

**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**

JAY B. RISING  
State Treasurer



Report on  
Examination

**COUNTY OF ONTONAGON**

**September 30, 2003**

Local Audit and Finance Division  
Bureau of Local Government Services

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ONTONAGON COUNTY  
BOARD OF COMMISSIONERS

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District Judge

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Treasurer

James R. Jessup  
Prosecuting Attorney

John Gravier  
Sheriff

William Turin  
Mine Inspector

Judith D. Roehm  
Clerk and Register of Deeds

COUNTY POPULATION--2000  
7,788

STATE EQUALIZED VALUATION--2003  
\$268,161,692



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JENNIFER M. GRANHOLM  
GOVERNOR

JAY B. RISING  
STATE TREASURER

December 10, 2003

Ontonagon County Board of Commissioners  
Ontonagon County Courthouse  
725 Greenland Road  
Ontonagon, Michigan 49953

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying general purpose financial statements of Ontonagon County, Michigan, as of and for the year ended September 30, 2003, as listed in the Table of Contents. These general purpose financial statements are the responsibility of Ontonagon County's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements, referred to above, present fairly in all material respects the financial position of Ontonagon County, as of September 30, 2003 and the results of its operations and the cash flows of its proprietary fund types for year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 10, 2003 on our consideration of the Ontonagon County's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of Ontonagon County, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and the Schedule of Findings and Questioned Costs (Schedule

1 and Schedule 2) are presented for purposes of additional analysis as required by US Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the general purpose financial statements. The accompanying supplemental and related information in Exhibits F through N are presented for purposes of additional analysis and is not a required part of the general purpose financial statements of Ontonagon County. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements, taken as a whole.



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

COUNTY OF ONTONAGON

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**ONTONAGON COUNTY  
 COMBINED BALANCE SHEET  
 ALL FUND TYPES, ACCOUNT GROUPS AND  
 DISCRETELY PRESENTED COMPONENT UNITS  
 September 30, 2003**

**EXHIBIT A**

	<u>GOVERNMENTAL FUNDS</u>		<u>PROPRIETARY FUND</u>	<u>FIDUCIARY FUND</u>	<u>ACCOUNT GROUPS</u>		<u>TOTAL (MEMORANDUM ONLY)</u>	<u>COMPONENT UNITS</u>		<u>TOTAL (MEMORANDUM ONLY)</u>
	General	Special Revenue	Enterprise Fund	Trust and Agency	General Fixed Assets	General Long-Term Debt	Primary Government	Road Commission	Economic Development Corporation	Reporting Entity
<b><u>ASSETS</u></b>										
Cash and Cash Equivalents	\$ 164,008	\$ 1,459,284	\$ 11,962	\$ 380,003			\$ 2,015,257	\$ 518,728	\$ 183,211	\$ 2,717,196
Receivables										
Taxes--Delinquent	13,789		351,309				365,098	8,089		373,187
Accounts		12,287	1,540				13,827	36,983		50,810
Interest		1,001					1,001			1,001
Economic Development Loans		260,700					260,700			260,700
Due From Local Units								98,174		98,174
Due From State	111,876	83,188					195,064	475,060		670,124
Due From Other Agencies	20,033						20,033			20,033
Due From Employees				(221)			(221)			(221)
Inventories (At Cost)								1,029,255		1,029,255
Prepaid Expense	9,164	2,615					11,779	62,641		74,420
Advances to Other Funds	250,000						250,000			250,000
Property, Plant and Equipment										
Net of Accumulated Depreciation					\$ 3,252,531		3,252,531	3,052,278		6,304,809
Amount to be Provided for Retirement of General Long-Term Debt									\$ 280,364	845,144
Total Assets	\$ 568,870	\$ 1,819,075	\$ 364,811	\$ 379,782	\$ 3,252,531	\$ 280,364	\$ 6,665,433	\$ 5,845,988	\$ 183,211	\$ 12,694,632
<b><u>LIABILITIES AND FUND EQUITY</u></b>										
Liabilities										
Accounts Payable	\$ 64,022	\$ 13,790					\$ 77,812	\$ 259,699		\$ 337,511
Redemption Certificate Fees Payable			\$ 337				337			337
Due to Schools				\$ (4,431)			(4,431)			(4,431)
Due to Townships				1,741			1,741			1,741
Due to Villages				1,854			1,854			1,854
Due to State of Michigan		18,725		351,478			370,203			370,203
Undistributed Interest				91			91			91
Undistributed Penal Fines				18,184			18,184			18,184

**ONTONAGON COUNTY  
COMBINED BALANCE SHEET  
ALL FUND TYPES, ACCOUNT GROUPS AND  
DISCRETELY PRESENTED COMPONENT UNITS  
September 30, 2003**

**EXHIBIT A  
(CONTINUED)**

	<u>GOVERNMENTAL FUNDS</u>		<u>PROPRIETARY FUND</u>	<u>FIDUCIARY FUND</u>	<u>ACCOUNT GROUPS</u>		<u>TOTAL (MEMORANDUM ONLY)</u>	<u>COMPONENT UNITS</u>		<u>TOTAL (MEMORANDUM ONLY)</u>
	General	Special Revenue	Enterprise Fund	Trust and Agency	General Fixed Assets	General Long-Term Debt	Primary Government	Road Commission	Economic Development Corporation	Reporting Entity
Liabilities (Continued)										
Undistributed Tax Collections				397			397			397
Accrued Liabilities	57,682	25,757					83,439	54,067		137,506
Stumpage Deposits Payable		200					200			200
Other Trust Items Payable				10,468			10,468			10,468
Advances--State of Michigan		52,000					52,000	411,745		463,745
Deferred Revenue--Taxes	13,789						13,789	8,089		21,878
Deferred Revenue--Other		286,161					286,161			286,161
Deferred Revenue--Forest Road Funds								382,972		382,972
Loans Payable						\$ 160,598	160,598			160,598
Advances From Other Funds			250,000				250,000			250,000
Vested Employee Benefits Payable						119,766	119,766	564,780		684,546
<b>Total Liabilities</b>	<b>135,493</b>	<b>396,633</b>	<b>250,337</b>	<b>379,782</b>	<b>\$ -</b>	<b>280,364</b>	<b>1,442,609</b>	<b>1,681,352</b>	<b>\$ -</b>	<b>3,123,961</b>
Fund Equity										
Investment in General Fixed Assets					3,252,531		3,252,531	3,052,278		6,304,809
Retained Earnings										
Unreserved			114,474				114,474			114,474
Fund Balance										
Reserved for										
Long-Term Advances to Other Funds	160,000						160,000			160,000
Family Counseling	1,548						1,548			1,548
Economic Development Grants and Loans		642,156					642,156			642,156
Self-Insurance								121,998		121,998
Inventory								1,029,255		1,029,255
Building Renovations									54,606	54,606
Unreserved/Undesignated	271,829	780,286					1,052,115	(38,895)	128,605	1,141,825
<b>Total Fund Equity</b>	<b>433,377</b>	<b>1,422,442</b>	<b>114,474</b>	<b>-</b>	<b>3,252,531</b>	<b>-</b>	<b>5,222,824</b>	<b>4,164,636</b>	<b>183,211</b>	<b>9,570,671</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 568,870</b>	<b>\$ 1,819,075</b>	<b>\$ 364,811</b>	<b>\$ 379,782</b>	<b>\$ 3,252,531</b>	<b>\$ 280,364</b>	<b>\$ 6,665,433</b>	<b>\$ 5,845,988</b>	<b>\$ 183,211</b>	<b>\$ 12,694,632</b>

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

ONTONAGON COUNTY  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCES--ALL GOVERNMENTAL FUND TYPES  
 AND DISCRETELY PRESENTED COMPONENT UNITS  
 For the Fiscal Year Ended September 30, 2003**

**EXHIBIT B**

	<u>GOVERNMENTAL FUNDS</u>		<u>TOTAL (MEMORANDUM ONLY)</u>	<u>COMPONENT UNITS</u>		<u>TOTAL (MEMORANDUM ONLY)</u>
	General	Special Revenue	Primary Government	Road Commission	Economic Development Corporation	Reporting Entity
Revenues						
Taxes	\$1,441,448	\$ 228,448	\$1,669,896	\$ 744,679		\$2,414,575
Licenses and Permits	3,598		3,598			3,598
Federal Grants	194,092	152,833	346,925	30,579		377,504
State Grants	483,244	276,837	760,081	2,481,365		3,241,446
Contributions/Local Units				127,066	\$ 1,619	128,685
Charges for Services	318,895	158,504	477,399	1,770,688	1,397	2,249,484
Fines and Forfeits	3,192	29,832	33,024			33,024
Interest and Rentals	20,363	26,287	46,650	16,502	3,270	66,422
Other Revenue	78,304	418,557	496,861	36,555	12,205	545,621
<b>Total Revenues</b>	<b>2,543,136</b>	<b>1,291,298</b>	<b>3,834,434</b>	<b>5,207,434</b>	<b>18,491</b>	<b>9,060,359</b>
Expenditures						
Current						
Legislative	29,919		29,919			29,919
Judicial	364,310	9,760	374,070			374,070
General Government	716,328		716,328			716,328
Public Safety	654,313	97,502	751,815			751,815
Public Works	13,988	395,655	409,643	4,913,093		5,322,736
Health and Welfare	124,486	762,419	886,905		75,344	962,249
Recreation and Cultural	22,842	28,108	50,950			50,950
Other	715,011	728	715,739			715,739
Capital Outlay	72,602	1,175	73,777	579,626		653,403
Debt Service						
Interest	8,118		8,118			8,118
<b>Total Expenditures</b>	<b>2,721,917</b>	<b>1,295,347</b>	<b>4,017,264</b>	<b>5,492,719</b>	<b>75,344</b>	<b>9,585,327</b>
Excess of Revenues Over (Under) Expenditures	(178,781)	(4,049)	(182,830)	(285,285)	(56,853)	(524,968)
Other Financing Sources (Uses)						
Operating Transfers In						
Primary Government	222,698	32,000	254,698		103,000	357,698
Operating Transfers (Out)						
Primary Government Component Unit	(32,000)	(18,698)	(50,698)			(50,698)
		(103,000)	(103,000)			(103,000)
<b>Total Other Financing Sources (Uses)</b>	<b>190,698</b>	<b>(89,698)</b>	<b>101,000</b>	<b>-</b>	<b>103,000</b>	<b>204,000</b>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	11,917	(93,747)	(81,830)	(285,285)	46,147	(320,968)
Fund Balance--October 1, 2002	421,460	1,516,189	1,937,649	1,397,646	137,064	3,472,359
Fund Balance--September 30, 2003	\$ 433,377	\$1,422,442	\$1,855,819	\$1,112,361	\$183,211	\$3,151,391

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

**ONTONAGON COUNTY**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES--BUDGET AND ACTUAL**  
**GENERAL AND SPECIAL REVENUE FUNDS**  
**For the Fiscal Year Ended September 30, 2003**

**EXHIBIT C**

	<b>GENERAL FUND</b>			<b>SPECIAL REVENUE FUNDS</b>		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>						
Taxes	\$1,440,130	\$1,441,448	\$ 1,318	\$ 226,724	\$ 228,448	\$ 1,724
Licenses and Permits	3,150	3,598	448			
Federal Grants	201,274	194,092	(7,182)	156,695	152,833	(3,862)
State Grants	509,122	483,244	(25,878)	270,690	276,837	6,147
Contributions From Local Units						
Charges for Services	305,830	318,895	13,065	154,874	158,504	3,630
Fines and Forfeits	2,250	3,192	942	29,832	29,832	-
Interest and Rentals	17,288	20,363	3,075	25,968	26,287	319
Other Revenue	81,793	78,304	(3,489)	247,244	418,557	171,313
<b>Total Revenue</b>	<b>2,560,837</b>	<b>2,543,136</b>	<b>(17,701)</b>	<b>1,112,027</b>	<b>1,291,298</b>	<b>179,271</b>
<b>Expenditures</b>						
<b>Current</b>						
Legislative	31,171	29,919	1,252			
Judicial	378,249	364,310	13,939	9,200	9,760	(560)
General Government	734,206	716,328	17,878	500		500
Public Safety	671,911	654,313	17,598	136,681	97,502	39,179
Public Works	15,326	13,988	1,338	420,320	395,655	24,665
Health and Welfare	128,336	124,486	3,850	588,606	762,419	(173,813)
Recreation and Cultural	22,691	22,842	(151)	28,108	28,108	-
Other	726,041	715,011	11,030	4,478	728	3,750
Capital Outlay	82,745	72,602	10,143	25,433	1,175	24,258
Debt Service	8,118	8,118	-			
<b>Total Expenditures</b>	<b>2,798,794</b>	<b>2,721,917</b>	<b>76,877</b>	<b>1,213,326</b>	<b>1,295,347</b>	<b>(82,021)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(237,957)</b>	<b>(178,781)</b>	<b>59,176</b>	<b>(101,299)</b>	<b>(4,049)</b>	<b>97,250</b>
<b>Other Financing Sources (Uses)</b>						
<b>Operating Transfers In</b>						
Primary Government	223,969	222,698	(1,271)	32,000	32,000	-
<b>Operating Transfers (Out)</b>						
Primary Government	(34,000)	(32,000)	2,000	(19,084)	(18,698)	386
Component Unit				(103,000)	(103,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>189,969</b>	<b>190,698</b>	<b>729</b>	<b>(90,084)</b>	<b>(89,698)</b>	<b>386</b>
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>	<b>(47,988)</b>	<b>11,917</b>	<b>59,905</b>	<b>(191,383)</b>	<b>(93,747)</b>	<b>97,636</b>
<b>Fund Balance--October 1, 2002</b>	<b>421,460</b>	<b>421,460</b>	<b>-</b>	<b>1,516,189</b>	<b>1,516,189</b>	<b>-</b>
<b>Fund Balance--September 30, 2003</b>	<b>\$ 373,472</b>	<b>\$ 433,377</b>	<b>\$ 59,905</b>	<b>\$1,324,806</b>	<b>\$1,422,442</b>	<b>\$ 97,636</b>

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

**ONTONAGON COUNTY  
 COMBINED STATEMENT OF REVENUES, EXPENSES  
 AND CHANGES IN RETAINED EARNINGS  
 PROPRIETARY FUND TYPE  
 For the Fiscal Year Ended September 30, 2003**

**EXHIBIT D**

	<u>Enterprise Funds</u>
Operating Revenues	
Interest and Penalties on Taxes	<u>\$ 110,229</u>
Total Operating Revenues	<u>110,229</u>
Operating Expenses	
Supplies and Postage	<u>4,213</u>
Total Operating Expense	<u>4,213</u>
Net Operating Income Before Operating Transfers	106,016
Operating Transfers (Out) to General Fund	<u>(204,000)</u>
Net Income (Loss)	(97,984)
Retained Earnings--October 1, 2002	<u>212,458</u>
Retained Earnings--September 30, 2003	<u><u>\$ 114,474</u></u>

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

**ONTONAGON COUNTY  
 COMBINED STATEMENT OF CASH FLOWS  
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  
 PROPRIETARY FUND TYPE  
 For the Fiscal Year Ended September 30, 2003**

**EXHIBIT E**

	<u>Enterprise Funds</u>
Cash Flows From Operating Activities	
Interest and Penalties on Taxes	\$ 110,229
Operating Expenses	(4,213)
Delinquent Taxes Purchased	(655,548)
Delinquent Taxes Collected	694,480
(Increase) or Decrease in Other Receivables	(298)
Increase or (Decrease) in Other Payables	130
	<u>144,780</u>
Net Cash Provided by Operating Activities	
Cash Flows From Noncapital Financing Activities	
Advances From Other Funds	515,000
Return of Advances From Other Funds	(550,000)
Transfers (Out)	(204,000)
	<u>(239,000)</u>
Net Cash Provided by Noncapital Financing Activities	
Net Increase (Decrease) in Cash and Cash Equivalents	(94,220)
Cash and Cash Equivalents--October 1, 2002	<u>106,182</u>
Cash and Cash Equivalents--September 30, 2003	<u>\$ 11,962</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ 106,016
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
(Increase) Decrease Receivables	
Delinquent Taxes Receivable	38,932
Forfeiture Certificate Fees Receivable	(298)
Increase (Decrease) in Liabilities	
Redemption Certificate Fees Payable	130
	<u>130</u>
Net Cash Provided by Operating Activities	<u>\$ 144,780</u>

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

# ONTONAGON COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE A--FINANCIAL REPORTING ENTITY

Ontonagon County is a municipal corporation governed by an elected five member board of commissioners. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the county (the primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. The component units discussed in Note B are included in the county's financial reporting entity because of the significance of their operational or financial relationships with the county.

The component unit columns in the combined financial statements include the financial data of the Ontonagon County Road Commission and the Ontonagon County Economic Development Corporation (EDC). These financial statements are reported in separate columns to emphasize that they are legally separate from the county.

#### Discretely Presented Component Units

The Ontonagon County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a three member board of county road commissioners appointed by the county board of commissioners. The Road Commission may not issue debt or levy property taxes without the county's approval. The Road Commission's property taxes are levied under the taxing authority of the county, as approved by the county electors, are included as part of the county's total tax levy and are reported in the county Road Fund.

The Ontonagon County Economic Development Corporation (EDC), was established in 1976 pursuant to the provisions of Public Act 338 of 1974, as amended. The EDC is included as part of the Ontonagon County entity for financial reporting purposes because its board is appointed by the Ontonagon County Board of Commissioners. A significant portion of its operating budget is funded by county appropriations. The EDC may not issue debt without the county's approval and the EDC administers the County's Economic Development Revolving Loan Fund established by Federal grants to the county. The financial statements of the County Economic Development Corporation are included in the special revenue fund category.

Complete audited and/or unaudited financial statements of the individual component units can be obtained from their respective administrative offices or from the county clerk's office at the courthouse.

ONTONAGON COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--FINANCIAL REPORTING ENTITY (Continued)

Administrative Offices

Ontonagon County Economic Development Corporation  
Ontonagon County Courthouse  
725 Greenland Road  
Ontonagon, Michigan 49953

Ontonagon County Road Commission  
415 Spar Street  
Ontonagon, Michigan 49953

Jointly Governed Organization--District Health Department

Ontonagon County, in conjunction with Baraga, Gogebic, Houghton and Keweenaw counties, has created the Western Upper Peninsula 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 Houghton County as a discretely presented component unit. 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. Member counties' percentages and dollar share of the net operating budget for 2003 were:

<b>Ontonagon</b>	<b>13.80%</b>	<b>\$ 31,057</b>
<b>Baraga</b>	<b>11.50%</b>	<b>25,882</b>
<b>Gogebic</b>	<b>27.20%</b>	<b>61,215</b>
<b>Houghton</b>	<b>43.70%</b>	<b>98,348</b>
<b>Keweenaw</b>	<b><u>3.80%</u></b>	<b><u>8,552</u></b>
<b>Total</b>	<b><u>100.00%</u></b>	<b><u>\$225,054</u></b>

Ontonagon County's 2003 actual appropriation to the District Health Department was \$17,978 as the counties of Ontonagon, Gogebic and Houghton reduced their budget allocations to amounts less than the approved funding formula. An additional \$4,763 was appropriated from the State-shared cigarette tax revenues.

ONTONAGON COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--FINANCIAL REPORTING ENTITY (Continued)

Jointly Governed Organization--Community Mental Health Authority

Ontonagon County, in conjunction with Baraga, Houghton and Keweenaw counties, has created the Copper Country Mental Health Services Board, which is a community mental health organization defined in the Mental Health Code, MCL 330.1001, et seq., as amended, (Code). During 1996, the jointly created board became a community mental health authority under Section 205 of the Code in accordance with the Urban Cooperation Act. The Copper Country Community Mental Health Services Authority Board is composed of 12 members apportioned between the member counties on the basis of population. The board appointments are approved by their respective county board of commissioners. All of the financial operations of the Mental Health Authority are recorded in the records of Houghton County as a discretely presented component unit. The funding of the Mental Health Authority operations by the member counties is based on an agreement between the Mental Health Board and member counties, which provides for single annual appropriations to provide for State institution inpatient costs and mental health program costs.

The board approved member county appropriations for 2003 were as follows:

<b>Ontonagon</b>	<b>\$ 48,814</b>
<b>Baraga</b>	<b>33,795</b>
<b>Houghton</b>	<b>164,495</b>
<b>Keweenaw</b>	<b><u>8,500</u></b>
<b>Total</b>	<b><u>\$255,604</u></b>

Ontonagon County's 2003 appropriation to the Mental Health Board was \$48,814.

NOTE B--DESCRIPTION OF FUND TYPES

Basis of Presentation

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

# ONTONAGON COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--DESCRIPTION OF FUND TYPES (Continued)

The financial activities of the county are recorded in separate funds and account groups, categorized as follows:

#### GOVERNMENTAL FUNDS

##### General Fund

This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, State and Federal aid, and charges for services to provide for the administration and operation of: (1) general county governmental departments, boards and commissions; (2) court systems; (3) law enforcement; and (4) health, welfare and medical assistance. The fund includes the general operating expenditures of the county.

##### Special Revenue Funds

These funds are used to account for specific revenue (other than special assessments, expendable trusts, or major capital projects) derived from State and Federal grants, general fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

#### PROPRIETARY FUNDS

##### Enterprise Funds

These funds account for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The principal operating revenues of the delinquent tax fund are collection fees for delinquent taxes. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### FIDUCIARY FUNDS

##### Agency Funds

These funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds.

# ONTONAGON COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--DESCRIPTION OF FUND TYPES (Continued)

#### ACCOUNT GROUPS

##### General Fixed Assets Account Group

This account group presents the fixed assets of the county utilized in its operations, other than those fixed assets recorded in proprietary and trust funds.

##### General Long-Term Debt Account Group

This account group presents the balance of general obligation long-term debt, which is not recorded in proprietary or trust funds.

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

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

#### Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

#### Governmental Funds and Agency Funds

The governmental fund types (General and Special Revenue) use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. The agency funds also use the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Measurable refers to the ability to quantify in monetary terms of the amount of the revenue. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on general long-term debt, which is recognized when due; and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

# ONTONAGON COUNTY

## NOTES TO FINANCIAL STATEMENTS

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

#### Proprietary Funds

The proprietary fund types (Enterprise Funds) are accounted for on a cost-of-service or "capital maintenance" measurement focus, using the accrual basis of accounting. Ontonagon County applies all ASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

#### Cash, Cash Equivalents, and Investments

For purposes of the statement of cash flows, demand deposits and short-term investments with a maturity of three months or less, when acquired, are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value based on quoted market prices.

#### Current Property Taxes

The county property tax is levied on each December 1st on the taxable valuation of property located in the county as of the preceding December 31st.

The 2002 State equalized valuation of Ontonagon County amounted to \$233,345,942 and the taxable valuation is \$169,471,436, on which ad valorem taxes of 6.4451 mills were levied for county operating purposes; .4910 mills for the county commission on aging for the maintenance and expansion of its present programs for senior citizens; .4942 mills for county transit system operating purposes; .2965 mills for Gogebic/Ontonagon Community Action programs in Ontonagon County; and 4.9118 mills for county road commission and the Village of Ontonagon's snow removal and road construction purposes. In addition, specific taxes are levied under the Industrial Facilities Tax Act and Commercial Forest Reserve Act. The current tax revenues, reflected in the county's 2003 financial statements, consist of the amount of the 2002 tax levy collected by the local unit treasurers prior to March 1, 2003.

#### Taxes Receivable--Delinquent

The taxes receivable--delinquent of \$13,789, recorded in the General Fund, and \$8,089 recorded in the component unit (Road Commission) financial statements, consist of unpaid personal property taxes for the years 1998 through 2002. The county's policy is to recognize revenue from delinquent property taxes when collected. Accordingly, the delinquent taxes receivable are recorded in the county's financial statements with an offsetting credit to deferred revenue--taxes.

# ONTONAGON COUNTY

## NOTES TO FINANCIAL STATEMENTS

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

#### Enterprise Funds

The taxes receivable--delinquent of \$351,309 which are recorded in the Enterprise Funds, consist of the unpaid delinquent real property taxes which were purchased from all of the taxing units in Ontonagon County by the County's 100% Tax Payment Funds for the years 1997 (\$750), 1998 (\$1,570), 1999 (\$152), 2000 (\$5,039), 2001 (\$70,443) and 2002 (\$273,355). The County's 100% Tax Payment Funds are financed entirely by advances from the County's General Fund. Accordingly, none of the delinquent taxes are pledged for the payment of notes.

#### Inventories

The component unit (Road Commission) inventories, consisting of road materials of \$763,161 and equipment parts and materials of \$266,094, are priced at cost based on the average unit cost method. Inventory items are charged to road construction and maintenance, and to equipment repairs and operations, as used.

#### General Fixed Assets and Depreciation

Fixed assets of all funds and component units are stated at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Governmental funds' fixed assets are recorded in the general fixed assets account group and are not depreciated.

Fixed assets used in governmental fund type operations are accounted for in the general fixed assets account group, rather than in governmental funds. Public domain "infrastructure" general fixed assets consisting of certain improvements other than buildings, including roads, curbs, and gutters, streets and sidewalks, drainage systems, and lighting systems, were recorded during 2003 for the 2003 infrastructure acquisitions.

Depreciation on Road Commission fixed assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other fixed assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the operating fund as a charge to various expense accounts and a credit to a depreciation credits account. Accordingly, the annual depreciation expense does not affect the available operating fund equity.

# ONTONAGON COUNTY

## NOTES TO FINANCIAL STATEMENTS

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

The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

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

#### Deferred Revenue

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

#### Use of Estimates

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

#### Cost Allocation Plans

Ontonagon County has prepared and submitted to the Passenger Transportation Division, Michigan Department of Transportation, a central services cost allocation plan to document those general fund costs which should be allocated to the various Federal and State grant programs. This plan has been adhered to in the preparation of the financial statements. The amount of \$14,614 was paid to the General Fund by the Public Transit Fund for the 2003 fiscal year central services charges.

#### Other Financing Sources (Uses)

The transfers of cash between the various county funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case they are carried as assets and liabilities of the advancing or borrowing funds.

# ONTONAGON COUNTY

## NOTES TO FINANCIAL STATEMENTS

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

#### Total Column on Combined Statements--Overview

The total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

### NOTE D--LEGAL COMPLIANCE

#### Budgets and Budgetary Accounting

Budgets are adopted by the county board of commissioners for the General Fund and special revenue funds, except for the County Road Fund and County Economic Development Corporation Fund whose budgets are adopted and administered by the board of county road commissioners and the board of county economic development corporation, respectively. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budgets are adopted at the activity level and control is exercised at that level. The county board of commissioners has authorized the county's chief administrative officer (county clerk) to make general fund budget transfers between activities in September, when necessary, without increasing the overall budget and with the transfers to be subsequently presented to the board for their review and approval. Also, the board of road commissioners has authorized its chief administrative officer and fiscal officer to amend the County Road Fund budget, when necessary, without increasing the overall budget, by transferring funds between expenditure cost centers (activities). Budgeted revenues and expenditures, as presented in Exhibit C, include any authorized amendments to the original budgets as adopted.

ONTONAGON COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE D--LEGAL COMPLIANCE (Continued)

In noncompliance with Public Act 2 of 1968, as amended, expenditures were incurred in excess of amounts appropriated in the amended budgets for the activities or functions of the special revenue funds as follows:

<u>Fund/Activity or Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Expenditures Over Budget</u>
General Fund			
Recreational and Cultural	\$ 22,691	\$ 22,842	\$ 151
Special Revenue Funds			
Friend of the Court Fund			
Judicial	200	662	462
Law Library Fund			
Judicial	9,000	9,098	98
Economic Development Revolving Loan Fund			
Health and Welfare	114,000	121,500	7,500
Social Welfare Fund			
Health and Welfare	143,550	318,524	174,974
Veterans' Trust Fund			
Health and Welfare	2,616	6,455	3,839

NOTE E--CASH AND INTEREST-BEARING DEPOSITS

Michigan Compiled Laws, Section 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The county's deposits and investments are in accordance with statutory authority.

The county has designated six banks for deposit of county funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and includes all of the above investments.

ONTONAGON COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE E--CASH AND INTEREST-BEARING DEPOSITS (Continued)

The risk disclosures for the county's deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

<u>Cash and Deposits</u>	Carrying Amounts		
	Primary Government	Component Units	Total
Imprest Cash	\$ 925	\$ 110	\$ 1,035
Insured (FDIC)	406,709	513,407	920,116
Uninsured and Uncollateralized	1,607,623	188,422	1,796,045
Total	\$ 2,015,257	\$ 701,939	\$ 2,717,196

  

<u>Deposits</u>	Financial Institution Balance		
	Primary Government	Component Units	Total
Insured (FDIC)	\$ 407,454	\$ 513,407	\$ 920,861
Uninsured and Uncollateralized	1,679,888	306,685	1,986,573
Total	\$ 2,087,342	\$ 820,092	\$ 2,907,434

NOTE F--ACCOUNTS RECEIVABLE

General Fund

The accounts receivable recorded in the general fund consists of departmental collections for September, which was in transit at the year end. The receivables are not offset by deferred revenue.

Special Revenue Funds

The accounts receivable recorded in special revenue funds consist of the Public Transit Fund billings to other agencies for transit services provided to those agencies on a contractual basis in the amount of \$3,520, 911 Service Funds for September collections received in October and November in the amount of \$8,407 and a reimbursement of \$360 to the Law Library Fund.

Component Unit

The accounts receivable recorded in the Road Commission consist of sundry receivables. The receivables were not offset by deferred revenue because they were collected within 60 days after the fiscal year end.

## ONTONAGON COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE G--ECONOMIC DEVELOPMENT LOANS RECEIVABLE

The County's Economic Development Revolving Loan Fund was established by the county board of commissioners from Federal grant monies received from the Michigan Department of Commerce under a Michigan Small Cities Community Development Block Grant (CDBG) Program. The county has established a revolving loan fund program, which is administered by the Ontonagon County Economic Development Corporation, to provide loans and/or grants for projects which provide for economic development and private sector job creation and retention in the county.

The loans to applicants are recorded as expenditures of the Economic Development Revolving Loan Fund when paid, and the loan repayments are recorded as revenues when received by the county. Outstanding loans receivable are recorded in the fund with an offsetting credit to deferred revenue.

At September 30, 2003, the Revolving Loan Fund has six outstanding loan agreements totaling \$260,700. Interest and principal payments on all outstanding loans are current.

#### NOTE H--ADVANCES TO OTHER FUNDS--GENERAL FUND

The county's present policy is to finance the working capital requirements of their 100% Tax Payment Funds (Enterprise) entirely with cash advances from the General Fund. At September 30, 2003, a total of \$250,000 was advanced of which approximately \$90,000 was available to be returned to the General Fund within 60 days of period end. Accordingly, the balance of \$160,000 is recorded as an amount reserved for long-term advances in the General Fund's fund balance.

ONTONAGON COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE I--GENERAL FIXED ASSETS

Following are summaries of the changes in the County and Road Commission's (component unit) general fixed assets account groups.

General Fixed Assets Account Group--Primary Government

	Account Balances <u>10/01/02</u>	<u>Additions</u>	<u>Deductions</u>	Account Balances <u>09/30/03</u>
Fixed Assets Accounts				
Land and Improvements	\$ 50,300			\$ 50,300
Buildings	2,189,880			2,189,880
Office and Other Equipment	217,811	\$ 16,078	\$ 5,352	228,537
Office Furniture/Fixture	211,035	279		211,314
Vehicles	<u>560,280</u>	<u>57,220</u>	<u>45,000</u>	<u>572,500</u>
Total Fixed Assets	<u>\$3,229,306</u>	<u>\$ 73,577</u>	<u>\$ 50,352</u>	<u>\$ 3,252,531</u>

Capital outlay expenditures were \$200 more than the additions in the detailed fixed asset records.

General Fixed Assets Account Group--Road Commission (Component Unit)

	Account Balances <u>10/01/2002</u>	<u>Additions</u>	<u>Deductions/ Adjustments</u>	Account Balances <u>09/30/2003</u>
Fixed Assets Accounts				
Land and Improvements	\$ 10,412	\$ 39,026		\$ 49,438
Building	2,193,184	51,750		2,244,934
Road Equipment	5,663,402	527,876	\$ 133,835	6,057,443
Shop Equipment	135,941			135,941
Office Equipment	76,345			76,345
Engineer's Equipment	24,350			24,350
Infrastructure		856,305		856,305
Depletable Assets	<u>1,408</u>			<u>1,408</u>
Total Fixed Assets	<u>8,105,042</u>	<u>1,474,957</u>	<u>133,835</u>	<u>9,446,164</u>
Reserve for Depreciation Accounts				
Building	990,000	62,695		1,052,695
Road Equipment	4,912,885	351,521	133,835	5,130,571
Shop Equipment	114,080	4,895		118,975
Office Equipment	67,746	1,456		69,202
Engineer's Equipment	<u>21,468</u>	<u>975</u>		<u>22,443</u>
Total Accumulated Depreciation	<u>6,106,179</u>	<u>421,542</u>	<u>133,835</u>	<u>6,393,886</u>
Property, Plant and Equipment Equity				
Road Commission Funds	<u>\$1,998,863</u>	<u>\$ 1,474,957</u>	<u>\$ 421,542</u>	<u>\$ 3,052,278</u>

ONTONAGON COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE J--LONG-TERM DEBT

The individual long-term debt and other long-term obligations of Ontonagon County, and the changes therein, may be summarized as follows:

Primary Government General Long-Term Debt Account Group

	Balances 10/01/02	Additions (Reductions)	Balances 09/30/03
<u>Primary Government</u>			
Loans Payable			
Michigan Strategic Fund Renaissance Park Fund loan for infrastructure improvements at the White Pine Industrial Park, \$191,700 at 5% payable as detailed below.	\$ 160,716	\$ (118)	\$ 160,598
Accrued Employee Benefits (See Note K)	117,456	2,310	119,766
Total General Long-Term Debt Account Group--Primary Government	\$ 278,172	\$ 2,192	\$ 280,364

The Michigan Strategic Fund (MSF) loan was made jointly to Ontonagon County and Carp Lake Township (recipients) in accordance with an Economic Development Financing Agreement which provides, In part, as follows: During the term of the project, June 1, 1999 to May 31, 2004, the recipients shall earn credits equal to \$3,834 for each qualifying net new job created and added to the existing job base. Commencing July 1, 2000 and every quarter thereafter until the end of the project period, the recipients will report net new jobs created with credits of \$3,834 per job applied first towards accrued interest and then to the principal loan balance. The maximum credits which may be earned shall not exceed 50% of the CDBG loan amount plus accrued interest. MSF shall determine the principal balance due as of August 1, 2004 and shall notify recipients of the amount by July 15, 2004. The principal amount shall accrue interest at a rate of 5% per annum for a period of fourteen (14) years, commencing June 1, 2000. Recipients shall make equal annual payments of interest only commencing June 1, 2001 thru June 1, 2003. Principal and interest payments shall commence August 1, 2004 and every quarter thereafter, sufficient to fully retire the debt by May 31, 2014. Recipients may repay all or a part of the principal balance of the loan at any time. The loan is secured by a Revenue Sharing Pledge Agreement.

As of June 1, 2003, MSF reported that there has been ten (10) job credits earned resulting in a reduction of \$13,159.81 in principal and a net balance of accrued interest payable in the amount of \$8,117.92. The interest obligations are budgeted and paid from the County's General Fund, with 50% of the amount reimbursed by Carp Lake Township.

ONTONAGON COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE J--LONG-TERM DEBT (Continued)

Component Unit--Road Commission General Long-Term Debt Account Group

	<u>Balance</u> <u>10/01/2002</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>09/30/2003</u>
Vested Employee Benefits			
Vacation Benefits	\$ 72,141	\$ (1,614)	\$ 70,527
Sick Leave Benefits	<u>452,053</u>	<u>42,200</u>	<u>494,253</u>
Total Component Unit--Road Commission General Long-Term Debt Account Group	<u>\$ 524,194</u>	<u>\$ 40,586</u>	<u>\$ 564,780</u>
Total Reporting Entity General Long-Term Debt Account Group	<u>\$ 802,366</u>	<u>\$ 42,778</u>	<u>\$ 845,144</u>

NOTE K--COMPENSATED ABSENCES

Accrued Vacation and Sick Leave Payable

The County and Road Commission (component unit) has an accrued liability to their employees for accumulated vacation and vested sick leave benefits as of September 30, 2003, as follows:

	<u>Vacation</u>	<u>Sick Leave</u>	<u>Total</u>
Primary Government			
County General Employees	\$ 48,234	\$ 19,657	\$ 67,891
Sheriff Department Employees	<u>30,781</u>	<u>21,094</u>	<u>51,875</u>
Total Primary Government	<u>\$ 79,015</u>	<u>\$ 40,751</u>	<u>\$119,766</u>
Component Unit--Road Commission			
Road Commission Employees	<u>\$ 70,527</u>	<u>\$494,253</u>	<u>\$564,780</u>
Total Component Unit	<u>\$ 70,527</u>	<u>\$494,253</u>	<u>\$564,780</u>
Total Accrued Employee Benefits Payable--Reporting Entity	<u>\$149,542</u>	<u>\$535,004</u>	<u>\$684,546</u>

# ONTONAGON COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE K--COMPENSATED ABSENCES (Continued)

#### VACATION BENEFIT POLICIES

##### County General, Sheriff Department and Public Transit Employees

The County's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Vacation benefits earned are credited to each employee on a biweekly basis. The county has not established a formal policy regarding a maximum authorized accumulation of vacation hours.

##### Road Commission Employees

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. The annual vacation benefits earned by each employee are credited on the employee's employment anniversary date. Employees are required to use their vacation benefits within 1 year, except for those employees earning 3 or 4 weeks of vacation may be paid at their anniversary date for any unused portion of those weeks at their regular rate of pay, with the approval of the engineer or foreman.

#### SICK LEAVE BENEFIT POLICIES

##### County General, Sheriff Department and Public Transit Employees

The county's employment policies provide for sick leave benefits to be earned at the rate of 1 day per month, with a maximum accumulation of 100 days. The county's policy for county general and public transit employees provides that upon death, retirement, or voluntary termination employees shall be paid for 20% of all unused sick days to a maximum of 100 days. Sheriff department employees are paid for 50% of their accumulated sick leave benefits when they separate from employment, except when dismissed for cause, in which case, they are entitled to payment of 25% of their accumulated benefits.

##### Road Commission Employees

Road Commission employment policies provide for sick leave benefits to be earned at the rate of 1 day per month, with an unlimited accumulation. Upon permanent separation from employment, employees hired prior to July 1, 1994 shall be paid at their regular rate of pay for 100% of any accumulated unused sick leave. Those employees hired after July 1, 1994 shall be paid for a maximum of 80 days of accumulated unused sick leave.

## ONTONAGON COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE L--DEFERRED COMPENSATION

The County and Road Commission offers all its employees a choice of three deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) 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 employer (county and road commission) 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 or Road Commission's financial statements.

#### NOTE M--EMPLOYEES' RETIREMENT PLANS

##### Description of Plan and Plan Assets

Ontonagon County and the two component units, the Ontonagon County Economic Development Corporation (EDC) and the Ontonagon County Road Commission have separate agent multiple-employer defined benefit pension plans with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The plan's pension service requirements are computed using credited service at the time of termination of membership multiplied by the sum of 2% for county general and non-union employees, 2.5% for sheriff department employees, 2% for EDC employees and 2.25% for road commission employees times the final average compensation. The most recent period for which actuarial data was available was for the fiscal period ended December 31, 2002.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

ONTONAGON COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE M--EMPLOYEES' RETIREMENT PLANS (Continued)

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the County and Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The pension contributions were 10.17%, 6.95%, 7.07%, 15.85% and 19.59% for the county as follows: general group, sheriff, non-union, EDC and the Road Commission of covered payroll at December 31, 2002, respectively.

Annual Pension Cost

For the calendar year ended December 31, 2002, the annual pension costs were \$129,707 for the County, \$4,478 for the EDC, and \$398,067 for the Road Commission which was equal to their required and actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2000. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three-Year Trend Information for GASB Statement No. 27

Year Ended December 31	(APC)			Contributed			Contributed		
	County	EDC	Road	County	EDC	Road	County	EDC	Road
2000	\$ 142,999	\$ 4,680	\$ 377,293	100%	100%	100%	\$0	\$0	\$0
2001	135,865	4,576	454,539	100	100	100	\$0	\$0	\$0
2002	129,707	4,478	398,067	100	100	100	\$0	\$0	\$0

ONTONAGON COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE M--EMPLOYEES' RETIREMENT PLANS (Continued)

Required Supplementary Information for GASB Statement No. 27

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Overfunded (Unfunded) AAL (UAAL) (1)-(2)	Funded Ratio (1)/(2)	Covered Payroll	UAAL as a Percent of Covered Payroll
2000						
General	\$3,546,407	\$3,857,457	\$ (311,050)	92%	\$1,275,812	24%
EDC	33,868	50,174	(16,306)	68%	29,198	56%
Road	4,674,546	8,695,106	(4,020,560)	54%	1,801,668	223%
2001						
General	3,848,410	4,619,233	(770,823)	83%	1,305,580	59%
EDC	41,674	55,125	(13,451)	76%	27,665	49%
Road	5,308,448	9,877,882	(4,574,434)	54%	2,024,994	226%
2002						
General	3,985,661	5,030,211	(1,044,550)	79%	1,378,927	76%
EDC	48,810	60,835	(12,025)	80%	28,250	43%
Road	5,738,460	10,354,113	(4,615,653)	55%	2,007,959	230%

NOTE N--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note M, the Ontonagon County Road Commission provides post-employment health care benefits and life insurance benefits in accordance with the provisions of Article 14, Section 2(E), and Section 4 of the union agreement. The post-employment health care benefit provides that the Road Commission shall pay the full hospitalization insurance plan premium for the retirees and spouses for a five-year period from the date of retirement. The Road Commission will pay 25% of the premium on a Blue Cross/Blue Shield Supplemental Insurance Plan or alternate plan capping the alternate plan at 25% of the offered Blue Cross Plan for the retirees and their spouses. The post-employment life insurance benefit provides that the Road Commission will provide for term-life insurance coverage of \$1,500 for each Road Commission employee who retired prior to July 1, 1992, and \$5,000 for those retired after that date.

The Road Commission's policy is to finance these benefits on a pay-as-you-go basis. During the year ended September 30, 2003, 12 retirees were eligible for the post-retirement health care benefits at a cost of \$48,228. As described more fully in Note P, the Road Commission self-insures for life insurance benefits, which covered 10 retirees for \$1,500 and 12 retirees for \$5,000 during the year ended September 30, 2003.

# ONTONAGON COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE O--RISK MANAGEMENT

The County and Road Commission (component unit) are exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees.

#### County General

The county board of commissioners have purchased commercial insurance for property, liability, errors and omissions, medical benefit claims and workers compensation. 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 has purchased commercial insurance for medical benefit claims, self-insure for employee group life coverage as detailed in Note P, and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial and pool insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Ontonagon County Road Commission became a charter member on October 1, 2001.

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

### NOTE P--RESERVE FOR SELF-INSURANCE--ROAD COMMISSION

The Ontonagon County Board of Road Commissioners' policy is to self-insure for employee group life coverage. The self-insurance reserve account was established in 1992, and is funded by annual transfers of amounts equal to what the approximate premium would be for life insurance coverage, plus the annual interest earnings on the reserve account balance. The Road Commission's policy provides that the transfers of premium amounts will be discontinued when the annual interest earnings on the reserve account is greater than the estimated premium cost. All group life benefit payments are expensed when paid and closed to the reserve account at year end.

ONTONAGON COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE P--RESERVE FOR SELF-INSURANCE--ROAD COMMISSION (Continued)

A summary of the changes in the reserve for self-insurance for the year ended September 30, 2003 is as follows:

Reserve Balance--October 1, 2002	\$ 124,998
Less: 2002/2003 Death Benefit Payment	<u>(3,000)</u>
 Reserve Balance--September 30, 2003	 <u><u>\$ 121,998</u></u>

NOTE Q--TRANSFERS IN AND TRANSFERS (OUT)

The 2003 operating transfers from Exhibits B and D can be summarized as follows for the primary government:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers (Out)</u>
Primary Government		Primary Government	
General	\$ 222,698	Friend of the Court	\$ 4,084
		Public Transit	14,614
		100% Tax Payment	204,000
Law Library	7,000	General	32,000
Probate Child Care	<u>25,000</u>		<u>          </u>
 Total Primary Government	 <u><u>\$ 254,698</u></u>	 Total Primary Government	 <u><u>\$ 254,698</u></u>
Component Unit		Primary Government	
Economic Development Corporation Fund	<u>\$ 103,000</u>	Economic Development Revolving Loan	\$ 103,000
 Total Component Unit	 <u><u>\$ 103,000</u></u>	 Total Primary Government	 <u><u>\$ 103,000</u></u>
 Total Reporting Entity	 <u><u>\$ 357,698</u></u>		 <u><u>\$ 357,698</u></u>

NOTE R--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2003, the Federal aid received and expended by the Road Commission was \$30,579 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT.

The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit.

**ONTONAGON COUNTY**  
**STATEMENT OF REVENUES AND OTHER FINANCING SOURCES**  
**BY SOURCE--BUDGET AND ACTUAL--GENERAL FUND**  
**For the Fiscal Year Ended September 30, 2003**

**EXHIBIT F**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Taxes and Penalties</b>			
Current Taxes	\$ 973,873	\$ 973,873	-
Industrial Facilities Tax	8,682	8,610	\$ (72)
Delinquent Real Taxes	99,831	99,831	-
Delinquent Personal Taxes	1,198	2,019	821
Commercial Forest Yield Tax	2,777	2,880	103
Commercial Forest Reserve Tax	61,000	60,862	(138)
Tax Exempt Housing	1,395	1,067	(328)
Trailer Tax	30	32	2
Tax Reverted Lands and Reconveyances	-	275	275
Swamp Lands Tax	33,735	33,896	161
Payments in-Lieu-of Taxes (PILT)	257,109	257,109	-
Interest and Penalties on Taxes	500	994	494
<b>Total Taxes</b>	<b>1,440,130</b>	<b>1,441,448</b>	<b>1,318</b>
<b>Licenses and Permits</b>			
Marriage Licenses	300	345	45
Dog Licenses	1,150	1,240	90
Pistol Permits	850	1,138	288
Pistol Permit Renewals	490	490	-
Handgun Purchase Permits	250	315	65
Kennel Licenses	110	70	(40)
<b>Total Licenses and Permits</b>	<b>3,150</b>	<b>3,598</b>	<b>448</b>
<b>Federal Grants</b>			
Emergency Services Program	5,015	4,285	(730)
Domestic Preparedness Equipment Grant	26,358	26,358	-
Airport Improvements Grant	30,600	30,600	-
ADC Incentive Program	13,500	13,191	(309)
Medical Support Enforcement	7,500	8,875	1,375
Cooperative Reimbursement	118,301	110,783	(7,518)
<b>Total Federal Grants</b>	<b>201,274</b>	<b>194,092</b>	<b>(7,182)</b>

**ONTONAGON COUNTY**  
**STATEMENT OF REVENUES AND OTHER FINANCING SOURCES**  
**BY SOURCE--BUDGET AND ACTUAL--GENERAL FUND**  
**For the Fiscal Year Ended September 30, 2003**

**EXHIBIT F**  
**(CONTINUED)**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>State Grants</b>			
Probate Judges' Salary	20,000	20,000	-
Juvenile Officer Grant	27,317	27,317	-
Judicial Salary Standardization	18,476	18,553	77
Court Caseflow Assistance	3,300	2,974	(326)
Court Funding	45,000	45,754	754
Crime Victims' Assistance	4,000	4,000	-
Secondary Road Patrol	44,064	44,093	29
Highway Safety Grant	5,000	-	(5,000)
Marine Safety Program	4,118	3,657	(461)
Snowmobile Safety Program	19,845	11,091	(8,754)
Off-Road Vehicle Safety Program	6,525	-	(6,525)
Airport Improvements Grant	1,700	1,700	-
Cooperative Reimbursement Program	-	3,819	3,819
Prosecutor--Welfare Fraud	500	-	(500)
Delinquency Liaison Officer Program	16,960	17,562	602
Diverted Felons Program	1,000	77	(923)
Act 302 Training	2,000	2,211	211
Convention Facility Liquor Tax	28,621	28,621	-
State Cigarette Tax	6,747	6,747	-
State Revenue Sharing	150,000	132,746	(17,254)
State Single Business Tax	14,182	13,686	(496)
Remonumentation Grant	89,767	98,636	8,869
<b>Total State Grants</b>	<b>509,122</b>	<b>483,244</b>	<b>(25,878)</b>
<b>Charges for Services</b>			
Circuit Court Costs	4,500	2,337	(2,163)
Circuit Court Probation Fees	1,500	1,087	(413)
District Court Costs	107,500	109,174	1,674
District Court Oversight Fees	9,255	11,147	1,892
Probate Court Costs	100	250	150
Operating Under Influence of Liquor Costs	350	15	(335)
Board and Care of Dogs and Cats	100	-	(100)
Circuit Court Services	1,000	1,593	593
Friend of the Court Services	5,000	5,338	338
Probate Court Services	9,000	9,200	200
Treasurer Services	1,600	1,385	(215)
Clerk Services	9,400	9,529	129
Register of Deeds Services	35,575	37,898	2,323
Real Estate Transfer Tax	27,200	29,207	2,007
District Court Civil Fees	1,500	2,015	515
Sheriff Services	15,300	17,113	1,813
Soil Erosion Fees	2,500	2,590	90
Marriage Counseling Fees	600	775	175
Record Copying	3,600	3,730	130
Prisoner Board	12,000	11,232	(768)
Tax Department Services	28,250	32,377	4,127
Airport Use Fees	2,250	2,250	-
Sale of Supplies and Maps	150	107	(43)
Sale of Scrap and Salvage	500	150	(350)
Sale of Aviation Fuel	2,100	3,397	1,297
Park Fees	25,000	24,999	(1)
<b>Total Charges for Services</b>	<b>305,830</b>	<b>318,895</b>	<b>13,065</b>

**ONTONAGON COUNTY**  
**STATEMENT OF REVENUES AND OTHER FINANCING SOURCES**  
**BY SOURCE--BUDGET AND ACTUAL--GENERAL FUND**  
**For the Fiscal Year Ended September 30, 2003**

**EXHIBIT F**  
**(CONTINUED)**

	Budget	Actual	Variance Favorable (Unfavorable)
Fines and Forfeitures			
Bond and Other Forfeitures	2,200	3,162	962
Garnishment Fees	50	30	(20)
Total Fines and Forfeitures	2,250	3,192	942
Interest and Rents			
Interest Earned on Deposits	16,000	19,175	3,175
Rental Income	1,288	1,188	(100)
Total Interest and Rentals	17,288	20,363	3,075
Other Revenues			
Sale of Fixed Assets	1,335	1,336	1
Contributions--Public Sources	73,733	68,732	(5,001)
Contributions--Private Sources	1,025	1,025	-
Transporting Patients	3,000	4,633	1,633
General Reimbursements and Refunds	400	420	20
Vending and Pay Phone Commissions	2,300	2,158	(142)
Total Other Revenues	81,793	78,304	(3,489)
Total Revenue	2,560,837	2,543,136	(17,701)
Other Financing Sources			
Operating Transfers In			
Friend of the Court Fund	4,084	4,084	-
Public Transit Fund	15,000	14,614	(386)
100% Tax Payment Funds	204,885	204,000	(885)
Total Other Financing Sources	223,969	222,698	(1,271)
Total Revenue and Other Financing Sources	\$ 2,784,806	\$ 2,765,834	\$ (18,972)

**ONTONAGON COUNTY**  
**STATEMENT OF EXPENDITURES AND OTHER FINANCING USES**  
**BY ACTIVITY--BUDGET AND ACTUAL--GENERAL FUND**  
**For the Fiscal Year Ended September 30, 2003**

**EXHIBIT G**

	Budget	Actual	Variance Favorable (Unfavorable)
Legislative			
Board of Commissioners	\$ 31,171	\$ 29,919	\$ 1,252
Judicial			
Circuit Court	22,800	18,401	4,399
District Court	106,675	106,164	511
Friend of the Court	121,845	120,046	1,799
Jury Board	1,800	1,020	780
Probate Court	122,629	118,247	4,382
Family Counseling	2,500	432	2,068
Total Judicial	378,249	364,310	13,939
General Government			
Elections	9,655	9,653	2
Clerk/Register of Deeds	90,691	90,680	11
Accounting Department	40,858	40,758	100
Equalization Department	104,749	103,885	864
Prosecuting Attorney	117,749	113,628	4,121
Tax Processing	10,500	9,322	1,178
Remonumentation Program	90,067	88,636	1,431
Treasurer	100,363	97,061	3,302
Cooperative Extension Service	52,702	52,108	594
Courthouse and Grounds	69,360	67,394	1,966
Soil Survey	500	382	118
Soil Conservation	2,375	2,375	-
Soil Erosion Control	2,462	2,204	258
Resource Conservation and Development	325	325	-
Record Copying	8,000	7,156	844
Central Supply	2,000	1,410	590
Computer Network	3,500	3,237	263
County Audit	15,750	14,264	1,486
Consultant Fees	12,600	11,850	750
Total General Government	734,206	716,328	17,878
Public Safety			
Sheriff	329,687	321,133	8,554
Delinquency Liaison Officer Program	34,340	33,909	431
Secondary Road Patrol	33,878	30,913	2,965
Snowmobile Law Enforcement	19,313	18,704	609
Marine Law Enforcement	3,406	1,830	1,576
Off-Road Vehicle Enforcement	2,525	1,634	891
Jail	206,316	205,069	1,247
Mine Inspector	3,865	3,804	61
Planning Commission	3,050	2,293	757
Emergency Services	35,531	35,024	507
Total Public Safety	671,911	654,313	17,598

**ONTONAGON COUNTY**  
**STATEMENT OF EXPENDITURES AND OTHER FINANCING USES**  
**BY ACTIVITY--BUDGET AND ACTUAL--GENERAL FUND**  
**For the Fiscal Year Ended September 30, 2003**

**EXHIBIT G**  
**(CONTINUED)**

	Budget	Actual	Variance Favorable (Unfavorable)
Public Works			
Airport	15,326	13,988	1,338
Health and Welfare			
District Health Department	22,741	22,741	-
Substance Abuse Agency	14,311	14,310	1
Medical Examiner	18,965	18,041	924
District Mental Health Department	48,814	48,814	-
Emergency Ambulance	1,300	1,184	116
Care of Patients	2,450	829	1,621
Gogebic Human Services Coordinating Board	2,500	2,500	-
Veterans' Burials	8,500	7,800	700
Veterans' Counselor	1,271	1,054	217
Veterans' Affairs Board	460	189	271
Western UP Planning and Development Region	7,024	7,024	-
Total Health and Welfare	128,336	124,486	3,850
Recreation and Cultural			
County Park	22,691	22,842	(151)
Other			
Employee Fringe Benefits	654,496	650,935	3,561
Insurance and Bonds	71,545	64,076	7,469
Total Other	726,041	715,011	11,030
Capital Outlay			
New Equipment	82,745	72,602	10,143
Debt Service			
White Pine Industrial Park Loan Interest	8,118	8,118	-
Total Expenditures	2,798,794	2,721,917	76,877
Other Financing Uses			
Operating Transfers (Out)			
Budget Stabilization	2,000		2,000
Law Library	7,000	7,000	-
Probate Child Care	25,000	25,000	-
County Economic Development Corporation			
Total Other Financing Uses	34,000	32,000	2,000
Total Expenditures and Other Financing Uses	\$ 2,832,794	\$ 2,753,917	\$ 78,877

**ONTONAGON COUNTY  
COMBINING BALANCE SHEET  
SPECIAL REVENUE FUNDS  
September 30, 2003**

**EXHIBIT H**

	Friend of the Court	Public Transit	County Forestry	Register of Deeds Automation	Budget Stabilization	Community Action Agency	Senior Citizens	911 Service	Law Library
<b><u>ASSETS</u></b>									
Cash	\$ 10,279	\$ 179,294	\$ 20,948	\$ 7,348	\$ 186,630	\$ 18,774	\$ 56,764	\$ 291,193	\$ 193
Receivables									
Accounts (Net of Estimated Uncollectibles)		3,520						8,407	360
Interest									
Economic Development Loans									
Due From State of Michigan		4,063						19,415	
Prepaid Expense		2,615							
Total Assets	\$ 10,279	\$ 189,492	\$ 20,948	\$ 7,348	\$ 186,630	\$ 18,774	\$ 56,764	\$ 319,015	\$ 553
<b><u>LIABILITIES AND FUND BALANCES</u></b>									
Liabilities									
Accounts Payable		\$ 6,444						\$ 2,453	
Due to State of Michigan		18,725							
Stumpage Deposits Payable			\$ 200						
Accrued Liabilities		23,975						1,080	
Advances--State of Michigan									
Deferred Revenue--Other									
Total Liabilities	\$ -	49,144	200	\$ -	\$ -	\$ -	\$ -	3,533	\$ -
Fund Balances									
Reserved For Economic Development Grants/Loans									
Unreserved and Undesignated	10,279	140,348	20,748	7,348	186,630	18,774	56,764	315,482	553
Total Fund Balances	10,279	140,348	20,748	7,348	186,630	18,774	56,764	315,482	553
Total Liabilities and Fund Balances	\$ 10,279	\$ 189,492	\$ 20,948	\$ 7,348	\$ 186,630	\$ 18,774	\$ 56,764	\$ 319,015	\$ 553

**ONTONAGON COUNTY  
COMBINING BALANCE SHEET  
SPECIAL REVENUE FUNDS  
September 30, 2003**

**EXHIBIT H  
(CONTINUED)**

County Library Board	Housing Rehabilitation Grants		Drug Law Enforcement	Economic Development Revolving Loan	Social Welfare	Probate Child Care	Veterans' Trust	Total	
<b><u>ASSETS</u></b>									
Cash	\$ 16,214	\$ 9,247	\$ 233	\$ 641,155	\$ 5,635	\$ 18,664	\$ (3,287)	\$ 1,459,284	
Receivables									
Accounts (Net of Estimated Uncollectibles)								12,287	
Interest				1,001				1,001	
Economic Development Loans				260,700				260,700	
Due From State of Michigan					50,548	5,362	3,800	83,188	
Prepaid Expense								2,615	
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 16,214</b>	<b>\$ 9,247</b>	<b>\$ 233</b>	<b>\$ 902,856</b>	<b>\$ 56,183</b>	<b>\$ 24,026</b>	<b>\$ 513</b>	<b>\$ 1,819,075</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>									
Liabilities									
Accounts Payable						\$ 4,893		\$ 13,790	
Due to State of Michigan								18,725	
Stumpage Deposits Payable								200	
Accrued Liabilities						702		25,757	
Advances--State of Michigan					\$ 52,000			52,000	
Deferred Revenue--Other	\$ 16,214	\$ 9,247		\$ 260,700				286,161	
<b>Total Liabilities</b>	<b>\$ -</b>	<b>16,214</b>	<b>9,247</b>	<b>\$ -</b>	<b>260,700</b>	<b>52,000</b>	<b>5,595</b>	<b>\$ -</b>	<b>396,633</b>
Fund Balances									
Reserved For Economic Development Grants/Loans				642,156				642,156	
Unreserved and Undesignated	-	-	233		4,183	18,431	513	780,286	
<b>Total Fund Balances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>233</b>	<b>642,156</b>	<b>4,183</b>	<b>18,431</b>	<b>513</b>	<b>1,422,442</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ -</b>	<b>\$ 16,214</b>	<b>\$ 9,247</b>	<b>\$ 233</b>	<b>\$ 902,856</b>	<b>\$ 56,183</b>	<b>\$ 24,026</b>	<b>\$ 513</b>	<b>\$ 1,819,075</b>

**ONTONAGON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES--SPECIAL REVENUE FUNDS**  
**For the Fiscal Year Ended September 30, 2003**

**EXHIBIT I**

	Friend of the Court	Public Transit	County Forestry	Register of Deeds Automation	Budget Stabilization	Community Action Agency	Senior Citizens	911 Service	Law Library
Revenues									
Taxes		\$ 88,133				\$ 52,752	\$ 87,563		
Federal Grants		47,236							
State Grants		174,960					1,043	\$ 71,145	
Charges for Services	\$ 310	51,020		\$ 7,330				98,644	
Fines and Forfeits									\$ 2,000
Interest and Rents		2,693		18					
Other		4,775							360
<b>Total Revenues</b>	<b>310</b>	<b>368,817</b>	<b>\$ -</b>	<b>7,348</b>	<b>\$ -</b>	<b>52,752</b>	<b>88,606</b>	<b>169,789</b>	<b>2,360</b>
Expenditures									
Current									
Judicial	662								9,098
Public Safety								97,502	
Public Works		395,655							
Health and Welfare						55,961	86,916		
Recreation and Cultural									
Other			728						
Capital Outlay								1,175	
<b>Total Expenditures</b>	<b>662</b>	<b>395,655</b>	<b>728</b>	<b>-</b>	<b>-</b>	<b>55,961</b>	<b>86,916</b>	<b>98,677</b>	<b>9,098</b>
Excess of Revenues Over (Under)									
Expenditures	(352)	(26,838)	(728)	7,348		(3,209)	1,690	71,112	(6,738)
Other Financing Sources (Uses)									
Operating Transfers In--Primary Government									7,000
Operating Transfers (Out)--Primary Government	(4,084)	(14,614)							
Operating Transfers (Out)--Component Unit									
<b>Total Other Financing Sources (Uses)</b>	<b>(4,084)</b>	<b>(14,614)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,000</b>
Excess of Revenues and Other Sources Over (Under)									
Expenditures and Other Uses	(4,436)	(41,452)	(728)	7,348		(3,209)	1,690	71,112	262
Fund Balances--October 1, 2002	14,715	181,800	21,476	-	186,630	21,983	55,074	244,370	291
Fund Balances--September 30, 2003	\$10,279	\$ 140,348	\$ 20,748	\$ 7,348	\$ 186,630	\$ 18,774	\$ 56,764	\$ 315,482	\$ 553

**ONTONAGON COUNTY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES--SPECIAL REVENUE FUNDS  
 For the Fiscal Year Ended September 30, 2003**

**EXHIBIT I  
 (CONTINUED)**

	County Library Board	Housing Rehabilitation Grants 2001-2002	Housing 2003-2004	Drug Law Enforcement	Economic Development Revolving Loan	Social Welfare	Probate Child Care	Veterans' Trust	Total
Revenues									
Taxes									\$ 228,448
Federal Grants		\$102,784	\$2,813						152,833
State Grants							\$24,361	\$5,328	276,837
Charges for Services		900	300						158,504
Fines and Forfeits	\$27,832								29,832
Interest and Rents	276				\$ 23,300				26,287
Other		5,316	550		70,623	\$316,501	20,432		418,557
<b>Total Revenues</b>	<b>28,108</b>	<b>109,000</b>	<b>3,663</b>	<b>\$ -</b>	<b>93,923</b>	<b>316,501</b>	<b>44,793</b>	<b>5,328</b>	<b>1,291,298</b>
Expenditures									
Current									
Judicial									9,796
Public Safety									97,502
Public Works									395,655
Health and Welfare		109,000	3,663		121,500	318,524	60,400	6,455	762,419
Recreation and Cultural	28,108								28,108
Other									728
Capital Outlay									1,175
<b>Total Expenditures</b>	<b>28,108</b>	<b>109,000</b>	<b>3,663</b>	<b>-</b>	<b>121,500</b>	<b>318,524</b>	<b>60,400</b>	<b>6,455</b>	<b>1,295,383</b>
Excess of Revenues Over (Under)									
Expenditures	-	-	-	-	(27,577)	(2,023)	(15,607)	(1,127)	(4,085)
Other Financing Sources (Uses)									
Operating Transfers In--Primary Government							25,000		32,000
Operating Transfers (Out)--Primary Government									(18,698)
Operating Transfers (Out)--Component Unit					(103,000)				(103,000)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(103,000)</b>	<b>-</b>	<b>25,000</b>	<b>-</b>	<b>(89,698)</b>
Excess of Revenues and Other Sources Over (Under)									
Expenditures and Other Uses		-	-	-	(130,577)	(2,023)	9,393	(1,127)	(93,747)
Fund Balances--October 1, 2002	-	-	-	233	772,733	6,206	9,038	1,640	1,516,189
Fund Balances--September 30, 2003	\$ -	\$ -	\$ -	\$233	\$642,156	\$ 4,183	\$18,431	\$ 513	\$1,422,442

**ONTONAGON COUNTY  
COMBINING BALANCE SHEET  
ENTERPRISE FUNDS  
September 30, 2003**

**EXHIBIT J**

**100% TAX PAYMENT FUNDS**

	1997	1998	1999	2000	2001	2002	Total
<b><u>ASSETS</u></b>							
Cash and Cash Equivalents	\$ 796	\$ 755	\$158	\$ 79	\$ 5,345	\$ 4,829	\$ 11,962
Delinquent Taxes Receivable	750	1,570	152	5,039	70,443	273,355	351,309
Forfeiture Certificate Fees Receivable			261	316	963		1,540
Total Assets	<u>\$ 1,546</u>	<u>\$2,325</u>	<u>\$571</u>	<u>\$5,434</u>	<u>\$ 76,751</u>	<u>\$278,184</u>	<u>\$ 364,811</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>							
Liabilities							
Redemption Certificate Fees Payable			\$207		\$ 130		\$ 337
Advances From General Fund						\$250,000	250,000
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>207</u>	<u>\$ -</u>	<u>130</u>	<u>250,000</u>	<u>250,337</u>
Fund Equity							
Retained Earnings							
Unreserved	1,546	2,325	364	5,434	76,621	28,184	114,474
Total Fund Equity	<u>1,546</u>	<u>2,325</u>	<u>364</u>	<u>5,434</u>	<u>76,621</u>	<u>28,184</u>	<u>114,474</u>
Total Liabilities and Fund Equity	<u>\$ 1,546</u>	<u>\$2,325</u>	<u>\$571</u>	<u>\$5,434</u>	<u>\$ 76,751</u>	<u>\$278,184</u>	<u>\$ 364,811</u>

**ONTONAGON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN RETAINED EARNINGS--ENTERPRISE FUNDS**  
**For the Fiscal Year Ended September 30, 2003**

**EXHIBIT K**

<b>100% TAX PAYMENT FUNDS</b>							
	1997	1998	1999	2000	2001	2002	Total
Operating Revenues							
Interest and Penalties on Taxes	\$ 158	\$ 7,192	\$ 2,113	\$20,729	\$49,555	\$30,482	\$ 110,229
Total Operating Revenues	158	7,192	2,113	20,729	49,555	30,482	110,229
Operating Expenses							
Supplies and Postage				36	1,879	2,298	4,213
Total Operating Expense	-	-	-	36	1,879	2,298	4,213
Net Operating Income (Loss)							
Before Operating Transfers	158	7,192	2,113	20,693	47,676	28,184	106,016
Operating Transfers							
Transfers (Out) to General Fund	-	(20,000)	(87,000)	(97,000)	-	-	(204,000)
Net Income (Loss)	158	(12,808)	(84,887)	(76,307)	47,676	28,184	(97,984)
Retained Earnings--October 1, 2002	1,388	15,133	85,251	81,741	28,945	-	212,458
Retained Earnings--September 30, 2003	<u>\$ 1,546</u>	<u>\$ 2,325</u>	<u>\$ 364</u>	<u>\$ 5,434</u>	<u>\$76,621</u>	<u>\$28,184</u>	<u>\$ 114,474</u>

**ONTONAGON COUNTY**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INCREASE (DECREASE) IN CASH AND**  
**CASH EQUIVALENTS--ENTERPRISE FUNDS**  
**For the Fiscal Year Ended September 30, 2003**

**EXHIBIT L**

<b>100% TAX PAYMENT FUNDS</b>							
	1997	1998	1999	2000	2001	2002	Total
Cash Flows From Operating Activities							
Interest and Penalties on Taxes	\$ 158	\$ 7,192	\$ 2,113	\$ 20,729	\$ 49,555	\$ 30,482	\$110,229
Operating Expenses				(36)	(1,879)	(2,298)	(4,213)
Delinquent Taxes Purchased						(655,548)	(655,548)
Delinquent Taxes Collected	174	12,846	4,614	51,519	243,134	382,193	694,480
(Increase) or Decrease in Other Receivables			225	440	(963)		(298)
Increase or (Decrease) in Other Payables					130		130
<b>Net Cash Provided by Operating Activities</b>	<b>332</b>	<b>20,038</b>	<b>6,952</b>	<b>72,652</b>	<b>289,977</b>	<b>(245,171)</b>	<b>144,780</b>
Cash Flows From Noncapital Financing Activities							
Advances From Other Funds						515,000	515,000
Return of Advances From Other Funds					(285,000)	(265,000)	(550,000)
Transfers (Out)		(20,000)	(87,000)	(97,000)			(204,000)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>-</b>	<b>(20,000)</b>	<b>(87,000)</b>	<b>(97,000)</b>	<b>(285,000)</b>	<b>250,000</b>	<b>(239,000)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>332</b>	<b>38</b>	<b>(80,048)</b>	<b>(24,348)</b>	<b>4,977</b>	<b>4,829</b>	<b>(94,220)</b>
Cash and Cash Equivalents--October 1, 2002	464	717	80,206	24,427	368	-	106,182
<b>Cash and Cash Equivalents--September 30, 2003</b>	<b>\$ 796</b>	<b>\$ 755</b>	<b>\$ 158</b>	<b>\$ 79</b>	<b>\$ 5,345</b>	<b>\$ 4,829</b>	<b>\$ 11,962</b>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities							
Operating Income (Loss)	\$ 158	\$ 7,192	\$ 2,113	\$ 20,693	\$ 47,676	\$ 28,184	\$106,016
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities							
(Increase) Decrease in Assets							
Taxes Receivable	174	12,846	4,614	51,519	243,134	(273,355)	38,932
Forfeiture Certificate Fees Receivable			225	440	(963)		(298)
Increase (Decrease) in Liabilities							
Redemption Certificate Fees Payable					130		130
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 332</b>	<b>\$ 20,038</b>	<b>\$ 6,952</b>	<b>\$ 72,652</b>	<b>\$ 289,977</b>	<b>\$ (245,171)</b>	<b>\$144,780</b>

**ONTONAGON COUNTY  
 COMBINING BALANCE SHEET  
 TRUST AND AGENCY FUNDS  
 September 30, 2003**

**EXHIBIT M**

**AGENCY FUNDS**

	Trust and Agency	Library Penal Fund	Total
<b><u>ASSETS</u></b>			
Cash	\$361,728	\$18,275	\$ 380,003
Due From Employees	(221)		(221)
Total Assets	<u>\$361,507</u>	<u>\$18,275</u>	<u>\$ 379,782</u>
<b><u>LIABILITIES</u></b>			
Due to Schools	\$ (4,431)		\$ (4,431)
Due to Townships	1,741		1,741
Due to Villages	1,854		1,854
Due to State of Michigan	351,478		351,478
Undistributed Interest		\$ 91	91
Undistributed Penal Fines		18,184	18,184
Undistributed Tax Collections	397		397
Other Trust Items Payable	10,468		10,468
Total Liabilities	<u>\$361,507</u>	<u>\$18,275</u>	<u>\$ 379,782</u>

**ONTONAGON COUNTY  
 COMBINING STATEMENT OF CHANGES IN ASSETS  
 AND LIABILITIES--ALL AGENCY FUNDS  
 For the Fiscal Year Ended September 30, 2003**

**EXHIBIT N**

	Balance 10/01/02	Additions	Deductions	Balance 09/30/03
<b><u>TRUST AND AGENCY FUND</u></b>				
Assets				
Cash	\$ 419,275	\$4,571,480	\$4,629,027	\$361,728
Due From Employees	(221)	-	-	(221)
Total Assets	<u>\$ 419,054</u>	<u>\$4,571,480</u>	<u>\$4,629,027</u>	<u>\$361,507</u>
Liabilities				
Due to Other Funds		\$2,127,380	\$2,127,380	
Due to Schools	\$ (360)	535,018	539,089	\$ (4,431)
Due to Townships	(385)	125,664	123,538	1,741
Due to Villages	1,739	148,181	148,066	1,854
Due to State	411,238	1,671,836	1,731,596	351,478
Due to Federal		379,532	379,532	
Undistributed Tax Collections	383	3,290,298	3,290,284	397
Other Trust Payable	6,439	364,420	360,391	10,468
Total Liabilities	<u>\$ 419,054</u>	<u>\$8,642,329</u>	<u>\$8,699,876</u>	<u>\$361,507</u>

**LIBRARY PENAL FINE FUND**

Assets				
Cash	\$ 25,122	\$ 61,845	\$ 68,692	\$ 18,275
Liabilities				
Undistributed Interest	\$ 125	\$ 620	\$ 654	\$ 91
Undistributed Penal Fines	24,997	61,224	68,037	18,184
Total Liabilities	<u>\$ 25,122</u>	<u>\$ 61,844</u>	<u>\$ 68,691</u>	<u>\$ 18,275</u>

**ONTONAGON COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (1)**  
**For the Fiscal Year Ended September 30, 2003**

**SCHEDULE 1**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<b>PRIMARY GOVERNMENT</b>			
<b>US Department of Housing and Urban Development</b>			
Passed Through Michigan State Housing Development Authority			
Community Development Block			
Grant/Small Cities Program			
Housing Rehabilitation	14.228	MSC 2000-0748-HOA	\$ 102,784
Housing Rehabilitation	14.228	MSC 2003-0748-HOA	<u>2,813</u>
Total Department of Housing and Urban Development			<u>105,597</u>
<b>Department of Justice</b>			
Passed Through Michigan Department of State Police			
State Domestic Preparedness Equipment Grant	16.007	(2)	<u>26,358</u>
<b>Department of Transportation</b>			
Passed Through Michigan Department of Transportation			
Airport Improvement	20.106	2002-0714	30,600
Capital and Operating Assistance			
Operating Assistance--Section 5311	20.509	99-1036	44,635
RTAP Training Funds	20.509	(2)	<u>2,601</u>
Total Department of Transportation			<u>77,836</u>
<b>Federal Emergency Management Agency</b>			
Passed Through Michigan Department of State Police			
State Domestic Preparedness Equipment Grant	83.552	(2)	<u>4,285</u>
<b>US Department of Health and Human Services</b>			
Passed Through Michigan Family Independence Agency			
Child Support Enforcement			
Title IV-D			
Cooperative Reimbursement Program	93.563	CS/FOC-03-66001	105,911
Cooperative Reimbursement Program	93.563	CS/PA-03-66002	4,872
Medical Support Enforcement	93.563	CS/MED-03-66001	<u>8,875</u>
Total Department of Health and Human Services			<u>119,658</u>
<b>TOTAL PRIMARY GOVERNMENT</b>			<u><u>\$ 333,734</u></u>

**ONTONAGON COUNTY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended September 30, 2003**

- 1) The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Ontonagon County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.
- 2) The pass-through grantor number was not available.

**Ontonagon County**  
**Schedule of Findings and Questioned Costs**  
**For the Fiscal Year Ended September 30, 2003**

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

*Financial Statements*

Type of auditor's report issues: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes  No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_  Yes \_\_\_\_\_ None reported
- Noncompliance material to financial Statements noted? \_\_\_\_\_ Yes  No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes  No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes  None reported

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

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

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
93.563	Child Support Enforcement

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

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

**Ontonagon County**  
**Schedule of Findings and Questioned Costs**  
**For the Fiscal Year Ended September 30, 2003**

**Section II--Financial Statement Findings**

STATUTORY COMPLIANCE

Our review of procedures for compliance with statutory requirements disclosed the following exceptions:

Board of Commissioners--Budget Requirements

*Finding 03-01*

*Condition:* As indicated in the notes to financial statements, the County of Ontonagon has not complied with certain provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act. For the fiscal year ending September 30, 2003, expenditures were incurred in excess of amounts appropriated in the amended budgets for the activities or functions of the general and special revenue funds are as follows:

<u>Fund/Activity or Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Expenditures Over Budget</u>
General Fund			
Recreational and Cultural	\$ 22,691	\$ 22,842	\$ 151
Special Revenue Funds			
Friend of the Court			
Health and Welfare	200	661	461
Law Library			
Judicial	9,000	9,099	99
Economic Development Revolving Loan			
Health and Welfare	217,000	224,500	7,500
Social Welfare			
Health and Welfare	143,550	159,637	16,087
Veterans Trust			
Health and Welfare	2,616	6,455	3,839

*Criteria:* The expenditure of funds in excess of appropriations is contrary to the provisions of Public Act 2 of 1968, as amended. The act requires the board of commissioners to make budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

*Directive:* We direct that the county's chief administrative officer and those boards and commissions and administrative personnel responsible for administering the activities of the various funds of the county, develop budgetary control procedures for the general fund and special revenue funds which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

**Ontonagon County  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended September 30, 2003**

**Section II--Financial Statement Findings  
(Continued)**

*Management's Response--Corrective Action Plan:* Contact person is Judy Roehm, County Clerk, 725 Greenland Road, Ontonagon, Michigan 49953. Telephone (906) 884-4255.

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

No matters were reported.



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JENNIFER M. GRANHOLM  
GOVERNOR

JAY B. RISING  
STATE TREASURER

December 10, 2003

Ontonagon County Board of Commissioners  
Ontonagon County Courthouse  
725 Greenland Road  
Ontonagon, Michigan 49953

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

Dear Commissioners:

We have audited the general purpose financial statements of Ontonagon County, Michigan, as of and for the year ended September 30, 2003, and have issued our report thereon dated December 10, 2003. 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.

Compliance--As part of obtaining reasonable assurance about whether Ontonagon County's financial statements are free of material misstatement, we performed 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 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 that are required to be reported under Government Auditing Standards, however, we did note an instance of noncompliance described in the accompanying Schedule of Findings and Questioned Costs as item 03-1.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Ontonagon County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Ontonagon County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being auditing may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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



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



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JENNIFER M. GRANHOLM  
GOVERNOR

JAY B. RISING  
STATE TREASURER

December 10, 2003

Ontonagon County Board of Commissioners  
Ontonagon County Courthouse  
725 Greenland Road  
Ontonagon, Michigan 49953

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

Dear Commissioners:

Compliance--We have audited the compliance of Ontonagon County with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended September 30, 2003. Ontonagon County's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Ontonagon County's management. Our responsibility is to express an opinion on Ontonagon County's compliance based on our audit.

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

In our opinion, Ontonagon County complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended September 30, 2003.

Internal Control Over Compliance--The management of Ontonagon County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Ontonagon County's 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



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