entries material to the financial statements were proposed by the external auditors. Also, the County relies on the external auditors to assist in reporting the annual financial report and Schedule of Expenditures of Federal Awards in accordance with Generally Accepted Accounting Principles.

**Effect:** As a result, the County is considered to have a material weakness, since reporting errors or omissions could occur in the preparation of the annual financial report and Schedule of Expenditures of Federal Awards that would be departures from Generally Accepted Accounting Principles and the County would not be in a position to detect the errors or omissions.

**Cause:** The County has in the past evaluated the cost vs. benefit of correcting this finding and deemed it in its best interests to outsource the task to its external auditors.

**Context:** The County of Arenac has individuals on staff to review the financial report and Schedule of Expenditures of Federal Awards to ensure they are accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report and Schedule of Expenditures of Federal Awards is a complete presentation in accordance with Generally Accepted Accounting Principles.

**Auditor's Recommendation:** We recommend the County continue to re-evaluate the cost vs. benefit considerations involved with remedying this situation.

COUNTY OF ARENAC  
Standish, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2012

Summary of Auditors' Results (Continued)

Findings – Financial Statements Audit (Continued)

2012-001 Financial Statement Preparation (Continued)

**View of Responsible Officials and Planned Corrective Actions:** The County has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the County to outsource this task to its external auditors, and to carefully review the draft financial statements and notes and the Schedule of Expenditures of Federal Awards prior to approving them and accepting responsibility for their content and presentation.

2012-002 Central Management of Grant Documents

**Criteria:** Federal and State grantor agencies require grants to be monitored by the local government that receives them.

**Condition:** Some grant documents were not readily available because they had not been submitted to the Board Secretary. The Board has directed the County Clerk to be the centralized location for copies of grants, amendments to grants, reports to grantor agencies and submitted reimbursement requests, within the County.

**Effect:** Because not all grant documents were submitted to a centralized location, the County Treasurer's office could not always identify what should be posted as grant revenues, and how the grant was split between State and Federal revenues.

**Cause:** Individual County Departments are not following the directive of the County Commission.

**Context:** Not all grant documents were submitted to the County Clerk, by the individual departments handling the grants.

**Auditor's Recommendation:** We recommend that the County enforce its prior directive to departments to provide a complete copy of grant award documents, grant amendments, reports to the grantor agency, and reimbursement requests to the County Clerk. The County must then monitor departments that receive the grants for compliance.

**View of Responsible Officials and Planned Corrective Actions:** The County Board of Commissioners submitted a memo to all departments in 2011 requiring the submission of grant documents with the County Clerk. However, not all departments complied and no action was taken for those that failed to comply. The Board of Commissioners will re-issue the directive in 2013 and follow-up with departments that have not complied.

2012-003 Board Review and Approval of Pre-Authorized Disbursements

**Criteria:** The Accounting Procedures Manual for Local Units of Government in Michigan states that the legislative body may establish a formal policy to authorize limited payments prior to board approval, and these disbursements must be approved after payment is made.

**Condition:** Certain disbursements are made before the board meetings and are not being reviewed after the fact by the Board.

**Effect:** All disbursements made by the County are not reviewed by the Board.

COUNTY OF ARENAC  
Standish, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2012

Summary of Auditors' Results (Continued)

Findings – Financial Statements Audit (Continued)

2012-003 Board Review and Approval of Pre-Authorized Disbursements (Continued)

**Cause:** The County Commissioners had not yet decided as a group on the best manner in which to proceed to correct this issue.

**Context:** The Board has properly established a formal policy to authorize limited payments prior to board approval, but these disbursements are not being reviewed and approved after payment is made.

**Auditor's Recommendation:** We recommend that the Clerk's office provide a listing and the supporting invoices to the Board to review and approve, for disbursements made prior to the board meeting.

**View of Responsible Officials and Planned Corrective Actions:** In 2011, the Board of Commissioners adopted a fiscal responsibility policy requiring these disbursements to be reviewed after the fact. However, the policy was never implemented. The County Clerk's office has provided the Board with a check register for all disbursements made prior to the board meeting. However, no support for the check register is examined and no formal approval is made. The Board of Commissioners will begin reviewing and approving the check register and support in 2013.

2012-004 Inmate Trust Bank Account

**Criteria:** The Michigan Department of Treasury's Accounting Procedures Manual for Local Units of Government requires that every bank account of the County be reconciled on a monthly basis to the County's general ledger.

**Condition:** The Sheriff's Department inmate trust cash account is not reconciled on a monthly basis to the County's general ledger.

**Effect:** The inmate trust bank account was not reconciled to the Sheriff's Department software or the County's general ledger.

**Cause:** The Sheriff's Department is still in the process of learning how to use their software properly to reconcile reports to the County's general ledger.

**Context:** The Sheriff's Department and the County Treasurer have not collaborated to reconcile the bank statement with the Sheriff's Department software and the County's general ledger.

**Auditor's Recommendation:** We recommend that each month the Sheriff's department and the Treasurer's office work together to ensure that the bank statement reconciliation for the inmate trust account agrees to the County's general ledger balance and to the residence balance summary report from the Sheriff's software.

Further, we recommend that the Sheriff receive the monthly bank statements for this account including cancelled check images. We recommend that the cancelled checks are reviewed for reasonableness in both vendor and endorsement and compared back to cash disbursement records each month. In addition, the sheriff should examine the bank statement for EFT and other non-check withdrawals for reasonableness in vendor and amount. This review should be documented by the Sheriff by initialing or signing the monthly reconciliations.

COUNTY OF ARENAC  
Standish, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2012

Summary of Auditors' Results (Continued)

Findings – Financial Statements Audit (Continued)

2012-004 Inmate Trust Bank Account (Continued)

**View of Responsible Officials and Planned Corrective Actions:** The Sheriff's Department will continue to work with the County Treasurer in 2013 to ensure the bank account is reconciled to the Sheriff's Department software and the County's general ledger.

2012-005 Subsidiary Ledger for Special Assessments Receivable and Drain Maintenance Levies

**Criteria:** In order to obtain a proper accounting system, balances within the general ledger should be supported by a subsidiary ledger.

**Condition:** The Arenac County Drain Commission has several long-term special assessment receivables outstanding at December 31, 2012. These receivables are due to the County in annual installments from citizens benefiting from the project in the form of a special assessment tax levy. At the time of the audit, the Drain Commission office was unable to produce an accurate subsidiary ledger of future payments including interest to be made by citizens. In addition, drain ledgers for special assessments for maintenance were not maintained and properly reconciled at year end.

**Effect:** Along with the prior period adjustment, the lack of an accurate subsidiary ledger also resulted in several billings errors to citizens.

**Cause:** The Drain Commission office has not reconciled the ledgers in several years.

**Context:** The lack of an accurate subsidiary ledger led to a prior period adjustment of the 2011 financial statements of \$81,375.

**Auditor's Recommendation:** We recommend that the County maintain accurate subsidiary ledgers for all drain special assessments.

**View of Responsible Officials and Planned Corrective Actions:** After fieldwork but prior to the issuance of this report, the Drain Commission hired an independent contractor to reconcile its long-term special assessments. The Drain Commission staff will work throughout 2013 to reconcile the drain maintenance ledgers.

2012-006 Review of Cancelled Checks

**Criteria:** In 2011, the County adopted a Fiscal Responsibility Policy. The policy states that cancelled checks are to be reviewed monthly. The County's policy also requires two signatures.

**Condition:** During our audit procedures related to cash, we observed two cancelled checks in our sample that only had one signature. In addition, there was no indication of any investigation by Commissioners as to why there was only one signature and no indication of investigation as to whether it was a proper expenditure of the County.

**Effect:** Checks could be written fraudulently and signed by only one individual or with unauthorized use of one department's signature stamp and the current system of internal control at the County would not investigate this and may not detect possible fraud.

COUNTY OF ARENAC  
Standish, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2012

Summary of Auditors' Results (Continued)

Findings – Financial Statements Audit (Continued)

2012-006 Review of Cancelled Checks (Continued)

**Cause:** Procedures in place requiring dual signatures and investigation into checks with only one signature were not followed.

**Context:** The County writes several checks throughout the year and most have dual signatures. However, there are limited instances where this policy has not been followed.

**Auditor's Recommendation:** We recommend that during the review of cancelled checks, investigation of cancelled checks with only one signature be conducted and documented in writing. In addition, the entire process of reviewing cancelled checks should be documented in writing by the Commissioner conducting the review.

**View of Responsible Officials and Planned Corrective Actions:** Effective immediately, the Commissioner reviewing cancelled checks will document the review in writing and also document investigation into any checks with only one signature.

Findings and Questioned Costs – Major Federal Award Programs Audit

U.S. DEPARTMENT OF AGRICULTURE

Water and Waste Disposal Systems for Rural Communities – CFDA No. 10.760

2012-007 Lack of a Procurement Policy

**Material Weakness:** The County of Arenac is considered to have a material weakness in internal control over its Water and Waste Disposal System for Rural Communities because it does not have established, written procurement procedures.

**Criteria:** Chapter II – Office of Management and Budget Circulars and Guidance requires recipients of federal awards with applicable procurement compliance requirements to establish written procurement procedures. It also details minimum requirements for the written procurement procedures.

**Condition:** The County's Water and Waste Disposal System for Rural Communities award has procurement compliance requirements. During our audit, it was determined that the County had no written procurement procedures in place.

**Effect:** The County is not in compliance with Chapter II – Office of Management and Budget Circulars and Guidance.

**Cause:** The County was unaware that written procedures were required.

**Context:** The County hired an engineer to oversee the procurement process and to ensure that grant requirements were followed.

COUNTY OF ARENAC  
Standish, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2012

Summary of Auditors' Results (Continued)

Findings and Questioned Costs – Major Federal Award Programs Audit (Continued)

2012-007 Lack of Procurement Policy (Continued)

**Auditor's Recommendation:** We recommend that the County adopt written procurement procedures that at a minimum include the requirements of Chapter II – Office of Management and Budget Circulars and Guidance.

**Questioned Costs:** None

**View of Responsible Officials and Planned Corrective Actions:** The County will adopt a written procurement policy in accordance with Chapter II – Office of Management and Budget Circulars and Guidance in 2013.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Passed through the Michigan Department of Human Services

Child Support Enforcement – CFDA No. 93.563 and Child Support Enforcement Incentive Payment – CFDA No. 93.560

2012-008 Lack of a Thorough Review of Financial Reports

**Material Weakness:** The County of Arenac is considered to have a material weakness in internal control over its Child Support Enforcement Grant because there were several errors on its financial reports for the grant that were not discovered during the review process.

**Criteria:** Office of Management and Budget Circular A-87 Cost Principles for State, Local, and Indian Tribal Government allows fringe benefits including pension costs and retirement to be charged to a grant when employees work on a Federal award. However, in order to charge fringe benefits, the benefits must be charged based on actual costs. Budget estimates or distributive percentage can only be used for interim accounting purposes and must be updated to actual costs at least quarterly. Internal controls need to be in place at the County to minimize the risk of noncompliance with this requirement.

**Condition:** Currently, the County has a procedure in place whereas County officials review the financial reports prepared by an independent contractor for accuracy and compliance before submitted to the pass-through entity. However, during our audit procedures, we determined that charges were made to the grant that were not equitably distributed to the grant and other activities and some benefits were charged based upon an incorrect rate. Review of the financial reports by County officials did not discover the errors.

**Effect:** The County is not in compliance with Office of Management and Budget Circular A-87 Cost Principles for State, Local, and Indian Tribal Government and has incorrectly charged the grant by an immaterial amount.

**Cause:** Procedures in place to review the required financial reports were not performed thoroughly.

**Context:** The errors are considered nonmaterial.

**Auditor's Recommendation:** We recommend that the County officials work closely with the independent contractor preparing reports to ensure the contractor is given accurate information. We also recommend that the County designate an individual to carefully review all reports before submitted to determine they are correct.

COUNTY OF ARENAC  
Standish, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2012

Summary of Auditors' Results (Continued)

Findings and Questioned Costs – Major Federal Award Programs Audit (Continued)

2012-008 Lack of a Thorough Review of Financial Reports (Continued)

**Questioned Costs:** None

**View of Responsible Officials and Planned Corrective Action:** The County will designate an individual to oversee and review the work of the independent contractor in 2013.

2012-009 Fringe Benefit Charges for the Child Support Enforcement Grant

**Criteria:** Office of Management and Budget Circular A-87 Cost Principles for State, Local, and Indian Tribal Government allows fringe benefits including pension costs and retirement to be charged to a grant when employees work on a federal award. However, in order to charge fringe benefits, the benefits must be charged based on actual costs. Budget estimates or distributive percentage can only be used for interim accounting purposes and must be updated to actual costs at least quarterly.

**Condition:** The County of Arenac was charging pension costs for employees to the Child Support Enforcement Grant using a percentage that did not reflect the actual cost of pension for those employees. In addition, health insurance costs were allocated to employees incorrectly and not all employees for the grant are 100% chargeable to the grant.

**Effect:** As a result, the County is considered to have a nonmaterial compliance finding, since pension and health insurance costs charged to the grant were not based on actual costs.

**Cause:** Financial reports were not carefully reviewed by County officials prior to submission.

**Context:** After bringing this issue to the attention of the County and its independent contractor hired to prepare monthly reimbursement reports, it was determined that the grant was actually being overcharged by an insignificant amount.

**Auditor's Recommendation:** The County Officials provide the independent contractor with the proper amount paid for all fringe benefits and carefully review financial reports after preparation but prior to submission.

**Questioned Costs:** None.

**View of Responsible Officials and Planned Corrective Actions:** The County of Arenac will provide the independent contractor preparing its monthly reports for the Child Support Enforcement Grant with the actual amount paid for pension and health insurance for eligible employees each month effective immediately.

COUNTY OF ARENAC  
Standish, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2012

| <u>Federal Grantor or Pass Through Grantor<br/>Program Title/Grantor's Number</u> | <u>Federal<br/>CFDA<br/>Number</u> | <u>Current Year<br/>Expenditures</u> |
|---|------------------------------------|--------------------------------------|
| <u>U.S. Department of Agriculture</u>   |                                    |                                      |
| Water and Waste Disposal Systems for Rural Communities                            | 10.760                             | \$ 105,000                           |
| Rural Business Enterprise Grant   | 10.769                             | <u>27,175</u>                        |
| Total U.S. Department of Agriculture  |                                    | <u>132,175</u>                       |
| <u>U.S. Department of Housing and Urban Development</u>                           |                                    |                                      |
| Passed through Michigan State Housing Development Authority:                      |                                    |                                      |
| Community Development Block Grant MSC-2011-0322-HOA                               | 14.228                             | 36,352                               |
| Community Development Block Grant Program Income                                  |                                    | <u>77,962</u>                        |
|   |                                    | <u>114,314</u>                       |
| Passed through Michigan State Housing Development Authority:                      |                                    |                                      |
| Home Investment Partnership M-2009-0322-HO  | 14.239                             | 30,372                               |
| Home Program Income   |                                    | <u>10,382</u>                        |
|   |                                    | <u>40,754</u>                        |
| Total U.S. Department of Housing and Urban Development                            |                                    | <u>155,068</u>                       |
| <u>U.S. Department of Justice</u>   |                                    |                                      |
| Passed through Michigan State Police:   |                                    |                                      |
| Recovery Act Edward Byrne Memorial Justice Assistance Grant 2009-SB-B90894        | 16.738                             | <u>5,743</u>                         |
| <u>U.S. Department of Health and Human Services</u>                               |                                    |                                      |
| Passed through the Michigan Department of Human Services:                         |                                    |                                      |
| Child Support Enforcement Incentive Payment                                       | 93.560                             | <u>18,839</u>                        |
| Child Support Enforcement CSPA-10-06002   | 93.563                             | 29,411                               |
| Child Support Enforcement CSPA-13-06002   |                                    | 13,098                               |
| Child Support Enforcement CSFOC-10-06001  |                                    | 73,939                               |
| Child Support Enforcement CSFOC-13-06001  |                                    | <u>31,378</u>                        |
|   |                                    | <u>147,826</u>                       |
| Legal Support Services Title IV-E Prosecuting Attorney PROFC-11-06001             | 93.658                             | <u>10,624</u>                        |
| Guardian Services GUARD-12-06001  | 93.667                             | <u>5,760</u>                         |
| Total U.S. Department of Health and Human Services                                |                                    | <u>183,049.00</u>                    |

The accompanying notes are an integral part of this schedule.

COUNTY OF ARENAC  
Standish, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2012

| <u>Federal Grantor or Pass Through Grantor<br/>Program Title/Grantor's Number</u>                      | <u>Federal<br/>CFDA<br/>Number</u> | <u>Current Year<br/>Expenditures</u> |
|--|------------------------------------|--------------------------------------|
| <u>U.S. Department of Homeland Security</u>  |                                    |                                      |
| Passed through Michigan Department of Natural Resources:<br>2012 Marine Safety Program Grant Agreement | 97.012                             | \$ <u>1,360</u>                      |
| Passed through Michigan State Police:<br>Emergency Management Program                                  | 97.042                             | <u>6,000</u>                         |
| Operation Stone Garden 2009-SJ-007   | 97.067                             | <u>19,464</u>                        |
| Passed through Michigan 3rd District Regional Homeland Security Planning Board:<br>Non-Cash Assistance |                                    |                                      |
| 2009 State Homeland Security Program   | 97.067                             | 36,917                               |
| 2010 State Homeland Security Program   |                                    | <u>1,300</u>                         |
|  |                                    | <u>38,217</u>                        |
| Total U.S. Department of Homeland Security   |                                    | <u>65,041</u>                        |
| Total Federal Awards   |                                    | <u>\$ 541,076</u>                    |

The accompanying notes are an integral part of this schedule.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2012

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the County's federal awards and does not present transactions that would be included in financial statements of the County's primary government presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.

2. Reconciliation to financial statements:

|  |    |                |
|--|----|----------------|
| Federal revenue presented in the financial statements  | \$ | 389,437        |
| <p>Amounts due from the State of Michigan that will be recognized as revenue for the year ended December 31, 2013 because they are considered unavailable in the governmental funds.</p> |    |                |
| #97.067 Operation Stone Garden   |    | 19,464         |
| <p>Federal loans reported in the financial statements as general obligation bonds that fall under the Single Audit Scope of the County of Arenac.</p>                                    |    |                |
| #10.760 Water and Waste Disposal Systems for Rural Communities   |    | 105,000        |
| <p>Federal revenues reported in the Economic Development Corporation Component Unit, not included in the primary government financial statements.</p>                                    |    |                |
| #10.769 Rural Business Enterprise Grant  |    | <u>27,175</u>  |
| Federal revenue on the Schedule of Expenditures of Federal Awards  | \$ | <u>541,076</u> |



*Stephenson, Gracik & Co., P.C.*  
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Brannan, CPA  
Kyle E. Troyer, CPA

June 24, 2013

Management and the Board of Commissioners  
County of Arenac  
Standish, Michigan

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the County of Arenac for the year ended December 31, 2012 and have issued our report dated June 24, 2013. Our opinions on the financial statements and this report, insofar as they relate to the Arenac County Road Commission, are based solely on the report of other auditors. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133 as well as certain information related to the planned scope and timing of our audit. The appendices to this letter set forth those communications as follows:

I Communication with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the County during the audit and met with management on June 24, 2013. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Commissioners, others within the County and the Michigan Department of Treasury and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

*Stephenson, Gracik & Co., P.C.*

## **APPENDIX I COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

### **Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter dated January 8, 2013, 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 will consider the County of Arenac'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 not to provide assurance on the internal control over financial reporting. We will also consider 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 County of Arenac's financial statements are free of material misstatement, we will perform tests 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 is not an objective of our audit. Also in accordance with OMB Circular A-133, we will examine, on a test basis, evidence about the County of Arenac'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 County of Arenac's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on the County of Arenac's compliance with those requirements.

### **Planned Scope and Timing of the Audit**

We performed the audit as outlined in our engagement letter related to planning matters dated January 8, 2013.

### **Significant Audit Findings**

#### **Qualitative Aspects of Accounting Practices**

- Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County of Arenac are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, the County changed their accounting policies by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", and No. 65, "Items Previously Reported as Assets and Liabilities" in 2012. We noted no transactions entered into by the County during the year where there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.
- 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.
- The financial statement disclosures are neutral, consistent, and clear.

**APPENDIX I  
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

**Difficulties Encountered in Performing the Audit**

During our audit, we encountered significant difficulties in obtaining accurate ledgers for the Arenac County Drain Commission special assessments. The lack of accurate ledgers at the time of fieldwork increased the amount of work done on the schedules when they were eventually completed and increased the amount of time spent discussing the issue with County officials to determine what needed to be done to correct the issue and the best method for correcting the issue.

**Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The adjustments identified during the audit have been communicated to management. A summary of audit differences, both adjusted and unadjusted was provided to management on June 24, 2013. Management has determined that the effects of the unadjusted audit differences are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

**Disagreements with Management**

For purposes of this letter a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

**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 auditors' 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 County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Other Matters**

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

## **APPENDIX II MANAGEMENT COMMENTS**

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the County of Arenac as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the County of Arenac's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Arenac's internal control. Accordingly, we do not express an opinion on the effectiveness of the County of Arenac's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

### **FINANCIAL STATEMENT PREPARATION CONTROLS**

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We have also been contracted to assist in the preparation of the schedule of expenditures of federal awards. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of Arenac County's financial statements. However, if at any point in the audit we as auditors are part of Arenac County's control system for producing reliable financial statements, auditing standards indicate that Arenac County has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the schedule of expenditures of federal awards, and the auditors are contracted to prepare these statements, this is considered a control deficiency. The effect of this material weakness is that reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the County would not be in a position to detect the errors or omissions. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

View of Responsible Officials:

Arenac County has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP and the schedule of expenditures of federal awards, and determined that it is in the best interests of the County to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

### **CENTRAL MANAGEMENT OF GRANT DOCUMENTS**

During our audit procedures related to the OMB Circular A-133 single audit, we determined that in the past the County Board sent a memo to all departments requiring grant agreements to be filed with the County Clerk in response to a prior audit finding. However, not all departments complied with this memo. As such, the County does not have a centralized location for the tracking of Federal Grants. Because of this, it is difficult for the staff at

## **APPENDIX II MANAGEMENT COMMENTS**

the County to identify all grants that need to be included on the Schedule of Expenditures of Federal Awards. This issue has also caused mistakes in classifications in the general ledger by the Treasurer's office between the Federal and State Grants. We recommend that the County enforce its policy establishing a centralized location for the tracking of all grant agreements. This enforcement should include all grants including those signed electronically.

View of Responsible Officials:

The Board of Commissioners has established a policy and communicated it to the various departments. They will work to enforce it with all departments of the County.

### **SUBSIDIARY LEDGER FOR SPECIAL ASSESSMENTS RECEIVABLE AND DRAIN MAINTENANCE LEVIES.**

In order to obtain a proper accounting system, balances within the general ledger should be supported by a subsidiary ledger. The Arenac County Drain Commission has several long-term special assessment receivables outstanding at December 31, 2012. These receivables are due to the County in annual installments from citizens benefiting from the project in the form of a special assessment tax levy. At the time of the audit, the Drain Commission office was unable to produce an accurate subsidiary ledger of future payments including interest to be made by citizens. Furthermore, this has led to several errors in the past billings including double billings and inaccurate billings. After fieldwork but prior to the issuance of this report, the Drain Commission hired an independent contractor to reconcile its long-term special assessments. In order to determine that citizens are billed properly in the future, we recommend that the Drain Commission office maintain an accurate subsidiary ledger for future years' special assessments.

In addition, the Arenac County Drain Commission levies several special assessments for maintenance on existing drains. While the Drain Commission has ledgers to track special assessments levied for maintenance and the corresponding expenditures related to the maintenance, the ledgers were not maintained throughout the year and were not properly reconciled at year end. The effect of this material weakness is that the Drain Commission has billed citizens for special assessments, yet is not effectively tracking the individual assessments to know the amount spent on those assessments and the remaining balance of each drain to be spent for maintenance in the future. We recommend that the Drain Commission reconcile its maintenance ledgers on a timely basis to ensure that special assessment levies for maintenance are accounted for accurately.

View of Responsible Officials:

The Board of Commissioners hired an independent contractor to reconcile its special assessments receivable and assist in creating an accurate subsidiary ledger and intends to maintain an accurate ledger going forward. The Drain Commission staff will work to reconcile its maintenance drain ledgers effective immediately.

### **REVIEW OF CANCELLED CHECKS**

In 2011, the County adopted a Fiscal Responsibility Policy. The policy states that cancelled checks are to be reviewed monthly. During our audit procedures related to cash, we observed two cancelled checks in our sample that only had one signature. Currently the County's policy requires two signatures. In addition, there was no indication of any investigation by Commissioners as to why there was only one signature and no indication of investigation as to whether it was a proper expenditure of the County. The effect of this material weakness is that checks could be written fraudulently and signed by only one individual or with unauthorized use of one department's signature stamp and the current system of internal control at the County would not investigate this and may not detect the fraud. We recommend that during the review of cancelled checks, investigation of cancelled checks with only one signature be conducted and documented in writing. In addition, the entire process of reviewing cancelled checks should be documented in writing by the Commissioner conducting the review.

View of Responsible Officials:

Effective immediately, the Commissioner reviewing cancelled checks will document the review in writing and also document investigation into any checks with only one signature.

## **APPENDIX II MANAGEMENT COMMENTS**

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. We consider the following deficiencies in the County of Arenac's internal control to be significant deficiencies:

### **INMATE TRUST BANK ACCOUNT**

The Michigan Department of Treasury's Accounting Procedures Manual for Local Units of Government requires that every bank account of the County be reconciled on a monthly basis to the County's general ledger. We recommend that each month the Sheriff's department and the Treasurer's office work together to ensure that the bank statement reconciliation for the inmate trust account agrees to the County's general ledger balance and to the residence balance summary report from the Sheriff's software.

Further, we recommend that the Sheriff receive the monthly bank statements for this account including cancelled check images. We recommend that the cancelled checks are reviewed for reasonableness in both vendor and endorsement and compared back to cash disbursement records each month. In addition, the sheriff should examine the bank statement for EFT and other non-check withdrawals for reasonableness in vendor and amount. This review should be documented by the Sheriff by initialing or signing the monthly reconciliations.

View of Responsible Officials:

The Sheriff's Department has worked throughout 2012 with its software company and the County Treasurer to reconcile its account. They are continuing to work with their software company to reconcile the account and clear old, inaccurate items in order to ensure the bank account is reconciled to the Sheriff's Department software and the County's general ledger.

### **BOARD REVIEW AND APPROVAL OF PRE-AUTHORIZED DISBURSEMENTS**

Under the County's current system of internal control certain expenditures including payroll expenditures are considered to be approved through the budget process. While it is allowable for certain, limited payments to be authorized to be paid before Board approval, the Accounting Procedures Manual for Local Units of Government in Michigan states that these payments must be approved after they are made. The County has made progress on this comment from prior years as the County Clerk is now providing the Board of Commissioners with a check register of these items. However, the County Commissioners are not comparing this check register to supporting documentation. The effect of this significant deficiency is that items shown on the check register may not reflect the true nature of the items paid and the Commissioners would not be aware because support was never examined. We recommend that disbursements authorized for payment at the beginning of the year through the budget process be reviewed after payment is made. This review should include not only a disbursement journal or check register but also invoices, contracts, or other supporting documentation to compare to the disbursement journal or check register.

View of Responsible Officials:

The Board of Commissioners will immediately determine the most cost effective manner to perform this review and will begin reviewing supporting documentation based upon their determination.

We have also noted various other items we feel could improve your internal controls or operating efficiencies. These items are not considered significant deficiencies or material weaknesses but are presented for your consideration.

**APPENDIX II  
MANAGEMENT COMMENTS**

**BUDGET PREPARATION AND CONTROL**

We observed that the County’s General Fund public works expenditures and the Road Patrol Millage Fund capital outlay exceeded appropriated amounts for December 31, 2012. We recommend that the Board of Commissioners amend the budgets for all funds periodically as needed and take into consideration recurring year-end adjustments.

In addition, we observed that the County adopted budgets for its Road Patrol Millage and Senior Citizen Millage Funds that resulted in a deficit fund balance for budget purposes. The Michigan Department of Treasury Uniform Budget Manual states that the total estimated expenditures, including an accrued deficit in the budget shall not exceed the total estimated revenues, including an available unappropriated surplus and the proceeds from bonds or other obligations issued under the fiscal stabilization act or the balance of the principal of these bonds or other obligations. As such, the County was not in compliance with the uniform budgeting manual by adopting a budget in a deficit.

**WRITTEN DOCUMENTATION FOR PAYROLL CHANGES**

During our audit procedures related to vacation and paid time off accruals, we observed a union employee with vacation carried over that was greater than the amount allowed in the applicable union contract. After further inquiry, it was determined that the Board of Commissioners approved the additional carryover but no written documentation was provided to the payroll department. We recommend that any approvals or changes to payroll related activities that differ from the approved union contract be provided to the payroll department in writing.

**INTERFUND BORROWING**

During our audit procedures related to debt, we observed that the Arenac County Drain Commission has two loans with the Arenac County 911 Fund. While the State of Michigan Department of Treasury allows borrowings from a special millage fund, interest must be charged. Both loans outstanding currently charge interest. However, it was observed that the October 2012 payment for the Sims Drain was not made by the Arenac County Drain Commission. We recommend that the interest payment to the 911 fund be increased to reflect the additional time between when the payment was originally due and when the payment was actually made.

**STATUS OF PRIOR YEAR COMMENTS:**

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

| <u>Comment</u>  | <u>Implemented/<br/>Situation<br/>Corrected</u> | <u>Management<br/>Decision To<br/>Not Implement</u> | <u>Progress<br/>Made</u> | <u>Situation<br/>Still<br/>Exists</u> |
|---|---|---|--------------------------|---------------------------------------|
| Financial Statement Preparation                           |   | X   |                          |                                       |
| Central Management of Grant Documents                     |   |   |                          | X                                     |
| Board Review and Approval of Pre-Authorized Disbursements |   |   | X                        |                                       |
| Inmate Trust Bank Account                                 |   |   | X                        |                                       |
| Budget Preparation and Control                            |   |   |                          | X                                     |
| Parks Internal Control                                    | X   |   |                          |                                       |
| Animal Control Department Internal Controls               | X   |   |                          |                                       |