

# STATE OF MICHIGAN

Rick Snyder, Governor

## DEPARTMENT OF TREASURY

Andy Dillon, State Treasurer



Report on  
Financial Statements

### GRATIOT COUNTY ROAD COMMISSION

September 2012

Local Audit and Finance Division  
Bureau of Local Government Services

GRATIOT COUNTY ROAD COMMISSION  
BOARD OF COUNTY ROAD COMMISSIONERS

Leslie Whitford  
Chairman

Denis Netzley  
Vice-Chairman

Wesley O. Federspiel  
Member

OTHER OFFICIALS

Mark Craft  
Engineer/Manager

Betty Schumacher  
Finance Director/Clerk

COUNTY POPULATION--2010  
42,476

STATE EQUALIZED VALUATION--2012  
\$1,492,434,284



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

ANDY DILLON  
STATE TREASURER

February 20, 2013

Gratiot County Road Commission  
Board of County Road Commissioners  
200 Commerce Drive  
P.O. Box 187  
Ithaca, Michigan 48847-0187

Independent Auditor's Report

Dear Commissioners:

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2013, on our consideration of the Gratiot County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 6 and budgetary comparison information in Exhibit G and H are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Gratiot County Road Commission's basic financial statements. The accompanying supplementary and related information presented in Exhibits I through K are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



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

GRATIOT COUNTY ROAD COMMISSION

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

Our discussion and analysis of the Gratiot County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the fiscal year ended September 30, 2012.

**USING THIS ANNUAL REPORT**

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. This report also contains supplementary information in addition to the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Assets and the Statement of Activities on Exhibit A and B provide information about the activities of the Road Commission as a whole and present a longer-term view of the Road Commission's finances. Fund financial statements start with Exhibit C. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide statements by providing information about the Road Commission's most significant funds.

**Reporting the Road Commission as a Whole**

*The Statement of Net Assets and the Statement of Activities*

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

These two statements report the Road Commission's net assets and changes in them. You can think of the Road Commission's net assets — the difference between assets and liabilities—as one way to measure the Road Commission's financial health, or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Road Commission's property tax base and the condition of Road Commission's infrastructure, to assess the overall health of the Road Commission.

In the Statement of Net Assets and the Statement of Activities, the Road Commission presents Governmental activities. All of the Road Commission's basic services are reported here. State and Federal grants along with township contributions finance most activities.

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

**Report the Road Commission's Major Fund**

*Fund Financial Statements*

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

*Additional Required Supplementary Information (RSI)*

Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. The Required Supplementary Information includes budgetary comparison schedules.

*Other Supplementary Information*

Other supplementary information includes combining financial statements the individual funds the Road Commission's general fund is split between to comply with the reporting provisions issued by the Michigan Department of Transportation under Public Act 51 of 1951.

**The Road Commission as a Whole**

The Road Commission's net assets slightly decreased from \$30,657,395 to \$30,417,866 for the year ended September 30, 2012. This is contrary to the previous year when the net assets increased \$378,773. Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Road Commission's governmental activities.

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

**Table 1**  
**Net Assets of Governmental Activities**

	09/30/11 Governmental Activities	09/30/12 Governmental Activities	Variance
Current and Other Assets	\$ 2,836,778	\$ 2,359,381	\$ (477,397)
Net Capital Assets	<u>28,371,330</u>	<u>28,596,811</u>	<u>225,481</u>
Total Assets	<u>31,208,108</u>	<u>30,956,192</u>	<u>(251,916)</u>
Current Liabilities	168,758	146,612	(22,146)
Noncurrent Liabilities	<u>381,955</u>	<u>391,714</u>	<u>9,759</u>
Total Liabilities	<u>550,713</u>	<u>538,326</u>	<u>(12,387)</u>
Net Assets			
Invested in Capital Assets			
Net of Related Debt	28,371,330	28,596,811	225,481
Restricted	<u>2,286,065</u>	<u>1,821,055</u>	<u>(465,010)</u>
Total Net Assets	<u>\$ 30,657,395</u>	<u>\$ 30,417,866</u>	<u>\$ (239,529)</u>

The Road Commission's governmental activities total net assets decreased by .78% or \$239,529 (\$30,417,866 compared to \$30,657,395). The restricted net assets that can be used to fund the day-to-day operations within the provisions of Public Act 51 of 1951 decreased \$465,010 (\$1,821,055 compared to \$2,286,065). This decrease is due to less federal aid and MDOT projects during the fiscal year 2012 and the increase in cost of maintaining the primary and local road systems.

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

**Table 2**  
**Changes in Net Assets of Governmental Activities**

	<u>2011</u>	<u>2012</u>	<u>Difference</u>
Program Revenue			
Licenses and Permits	\$ 62,715	\$ 80,103	\$ 17,388
Charges for Services	786,444	920,825	134,381
Other Contributions	45,557	98,484	52,927
State Grants	4,251,259	4,935,567	684,308
Contributions From Local Units	1,069,694	974,976	(94,718)
Federal Grants	725,390	431,905	(293,485)
Investment Earnings	5,842	4,112	(1,730)
General Revenue			
Gain on Equipment Disposal	<u>153,131</u>	<u>51,872</u>	<u>(101,259)</u>
 Total Revenue	 <u>7,100,032</u>	 <u>7,497,844</u>	 <u>397,812</u>
Expenses			
Primary Road Maintenance	1,400,987	2,244,376	843,389
Local Road Maintenance	2,688,161	2,882,999	194,838
State Trunkline Maintenance	749,150	938,884	189,734
Net Equipment Expense	(185,018)	(226,022)	(41,004)
Net Administrative Expense	475,310	434,507	(40,803)
Non-Road Project	15,904	13,381	(2,523)
Infrastructure Depreciation Expense	1,579,981	1,483,566	(96,415)
Compensated Absences	(2,143)	(16,248)	(14,105)
Other Post-Employment Benefit Expense	<u>(1,073)</u>	<u>(18,070)</u>	<u>(16,997)</u>
 Total Expenses	 <u>6,721,259</u>	 <u>7,737,373</u>	 <u>1,016,114</u>
 Change in Net Assets	 <u>378,773</u>	 <u>(239,529)</u>	 <u>(618,302)</u>
 Ending Net Assets	 <u>\$ 30,657,395</u>	 <u>\$ 30,417,866</u>	 <u>\$ (239,529)</u>

***Governmental Activities***

The Road Commission's governmental activities revenues increased by 5.60% (\$397,812), while expenses increased 15.12% (\$1,016,114) as compared with the prior fiscal year. This increase was primarily due to an increase in state grants of \$684,308 for critical bridge projects which was offset by the reduction in Federal grants and township contributions. The expenses increased primarily due to an increase in primary and local maintenance projects performed. In addition, State Trunkline Maintenance expenses increased primarily due to two non-maintenance projects performed.

# GRATIOT COUNTY ROAD COMMISSION

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

### THE ROAD COMMISSION'S FUND

As the Road Commission completed the year, its general fund (as presented in the balance sheet on Exhibit C) reported a fund balance of \$2,034,541 which is less than last year's \$2,533,869. The primary reasons for the General Fund's reduction mirror the governmental activities analysis highlighted in the prior paragraph.

### GENERAL FUND BUDGETARY HIGHLIGHT

Over the course of the year, the Board of County Road Commissioners revised the budget several times. These budget amendments fall into two categories. The first category includes amendments based on the Federal and State grants received or not received for road and bridge projects. The second category includes year-end adjustments to account for accruals and then the spread of the distributive and non-distributive expenses incurred by the Road Commission.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### *Capital Assets*

As of September 30, 2012, the Road Commission had \$28,596,811 invested in a broad range of capital assets, including land, buildings, equipment, roads, and bridges. This amount represents a net increase (including additions and deductions) of \$225,481.

**Table 3**  
**Capital Assets at Year-End**

	09/30/11	09/30/12
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 116,903	\$ 116,903
Infrastructure--Land and Improvements	536,770	536,770
Subtotal	<u>653,673</u>	<u>653,673</u>
Capital Assets Being Depreciated		
Land Improvements	59,959	59,959
Buildings	2,267,819	2,267,819
Road Equipment	5,989,652	6,415,852
Shop Equipment	145,153	155,707
Office Equipment	257,127	281,910
Engineer's Equipment	114,139	114,139
Yard and Storage	16,573	16,573
Administration Car	18,484,600	19,507,337
Infrastructure--Bridges	21,909,972	20,760,109
Infrastructure--Roads	4,558	4,558
Subtotal	<u>49,249,552</u>	<u>49,583,963</u>
Total Capital Assets	49,903,225	50,237,636
Total Accumulated Depreciation	<u>(21,531,895)</u>	<u>(21,640,825)</u>
Total Net Capital Assets	<u>\$ 28,371,330</u>	<u>\$ 28,596,811</u>

**GRATIOT COUNTY ROAD COMMISSION**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended September 30, 2012**

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

Reconstruction of Bridges (by Location)	\$ 1,041,432
Various Resurfacing Projects and Related Land/Right-of-Way	398,615
Road and Shop Equipment	839,362
Administrative, Office and Engineering Equipment	<u>24,783</u>
Total Additions	<u>\$ 2,304,192</u>

The Road Commission’s fiscal-year 2013 capital budget calls for it to continue to spend funds for equipment purchases and on road and bridge projects. The Road Commission has no plans to issue additional debt to finance these projects. More detailed information about the Road Commission’s capital assets is presented in Note D to the financial statements.

**Debt**

The Road Commission has not issued any debt instruments. The only debt the Road Commission is considered to have is employee vested benefits that are presented in more detail in Note E to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGET**

The Board of County Road Commissioners considered many factors when setting the fiscal year 2013 budget. One of the factors is the economy. The Road Commission derived approximately 54.76% of its revenues from the fuel tax collected in 2012.

The board realizes, and the reader should understand that there are not sufficient funds available to repair and/or rebuild every road in Gratiot County’s transportation system; therefore, the board attempts to spend the public’s money wisely and equitably and in the best interest of the motoring public and the citizens of Gratiot County.

**CONTACTING THE ROAD COMMISSION’S FINANCIAL MANAGEMENT**

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission’s finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Gratiot County Road Commission administrative office at 200 Commerce Drive, Ithaca, MI 48847.

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

**EXHIBIT A**

**ASSETS**

Cash	\$ 628,591
Accounts Receivable	
Sundry Accounts	12,186
State--Trunkline Maintenance	168,921
Michigan Transportation Fund	719,238
State--Other	283,514
Due From Townships--Road Agreements	65,239
Inventories	
Road Materials	302,100
Equipment Parts and Materials	160,674
OPEB Asset	18,918
Capital Assets (Net of Accumulated Depreciation)	<u>28,596,811</u>
Total Assets	<u>30,956,192</u>

**LIABILITIES**

Current Liabilities	
Accounts Payable	79,466
Accrued Liabilities	65,746
Performance Bonds Payable	1,400
Noncurrent Liabilities	
Advances From State	159,310
Vested Employee Benefits Payable	<u>232,404</u>
Total Liabilities	<u>538,326</u>

**NET ASSETS**

Investment in Capital Assets	
Net of Related Debt	28,596,811
Restricted for County Roads	<u>1,821,055</u>
Total Net Assets	<u><u>\$ 30,417,866</u></u>

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

**GRATIOT COUNTY ROAD COMMISSION  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended September 30, 2012**

**EXHIBIT B**

Program Expenses	
Primary Road Maintenance	\$ 2,244,376
Local Road Maintenance	2,882,999
State Trunkline Maintenance	938,884
Net Equipment Expense	(226,022)
Net Administrative Expense	434,507
Non-Road Projects	13,381
Infrastructure Depreciation	1,483,566
Compensated Absences	(16,248)
Other Post-Employment Benefit Expense	<u>(18,070)</u>
Total Program Expenses	<u>7,737,373</u>
Program Revenue	
Charges for Services	
Licenses and Permits	80,103
Charges for Services	920,825
Other Contributions	98,484
Operating Grants and Contributions	
Michigan Transportation Funds	4,112,879
Investment Earnings	4,112
Capital Grants and Contributions	
Federal Grants	431,905
State Grants	822,688
Contributions From Local Units	<u>974,976</u>
Total Program Revenue	<u>7,445,972</u>
Net Program Revenue	<u>(291,401)</u>
General Revenue	
Gain on Equipment Disposal	<u>51,872</u>
Total General Revenue	<u>51,872</u>
Change in Net Assets	(239,529)
Net Assets	
Beginning of Year	<u>30,657,395</u>
End of Year	<u><u>\$ 30,417,866</u></u>

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

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

**EXHIBIT C**

<u><b>ASSETS</b></u>	<u>General Operating Fund</u>
Cash	\$ 628,591
Accounts Receivable	
Sundry Accounts	12,186
State Trunkline Maintenance	168,921
Michigan Transportation Fund	719,238
State Department of Transportation--Other	283,514
Due From Townships--Road Agreements	65,239
Inventories	
Road Materials	302,100
Equipment Parts and Materials	160,674
 Total Assets	 <u>\$ 2,340,463</u>
 <u><b>LIABILITIES AND FUND EQUITY</b></u>	
Liabilities	
Accounts Payable	\$ 79,466
Accrued Liabilities	65,746
Performance Bonds Payable	1,400
Advances From State	159,310
 Total Liabilities	 <u>305,922</u>
 Fund Balance	
Nonspendable	462,774
Restricted for County Road Operations	1,571,767
 Total Fund Equities	 <u>2,034,541</u>
 Total Liabilities and Fund Equities	 <u>\$ 2,340,463</u>

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

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

**EXHIBIT D**

Total Governmental Fund Balance \$ 2,034,541

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 28,596,811

Long-term liabilities are not due and payable in the current period and are not reported in the funds. (213,486)

Net Assets of Governmental Activities \$ 30,417,866

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

**GRATIOT COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
For the Fiscal Year Ended September 30, 2012**

**EXHIBIT E**

	<u>Operating Fund</u>
Revenues	
Licenses and Permits	\$ 80,103
Federal Grants	431,905
State Grants	4,935,567
Contributions From Local Units	974,976
Charges for Services	920,825
Interest and Rents	4,112
Other Revenue	<u>163,498</u>
Total Revenues	<u>7,510,986</u>
Expenditures	
Public Works	7,146,170
Capital Outlay	<u>864,144</u>
Total Expenditures	<u>8,010,314</u>
Excess of Revenues Over (Under) Expenditures	(499,328)
Fund Balance--October 1, 2011	<u>2,533,869</u>
Fund Balance--September 30, 2012	<u><u>\$2,034,541</u></u>

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

**GRATIOT COUNTY ROAD COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended September 30, 2012**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Funds \$(499,328)

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

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated  
over their estimated useful lives as depreciation expense. This is the amount  
by which capital outlays exceeded depreciation in the current period.

Equipment retirement is recorded as an expenditure credit in governmental  
funds, but not recorded as an expense in the Statement of Activities. 225,481

Some expenses reported in the Statement of Activities do not require the use  
of current financial resources and therefore are not reported as expenditures  
in governmental funds. (Increase in compensated absences and decrease in  
OPEB costs) 34,318

Change in Net Assets of Governmental Activities \$(239,529)

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

## GRATIOT COUNTY ROAD COMMISSION

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

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

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

##### Reporting Entity

The Road Commission, which was established pursuant to the County Road Law, Michigan Compiled Laws (MCL) 224.1, is governed by an elected 3-member Board of County Road Commissioners. The Road Commission may not issue debt or levy a tax without the approval of the County Board of Commissioners.

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

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

##### BASIS OF PRESENTATION

###### Government-Wide Financial Statements and Fund Financial Statements

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

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

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

# GRATIOT COUNTY ROAD COMMISSION

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

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

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

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

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

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

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

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

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

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

#### Cash, Cash Equivalents and Investments

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

GRATIOT COUNTY ROAD COMMISSION

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

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

Inventories

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

Capital Assets

Property, plant and equipment, and infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation. All Road Commission equipment is capitalized if there is a Schedule C rate for it, regardless of the cost.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

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

Long-Term Obligations

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

Use of Estimates

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

## GRATIOT COUNTY ROAD COMMISSION

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

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

##### Fund Balance Classifications

In the fund financial statements, governmental funds report the following components of fund balance which comprise a hierarchy based on the extent to which the Road Commission is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

##### Non-spendable Fund Balances

Non-spendable fund balances includes amounts in governmental funds to designate amounts which are not available for spending, or are legally or contractually required to be maintained. The non-spendable amount reported is related to the inventory on hand.

##### Restricted Fund Balances

Restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The remaining Road Commission Funds are restricted as they can only be used in accordance with Public Act 51 of 1951, as amended.

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

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

##### Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended (MCL 141.421), which requires the Board of County Road Commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year, and is approved by the Board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

#### NOTE C--CASH AND INVESTMENTS

Deposits are carried at cost. Deposits of the County Road Fund are in various banks in the name of the county treasurer. MCL 129.91 et seq., 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 any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements;

GRATIOT COUNTY ROAD COMMISSION

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

NOTE C--CASH AND INVESTMENTS (Continued)

bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper within the two highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50% of any one fund. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Road Commission deposits are in accordance with statutory authority.

The Road Commission has designated one bank for the deposit of its funds. The investment policy adopted by the Board, in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposit and investment policy is in accordance with statutory authority.

At year end (and during the year), the Road Commission did not have any investments. The deposits were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposits)	\$ 628,441
Petty Cash and Cash on Hand	<u>150</u>
Total	<u><u>\$ 628,591</u></u>

The bank balance of the Road Commission's deposits is \$1,324,512, of which \$1,174,512 is covered by Federal depository insurance. The remaining \$150,000 is uncollateralized. From December 31, 2010 through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the account balance and the ownership capacity of the funds. This coverage is available to all depositors, including consumers, businesses, and government entities. The unlimited coverage is separate from, and in addition to, the insurance coverage provided for a depositor's other accounts held at an FDIC insured bank.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy authorizes investment in all those that are authorized by law. As stated above, the Road Commission did not have any investments in the fiscal year ended September 30, 2012. The Road Commission's investment policy does not contain specific provisions to limit the Road Commission's exposure to credit risk. The policy does contain provisions to limit the Road Commission's exposure to concentration of credit risk.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

## GRATIOT COUNTY ROAD COMMISSION

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

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

##### Disclosures Relating to Interest Rate Risk

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

##### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater.

The Road Commission's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over-concentration in a specific maturity, individual financial institution(s), or a specific class of securities.

##### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Road Commission's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law does not contain legal requirements that would limit the exposure to custodial credit risk for investments. However, the Road Commission's investment policy does contain a safekeeping and custody section that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The Road Commission is not exposed to custodial credit risk for investments.

GRATIOT COUNTY ROAD COMMISSION

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

NOTE D--CAPITAL ASSETS

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

	Account Balances 10/01/11	Additions	Deductions	Account Balances 09/30/12
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 116,903	\$ -	\$ -	\$ 116,903
Infrastructure--Land/Right-of-Way	3,086	-	-	3,086
Infrastructure--Land Improvements	533,684	-	-	533,684
<b>Subtotal</b>	<b>653,673</b>	<b>-</b>	<b>-</b>	<b>653,673</b>
<b>Capital Assets Being Depreciated</b>				
Land Improvements	59,959	-	-	59,959
Buildings	2,267,819	-	-	2,267,819
Road Equipment	5,989,652	828,808	402,608	6,415,852
Shop Equipment	145,153	10,554	-	155,707
Office Equipment	257,127	24,783	-	281,910
Engineer's Equipment	114,139	-	-	114,139
Yard and Storage	16,573	-	-	16,573
Infrastructure--Bridges	18,484,600	1,041,432	18,695	19,507,337
Infrastructure--Roads	21,909,972	398,615	1,548,478	20,760,109
Infrastructure--Traffic Signals	4,558	-	-	4,558
<b>Total</b>	<b>49,249,552</b>	<b>2,304,192</b>	<b>1,969,781</b>	<b>49,583,963</b>
<b>Less Accumulated Depreciation</b>				
Land Improvements	46,905	1,649	-	48,554
Building	789,043	39,626	-	828,669
Road Equipment	5,300,879	328,372	225,648	5,403,603
Shop Equipment	122,634	17,833	-	140,467
Office Equipment	239,237	13,781	-	253,018
Engineer's Equipment	104,938	3,388	-	108,326
Yard and Storage	15,879	393	-	16,272
Infrastructure--Bridges*	6,923,072	363,411	342,095	6,944,388
Infrastructure--Roads*	7,984,750	1,120,155	1,211,935	7,892,970
Infrastructure--Traffic Signals	4,558	-	-	4,558
<b>Total</b>	<b>21,531,895</b>	<b>1,888,608</b>	<b>1,779,678</b>	<b>21,640,825</b>
<b>Net Capital Assets Being Depreciated</b>	<b>27,717,657</b>	<b>415,584</b>	<b>190,103</b>	<b>27,943,138</b>
<b>Total Net Capital Assets</b>	<b>\$ 28,371,330</b>	<b>\$ 415,584</b>	<b>\$ 190,103</b>	<b>\$ 28,596,811</b>

\*In the prior year, \$336,543 of depreciation was added in error to the Infrastructure--Bridges instead of Infrastructure--Roads. The balance has been reclassified as a reduction to the Infrastructure--Bridges and a negative reduction to the Infrastructure--Roads balance.

GRATIOT COUNTY ROAD COMMISSION

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

NOTE D--CAPITAL ASSETS (Continued)

Depreciation Expense

Depreciation expense was charged to the following activities:

	Amount
Net Equipment Expense	
Direct Equipment	\$ 328,372
Indirect Equipment	
Shop Building	26,092
Storage Building	393
Shop Equipment	17,833
State Salt Shed	8,929
Net Administrative Expense	
Buildings	4,605
Office Equipment and Furniture	13,781
Yard and Grounds	3,388
Land Improvements	1,649
Infrastructure	1,483,566
 Total Depreciation Expense	 \$ 1,888,608

NOTE E--LONG-TERM DEBT

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

	Balances 10/01/11	Additions	(Reductions)	Balances 09/30/12
Vested Employee Benefits				
Vacation Benefits	\$ 102,425	\$ 7,527	\$ -	\$ 109,952
Sick Leave Benefits	146,227	-	(23,775)	122,452
 Total	 \$ 248,652	 \$ 7,527	 \$ (23,775)	 \$ 232,404

Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned are credited to his/her bank monthly for salaried employees and annually for union employees, as determined on their anniversary date and years of service. Maximum allowable accumulations are 450 hours for salaried employees and 320 hours for all other full-time Road Commission employees. Upon separation from employment, 100% of accumulated vacation leave is payable to employees.

## GRATIOT COUNTY ROAD COMMISSION

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

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

##### Sick Leave Benefits

The Road Commission's employment policies provide that every salaried employee shall accumulate sick leave with pay at the rate of 8 hours per month, not to exceed 96 hours per year, with unlimited accumulation. Every union employee shall accumulate sick leave with pay at the rate of 5.34 hours per month, not to exceed 64 hours per year, with a maximum accumulation of 1,040 hours (130 days). Any employee, upon reaching an accumulation of 1,040 hours (130 days) of unused sick time, shall be paid for all additional accrual of sick time at 75% of the employee's current rate on the first pay date in the month of December. An employee with a minimum of 3 years of service and unused sick leave in excess of 240 hours (thirty days), may opt to sell back to the Road Commission up to 160 hours (20 days) of sick leave annually at 1/2 of the employee's current rate provided their accumulation would not drop below 240 hours (30 days).

Upon death, resignation or retirement, union employees shall be paid 1/2 of their accumulated sick leave (computed on a maximum of 1,040 sick leave hours) at the employee's prevailing rate of pay at the time of the termination of employment. Upon death, retirement or termination, salaried employees shall receive a payment of sick leave days paid at their current pay scale, not to exceed 520 hours. Sick leave herein is recorded at 100% of maximum payable leave.

#### NOTE F--EMPLOYEES' RETIREMENT SYSTEM

##### Description of Plan and Plan Assets

The Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation. The most recent period for which actuarial data was available was for the calendar year ended December 31, 2011.

MERS was established in 1946 under Public Act 135 of 1945 and granted independence from the State of Michigan pursuant to Public Act 220 of 1996, effective August 15, 1996. MERS is administered under the provisions of Public Act 427 of 1984, as amended. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

GRATIOT COUNTY ROAD COMMISSION

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

NOTE F--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which requires employees to contribute 3% of their annual compensation to the plan. The Road Commission is required to contribute at an actuarially determined rate; the current rate was 22.18% for general employees and 21.27% for salaried employees, for the calendar year December 31, 2011, based on 2008 actuarial determination.

Annual Pension Cost

During the calendar year ended December 31, 2011, the Road Commission's contributions totaling \$325,264 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2008. Employees contributed \$45,208 in accordance with the personnel policy and bargaining unit agreement. 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's 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 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB Statement No. 27

Year Ended December 31	Annual Pension Cost (APC)		Percentage of APC Contributed	Net Pension Obligation
	Employer	Employee		
2009	\$ 256,854	\$ 49,322	100%	0
2010	276,564	45,622	100%	0
2011	325,264	45,208	100%	0

GRATIOT COUNTY ROAD COMMISSION

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

NOTE F--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/09	\$ 10,770,341	\$ 14,248,748	\$ 3,478,407	76%	\$ 1,539,242	226%
12/31/10	10,681,620	14,611,018	3,929,398	73%	1,517,085	261%
12/31/11	10,565,070	15,170,209	4,605,139	70%	1,437,485	320%

NOTE G--OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

In addition to the pension benefits described in Note F, the Road Commission Retiree Medical Plan is a single-employer plan administered by the Road Commission and can be amended at its discretion. The Road Commission provides post-employment health care benefits, in accordance with the labor contract and personnel policy, to all employees who retire from the Road Commission. Currently, the Road Commission offers a Health Care Medical Reimbursement Plan to all union and salaried employees under Section 105 of the Internal Revenue Code in addition to agreed post-employment health care benefits through the Road Commission's group insurance plan in accordance with respective bargaining agreements and the personnel policy.

Funding Policy

Effective March 1, 2006, the Road Commission agrees to pay the first \$500 per month towards the hospitalization coverage premium for any union employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or becomes eligible for Medicare. Nine people qualified under this policy during the fiscal year ending September 30, 2012.

Effective February 1, 2006, the Road Commission agrees to pay the first \$350 per month towards the hospitalization coverage premium for any salaried employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or becomes eligible for Medicare. No one qualified for this plan during the fiscal year ending September 30, 2012. Retirees that are eligible for this benefit may choose to opt out of the retiree hospitalization coverage and receive in lieu of said coverage 50% of the amount the employer would otherwise have been required to pay, provided the retiree can provide documentation proving that he/she has comparable health care coverage. Payment will be made annually by a separate check and approved at the first Board meeting in January of each year.

## GRATIOT COUNTY ROAD COMMISSION

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

#### NOTE G--OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

The Road Commission pays \$175 a month for salaried employees who opt out of insurance coverage after retirement until they attain the age of 65 or become eligible for Medicare. Two people qualified under this policy during the fiscal year ending September 30, 2012.

The employer agrees to pay the first \$400 per month of the hospitalization coverage premium for any member of the bargaining unit and their spouse as of the date of retirement, who retire after March 15, 2009, and is eligible for full retirement benefits under the current MERS qualifications, until said retired employee attains or would have attained the age of 65 years or becomes eligible for Medicare. In the event the person retiring is single, the employer agrees to pay the single premium, up to \$400 per month, for the single coverage until said retired employee attains the age of 65 years or Medicare eligible. This benefit will end on the first day of the month following the retiree's 65<sup>th</sup> birthday, or the first day of the month following their Medicare eligibility.

Any employee that retires on or after March 15, 2009, and is eligible for the benefit in section 6h of Policy 2B may choose to opt out of the Road Commission's retiree health care group(s) to purchase their insurance elsewhere. The retiree will have the choice of the following two options:

1. A Section 105 Account will be set up in the retiree's name and an amount of \$300 will be placed in the account monthly. This money can be used tax free for IRS (Section 213) medically approved charges. This benefit will end upon death of the retiree, or the month they are Medicare eligible, whichever comes first. The retiree will have 90 days from that date to file their final claim, at which time any balance in the account will revert back to the Road Commission. No one qualified under this policy during the fiscal year ending September 30, 2012.
2. Retirees may choose to opt out of the retiree hospitalization coverage and receive in lieu of said coverage \$300/month. This would be a taxable benefit. Payment will be annually by a separate check at the first Board meeting in January of each year. Three people qualified under this policy during the fiscal year ending September 30, 2012.

Expenditures for post-employment health care benefits are recognized when the retiree health care costs are paid. Retiree health care costs paid by the Road Commission for fiscal year ending September 30, 2012, totaled \$62,900. The expenditures are recognized on a pay-as-you-go-basis.

#### Annual OPEB Cost and Net OPEB Obligation

The Road Commission's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

GRATIOT COUNTY ROAD COMMISSION

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

NOTE G--OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Funding Status and Funding Progress

For the year ended September 30, 2012, the Road Commission estimated the cost of providing retiree health care benefits through using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans fewer than one hundred total plan members. The alternative measurement method computes an annual required contribution. The computed annual required contribution and actual funding are summarized as follows:

Amounts Contributed	
Voluntary Contribution	\$ 62,900
Annual Required Contribution	<u>(44,830)</u>
Increase in OPEB Asset	18,070
Net OPEB Asset--Beginning of Year	<u>848</u>
Net OPEB Asset--End of Year	<u><u>\$ 18,918</u></u>

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the fiscal year ended September 30, 2012 and the preceding year, are as follows:

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Annual OPEB Costs	\$ 53,889	\$ 53,377	\$ 44,830
Percentage Contributed	113.57%	102.01%	140.31%

Under certain circumstances, a single employer that operates a Plan may apply a simplified measurement method in lieu of obtaining an actuarial valuation. The alternative measurement method (alternative calculation) requires the same broad measurement steps as would be necessary in the actuarial process, but allows an organization to utilize a set of predetermined assumptions that simplify the calculations necessary to determine the OPEB liability.

The schedule of funding progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

GRATIOT COUNTY ROAD COMMISSION

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

NOTE G--OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

The funding status as of December 31, 2012, the most recent alternative measurement method valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
09/30/10	\$ -	\$ 672,585	\$ 672,585	0%	\$ 1,951,692	34%
09/30/11	-	680,121	680,121	0%	1,586,092	43%
09/30/12	-	1,344,885	1,344,885	0%	1,417,276	95%

The following actuarial assumptions were used in the development of the Road Commission's retiree health cost projections using the alternative measurement method.

1. Actuarial Cost Method: Alternate Method as provided under GASB Statement No. 45 for plans with fewer than 100 employees
2. Interest Discount Rate: 5.50% compounded annually
3. Mortality Prior to Retirement: None
4. Turnover Prior to Retirement: Table 1--Probability of Remaining Employed until Assumed Retirement Age, by Age (Default Values)
5. Expected Future Working Life: Table 2--Expected Future Working Lifetimes of Employees, by Age (Default Values)
6. Salary Scale: 2.00%
7. Post-Retirement Interest Rate: 7.00%
8. Post-Retirement Mortality: Based on life expectancy of age 77 for males and 81 for females.

Health Medical Reimbursement Plan

On February 26, 2009, the Board authorized the Road Commission to enter into a Section 105 Agreement dated March 15, 2009, to allow employees to opt out of retiree health care and have money put into a Section 105 account for use on any IRS approved medical expense. The Section 105 Agreement allows for the reimbursement of medical expenses under an employer-sponsored health plan. The Road Commission offers a post-employment Health Medical Reimbursement Plan (HMRP) to all union and salaried employees under Section 105 of the Internal Revenue Code.

## GRATIOT COUNTY ROAD COMMISSION

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

#### NOTE G--OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Under the program, the Road Commission shall reimburse an eligible employee participating in the Employer Group Medical Plan for deductible expense(s) incurred under the plan. An Employee participating in the Employer Group Medical Plan with single coverage has a \$2,000 plan deductible. If the employee incurs an expense that is applied towards the deductible, the Road Commission will reimburse 100% of the eligible expense up to the plan maximum of \$2,000. An employee participating in the Employer Group Medical Plan with two person or family coverage has a \$4,000 plan deductible. If the employee and/or dependent incur an expense that is applied towards the deductible, the Road Commission will reimburse 100% of the eligible expense up to the plan maximum of \$4,000.

The reimbursement of medical expenses paid by the Road Commission for the fiscal year ending September 30, 2012 totaled \$48,000.

#### NOTE H--DEFERRED COMPENSATION PLAN

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code section 457. The assets of the plans are 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 and the assets may not be diverted to any other use. The administrators are agents of the employer (Gratiot County 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 Road Commission's financial statements.

#### NOTE I--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2012, the Federal grants received and expended by the Road Commission was \$267,123 for contracted projects. The Road Commission expended Federal money for negotiated projects totaling \$164,782. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administrated by the Road Commission.

## GRATIOT COUNTY ROAD COMMISSION

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

#### NOTE J--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits claims and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

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

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. If for any reason the Pool's resources available to pay losses are depleted, the payment of all unpaid losses of the member is the sole obligation of the member.

#### NOTE K--CONTINGENT LIABILITIES

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

#### NOTE L--UPCOMING REPORTING CHANGE

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

## GRATIOT COUNTY ROAD COMMISSION

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

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

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

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

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

GRATIOT COUNTY ROAD COMMISSION

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

NOTE L--UPCOMING REPORTING CHANGE (Continued)

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The Road Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the 2015-2016 fiscal year.

**GRATIOT COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES  
BUDGETARY COMPARISON SCHEDULE  
For the Fiscal Year Ended September 30, 2012**

**EXHIBIT G**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
License and Permits				
Permits	\$ 32,000	\$ 79,775	\$ 80,103	\$ 328
Federal Grants				
Surface Transportation Program	376,000	214,580	208,161	(6,419)
Critical Bridge	1,258,750	216,650	216,657	7
Economic D Funds	-	-	7,087	7,087
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,382,075	2,359,075	2,440,943	81,868
Local Road	1,435,375	1,428,123	1,486,283	58,160
Primary Urban Road	146,025	146,025	147,813	1,788
Local Urban Road	26,525	26,525	27,840	1,315
Critical Bridge	-	690,000	690,098	98
Economic Development Funds				
D Funds	100,200	132,200	132,590	390
Contributions--Local Units				
Cities and Villages	-	-	7,087	7,087
Townships	735,779	967,280	967,889	609
Charges for Services				
State Trunkline Maintenance	650,000	682,000	679,005	(2,995)
State Trunkline--Other	-	252,795	232,957	(19,838)
Salvage Sales	5,000	7,290	8,863	1,573
Interest and Rents				
Interest Earned	5,000	4,110	4,112	2
Other Revenue				
Other	5,000	104,740	98,484	(6,256)
Gain on Equipment Disposal	-	65,000	65,014	14
Total Revenues	<u>7,167,729</u>	<u>7,386,168</u>	<u>\$7,510,986</u>	<u>\$ 124,818</u>
Fund Balance--October 1, 2011	<u>1,297,718</u>	<u>2,533,869</u>		
Total Budget	<u>\$ 8,465,447</u>	<u>\$ 9,920,037</u>		

**GRATIOT COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EXPENDITURES  
BUDGETARY COMPARISON SCHEDULE  
For the Fiscal Year Ended September 30, 2012**

**EXHIBIT H**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 94,000	\$ 294,000	\$ 238,720	\$ 55,280
Routine and Preventive Maintenance	1,250,000	2,350,000	2,244,376	105,624
Local Road				
Preservation/Structural Improvements	690,000	179,750	159,895	19,855
Routine and Preventive Maintenance	2,300,000	2,950,000	2,882,299	67,701
Primary Road Structure				
Preservation/Structural Improvements	860,000	824,300	741,790	82,510
Routine and Preventive Maintenance	5,000	-	-	-
Local Road Structure				
Preservation/Structural Improvements	615,000	315,000	299,642	15,358
Routine and Preventive Maintenance	5,000	14,170	700	13,470
State Trunkline Maintenance	650,000	717,335	705,927	11,408
State Maintenance--Other	-	233,000	232,957	43
Equipment Expense--Net	(550,000)	(145,000)	-	-
Direct			\$ 808,823	
Indirect			460,861	
Operating			345,699	
Less: Equipment Rentals			<u>(1,850,335)</u>	(234,952)
Equipment Expense--Net				89,952
Distributive Expenditures	1,500,000	-	-	-
Administrative Expense--Net	241,650	540,820	-	-
Administrative Expense			520,339	
Less: Handling Charges			(837)	
Overhead--State			(80,950)	
Purchase Discounts			<u>(4,045)</u>	434,507
Administrative Expense--Net				106,313
Non-Road Projects	-	9,000	8,941	59
Costs of Road Materials Sold	5,000	5,000	4,440	560
Capital Outlay--Net	174,000	325,000	-	-
Capital Outlay			864,144	
Less: Depreciation Credits			(396,112)	
Equipment Retirements	<u>-</u>	<u>-</u>	<u>(176,960)</u>	291,072
Capital Outlay--Net				33,928
Total Expenditures	7,839,650	8,612,375	<u>\$ 8,010,314</u>	<u>\$ 602,061</u>
Fund Balance--September 30, 2012	<u>625,797</u>	<u>1,307,662</u>		
Total Budget	<u>\$ 8,465,447</u>	<u>\$ 9,920,037</u>		

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

**EXHIBIT I**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Total Revenues	\$ 3,924,600	\$ 2,500,568	\$ 1,085,818	\$ 7,510,986
Total Expenditures	<u>3,369,574</u>	<u>3,433,858</u>	<u>1,206,882</u>	<u>8,010,314</u>
Excess of Revenues Over (Under) Expenditures	<u>555,026</u>	<u>(933,290)</u>	<u>(121,064)</u>	<u>(499,328)</u>
Other Financing Sources (Uses) Optional Transfers	<u>(589,297)</u>	<u>689,297</u>	<u>(100,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(589,297)</u>	<u>689,297</u>	<u>(100,000)</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	(34,271)	(243,993)	(221,064)	(499,328)
Fund Balance--October 1, 2011	<u>34,271</u>	<u>265,087</u>	<u>2,234,511</u>	<u>2,533,869</u>
Fund Balance--September 30, 2012	<u><u>\$ -</u></u>	<u><u>\$ 21,094</u></u>	<u><u>\$ 2,013,447</u></u>	<u><u>\$ 2,034,541</u></u>

**GRATIOT COUNTY ROAD COMMISSION**  
**ANALYSIS OF REVENUES**  
**For the Fiscal Year Ended September 30, 2012**

**EXHIBIT J**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
License and Permits				
Permits	\$ -	\$ -	\$ 80,103	\$ 80,103
Federal Grants				
Surface Transportation Program	208,161	-	-	208,161
Critical Bridge	216,657	-	-	216,657
Economic D Funds	7,067	20	-	7,087
State Grants				
Michigan Transportation Fund				
Engineering	6,215	3,785	-	10,000
Allocation	2,440,943	1,486,283	-	3,927,226
Urban Roads	147,813	27,840	-	175,653
Critical Bridge	690,098	-	-	690,098
Economic Development Fund				
Rural Primary (D)	132,590	-	-	132,590
Contributions--Local Units				
Cities and Villages	-	-	7,087	7,087
Townships	75,000	892,889	-	967,889
Charges for Services				
State Trunkline Maintenance	-	-	679,005	679,005
State Trunkline Nonmaintenance	-	-	232,957	232,957
Salvage Sales	-	-	8,863	8,863
Interest and Rents				
Interest Earned	56	430	3,626	4,112
Other Revenue				
Other Revenue	-	89,321	9,163	98,484
Gain on Equipment Disposal	-	-	65,014	65,014
Total Revenues	<u>\$ 3,924,600</u>	<u>\$ 2,500,568</u>	<u>\$ 1,085,818</u>	<u>\$ 7,510,986</u>

**GRATIOT COUNTY ROAD COMMISSION**  
**ANALYSIS OF EXPENDITURES**  
**For the Fiscal Year Ended September 30, 2012**

**EXHIBIT K**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Primary Road				
Preservation/Structural Improvements	\$ 238,720	\$ -	\$ -	\$ 238,720
Routine and Preventive Maintenance	2,244,376	-	-	2,244,376
Local Road				
Preservation/Structural Improvements	-	159,895	-	159,895
Routine and Preventive Maintenance	-	2,882,299	-	2,882,299
Primary Road Structures				
Preservation/Structural Improvements	741,790	-	-	741,790
Local Road Structures				
Preservation/Structural Improvements	-	299,642	-	299,642
Routine and Preventive Maintenance	-	700	-	700
State Trunkline Maintenance	-	-	705,927	705,927
State Maintenance--Other	-	-	232,957	232,957
Equipment Expense--Net (Per Exhibit H)	(68,674)	(129,823)	(36,455)	(234,952)
Administrative Expense--Net (Per Exhibit H)	213,362	221,145	-	434,507
Non Road Projects	-	-	8,941	8,941
Costs of Road Materials Sold	-	-	4,440	4,440
Capital Outlay--Net (Per Exhibit H)	-	-	291,072	291,072
Total Expenditures	<u>\$ 3,369,574</u>	<u>\$ 3,433,858</u>	<u>\$ 1,206,882</u>	<u>\$ 8,010,314</u>



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

ANDY DILLON  
STATE TREASURER

February 20, 2013

Gratiot County Road Commission  
Board of County Road Commissioners  
200 Commerce Drive  
P.O. Box 187  
Ithaca, Michigan 48847-0187

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

Dear Commissioners:

We have audited the financial statements of the governmental activities and major fund of the Gratiot County Road Commission, a component unit of Gratiot County, Michigan, as of and for the fiscal year ended September 30, 2012, which collectively comprise the Gratiot County Road Commission's basic financial statements and have issued our report thereon dated February 20, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Gratiot County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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



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



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

ANDY DILLON  
STATE TREASURER

February 20, 2013

Gratiot County Road Commission  
Board of County Road Commissioners  
200 Commerce Drive  
P.O. Box 187  
Ithaca, Michigan 48847-0187

RE: Report to Those Charged With Governance

Dear Commissioners:

We have audited the financial statements of the governmental activities and major fund of the Gratiot County Road Commission, Gratiot County, Michigan, for the fiscal year ended September 30, 2012, and have issued our report thereon dated February 20, 2013. Professional standards require that we provide you with the following information related to our audit.

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

As stated in the engagement letter dated April 20, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

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

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

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on December 17, 2012.

### Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Gratiot County Road Commission are described in Note A to the financial statements. We noted no transactions entered into by the Gratiot County Road Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Management's estimate of the depreciation is based on the straight-line method. The net other post-employment benefit obligation is a significant and sensitive accounting estimate to the Gratiot County Road Commission. We evaluated the key factors and assumptions used to develop the depreciation in determining that it is reasonable in relation to the financial statements, taken as a whole.

### Difficulties Encountered in Performing the Audit

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

### Corrected and Uncorrected Misstatements

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

### Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 20, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Gratiot County Road Commission’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Gratiot County Road Commission’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of County Road Commissioners and management of the Gratiot County Road Commission and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



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