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COUNTY OF ARENAC  
STANDISH, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED DECEMBER 31, 2011

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**AUDITORS' REPORT**

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May 22, 2012

Independent Auditors' Report

Board of Commissioners  
County of Arenac  
Standish, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the County of Arenac, Standish, Michigan, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, as listed in the index. These financial statements are the responsibility of the County of Arenac's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Arenac County Road Commission, a component unit which represent 81%, 87% and 90%, respectively, of the assets, net assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Arenac County Road Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the County of Arenac, Standish, Michigan, as of December 31, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the County of Arenac has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, as of December 31, 2011. As a result of this required implementation, the Law Library Fund, Department of Human Services Fund and the Soldiers and Sailors Relief Fund are now being reported within the General Fund. In addition, fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications under GASB No. 54.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2012, included in the Single Audit Report issued under a separate cover, on our consideration of the County of Arenac's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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 and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors 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 assurance.

Offices:  
East Tawas  
West Branch

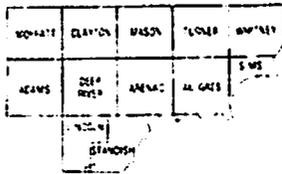
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Members:  
A.I.C.P.A.  
M.A.C.P.A.

Board of Commissioners  
County of Arenac  
May 22, 2012  
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Arenac's financial statements as a whole. The combining nonmajor fund financial statements, Arenac County Drain Commission - component unit fund financial statements, Economic Development Corporation - component unit fund financial statements, and the Brownfield Redevelopment Authority - component unit fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements, Arenac County Drain Commission - component unit fund financial statements, Economic Development Corporation - component unit fund financial statements and the Brownfield Redevelopment Authority - component unit fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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



## ARENAC COUNTY BOARD OF COMMISSIONERS

P.O. Box 747 • 120 North Grove Street • Standish, MI 48658  
(989) 846-6188

District #1 Robert Luce

District #3 Michael Snyder, Chairman

District #4 Jeffrey Trombley

District #2 Virginia Zyguel

District #5 Joseph Sancimino, Vice-Chair

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the County of Arenac's (the County) financial performance provides an overview of the County's financial activities for the fiscal year ended December 31, 2011. The intent of this discussion and analysis is to look at the County's financial performance as a whole. The discussion focuses on the County's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

#### Financial Highlights

In the 2011 fiscal year the Arenac County Board of Commissioners has steadily made budget changes and modifications to increase its accountability and monitoring of the county's fiscal position. Through its intentional increase in the supervision of the budget, the commission has through its conservative spending and monitoring policies, survived a period of economic turmoil. Of note, the following highlights are offered for consideration and review:

- The County's net assets exceeded its liabilities by \$9,866,098.
- The County's total net assets increased by \$4,045.
- The County's governmental funds reported a combined ending fund balance of \$1,678,655 this year, a decrease of \$299,979. Of this amount, \$587,384 is available for spending (*unassigned fund balance*) on behalf of its citizens. The County General Fund 2011 fiscal year end *fund balance* is \$724,341.

In the fiscal year of 2011, the County Board of Commissioners, took it upon themselves, to increase their supervision of the fiscal processes of the County. Specific areas of the budget were assigned to individual Commissioners as focus or check points. The budgetary check points, while specifically noted, resulted in commitments of time that were difficult levels of performance for some individuals. The technical level of understanding as well as the complexity of the task is requiring additional commitment on the part of the entire Commission. The County Clerk and the Treasurer have graciously assisted the Commission in taking on this objective. It is apparent that a transition to this new process will be an ongoing effort to uphold the sacred trust under the watchful eye of public scrutiny.

#### Overview of the Financial Statements

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

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

## Government-wide Financial Statements

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

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

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

With this report, capital assets are listed for the County of Arenac. These assets are comprised of buildings, building improvements, vehicles, machinery and equipment, land improvements and land owned by the County. These assets total over \$7.1 million.

Property taxes for 2011 that will be received in the future are listed as *taxes receivable* and as *deferred revenue*.

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

The Arenac County Drain Commission assets total \$3,133,247, and of that amount, \$1,619,987 is shown as net capital assets. The Arenac County Economic Development Corporation displays assets totaling \$64,669. The Brownfield Redevelopment Authority assets total \$5,544. The Arenac County Road Commission assets total \$14,379,120, and of that amount, \$12,464,224 is shown as net capital assets, primarily due to County roads. The Arenac County Land Bank Authority displays assets totaling \$63,000.

## Fund Financial Statements

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

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

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

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

***Proprietary Funds:***

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

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

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

***Fiduciary Funds:***

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

**Notes to Financial Statements**

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

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

**Other Information**

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

## Government -Wide Financial Analysis

### Summary of Net Assets:

The following summarizes the net assets of the County of Arenac at December 31, 2011 and 2010:

#### Net Assets Summary

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Current Assets	\$ 3,707,688	\$ 2,811,470	\$ 6,519,158	\$ 6,427,960
Other Noncurrent Assets	1,591,548	0	1,591,548	1,652,161
Capital Assets – net	2,552,926	1,702,232	4,255,158	4,306,308
<b>Total Assets</b>	<b>7,852,162</b>	<b>4,513,702</b>	<b>12,365,864</b>	<b>12,386,429</b>
Current Liabilities	1,806,413	9,717	1,816,130	1,732,708
Long-Term Liabilities	683,636	0	683,636	791,668
<b>Total Liabilities</b>	<b>2,490,049</b>	<b>9,717</b>	<b>2,499,766</b>	<b>2,524,376</b>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	2,084,126	1,702,232	3,786,358	3,733,985
Restricted	2,615,074	0	2,615,074	2,983,044
Unrestricted	662,913	2,801,753	3,464,666	3,145,024
<b>Total Net Assets</b>	<b>\$ 5,362,113</b>	<b>\$ 4,503,985</b>	<b>\$ 9,866,098</b>	<b>\$ 9,862,053</b>

### Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for the periods ended December 31, 2011 and 2010:

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

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

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Year Ended December 31, 2011</b>	<b>Year Ended December 31, 2010</b>
Program Revenue:				
Charges for Services	\$ 1,141,589	\$ 269,076	\$ 1,410,665	\$ 1,364,294
Operating Grants and Contributions	1,331,567	0	1,331,567	1,470,700
Capital Grants and Contributions	68,917	0	68,917	156,547
<b>Total Program Revenue</b>	<b>2,542,073</b>	<b>269,076</b>	<b>2,811,149</b>	<b>2,991,541</b>

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Year Ended December 31, 2011</u>	<u>Year Ended December 31, 2010</u>
General Revenue:				
Property Taxes	\$ 4,256,157	\$ 0	\$ 4,256,157	\$ 4,347,403
State Revenue Sharing	291,421	0	291,421	7,689
Payments from Component Units	0	0	0	13,670
Interest and Investment Earnings	15,062	268,278	283,340	239,492
Rent Income	7,270	0	7,270	8,133
Gain Loss on Sale of Capital Assets	(1,402)	256	(1,146)	1,608
Other	<u>171,898</u>	<u>0</u>	<u>171,898</u>	<u>150,640</u>
Total General Revenue	<u>4,740,406</u>	<u>268,534</u>	<u>5,008,940</u>	<u>4,768,635</u>
 Total revenue	 <u>7,282,479</u>	 <u>537,610</u>	 <u>7,820,089</u>	 <u>7,760,176</u>
Program Expenses:				
General Government	3,052,421	0	3,052,421	3,100,299
Public Safety	3,066,131	0	3,066,131	2,778,864
Public Works	98,198	0	98,198	105,673
Health and Welfare	1,220,252	0	1,220,252	1,317,092
Community and Economic Development	173,420	0	173,420	229,311
Recreation and Cultural	16,113	0	16,113	16,125
Interest and Fees on Long-Term Debt	22,258	0	22,258	30,816
County Park	0	81,764	81,764	88,033
Delinquent Tax Revolving	0	4,119	4,119	7,728
Tax Reversion	0	79,292	79,292	70,254
Jail Commissary	<u>0</u>	<u>2,076</u>	<u>2,076</u>	<u>3,863</u>
Total expenses	<u>7,648,793</u>	<u>167,251</u>	<u>7,816,044</u>	<u>7,748,058</u>
 Change in net assets before transfers	 (366,314)	 370,359	 4,045	 12,118
Transfers In (Out)	<u>118,802</u>	<u>(118,802)</u>	<u>0</u>	<u>0</u>
<b>Change in Net Assets</b>	<b>(247,512)</b>	<b>251,557</b>	<b>4,045</b>	<b>12,118</b>
 Beginning net assets	 <u>5,609,625</u>	 <u>4,252,428</u>	 <u>9,862,053</u>	 <u>9,849,935</u>
<b>Ending Net Assets</b>	<b><u>\$ 5,362,113</u></b>	<b><u>\$ 4,503,985</u></b>	<b><u>\$ 9,866,098</u></b>	<b><u>\$ 9,862,053</u></b>

**Governmental Activities**

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

Total governmental activities reveal revenues of \$2,542,073 from *Charges for Services, Operating Grants and Contributions and Capital Grants and Contributions*. The *Charges for Services* are fees for real estate transfers/recordations, fine and forfeitures related to judicial activity, and licenses and permits. While revenue collected is substantial, operating expenses totaled \$7,665,151 for these same activities. The largest expenses were incurred by General Government (\$3,052,421), Health and Welfare (\$1,220,252) and Public Safety (\$3,066,131).

## **Business-Type Activities**

Arenac County's *Business-Type activities* include the County Park, Delinquent Tax Revolving, Tax Reversion and Jail Commissary activities. The business-type activities reveal revenues of \$269,076 from *Charges for Services*. The *Charges for Services* are for fees associated with the collection of property taxes, sales of property forfeited to the County for delinquent property taxes, commissary sales and for camping fees at the County Park. The operating expenses for these same activities totaled \$167,251.

## **Financial Analysis of County Funds**

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

### **Governmental Funds**

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

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

This year's County audit, following GASB 34 format, shows 35 funds. These funds are maintained by the County Treasurer as separate units in the general ledger.

### **Enterprise Funds**

The County's enterprise funds provide the same type of information found in the government-wide financial statements. Departments such as County Park, Delinquent Tax Revolving, Tax Reversion and Jail Commissary comprise these funds. GASB 34 places such funds under the caption of *Proprietary Funds* under the appropriate statements, i.e., *Statement of Net Assets*, *Statement of Cash Flows*, etc.

## **Budgetary Highlights**

The year ending December 31, 2011 was a financially challenging year for the County of Arenac. Both external and internal pressures forced the Board of Commissioners, elected officials, department heads, and employees to work cohesively and in collaboration to mitigate potential problems.

The County began the year with a \$742,413 General Fund fund balance. At year's end, the General Fund fund balance decreased to \$724,341. The General Fund actual revenue of \$4,844,862 versus budgeted revenue of \$4,781,792 netted a favorable variance of \$63,070.

Actual expenditures of the General Fund were \$4,872,984 versus budgeted expenditures of \$4,878,094 showing a favorable variance of \$5,110. This was due to not budgeting for public safety expenses of 43,073 and capital outlay

expenses of \$61,004 which was offset by over budgeting for general government (\$68,285) and other (\$37,482) activities .

## **Capital Asset and Debt Administration**

### **Capital Assets**

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

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

Capital Assets – Government Activities beginning balance was \$4,903,645 with an ending balance of \$5,145,377. Governmental Activities Total Capital Assets – Net of Depreciation was \$2,552,926.

During 2011, the County's governmental capital asset additions totaled \$270,325. The most significant additions were construction in progress for the District Court remodeling of \$42,592, installation of new boilers for \$84,423 and a new telephone system for \$49,630. The County purchased two new copiers for \$7,950 each, mechanical assist movable shelving units for \$9,100 and two public safety vehicles totaling \$41,530. Also, there was software purchased with the Homeland Security Grant totaling \$27,150. The County disposed of two copiers and a postage meter in the current year.

Capital Assets - Business Type Activities beginning and ending balance was \$2,015,809. Business-Type Activities Total Capital Assets – Net of Depreciation was \$1,702,232. An expanded and detailed presentation may be seen in Note 4 of the audit, notes to financial statements.

During 2011, the County's business type activities did not have any capital asset additions or disposals .

### **Long-Term Debt**

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

At year's end, long-term debt (due in more than one year) amounted to \$584,236. Such debt includes *Bonds Payable*, *Notes Payable* and *Compensated Absences*. That is, accumulated vested vacation benefits payable and contingent liability for the accumulated sick leave benefits of County employees. In the current year, the County issued the 2011 Twining Sanitary Bonds in the amount of \$181,000. \$143,000 of the 2011 Twining Sanitary Bonds were used to pay a portion of the 1989 Village of Twining Sanitary Sewer Drain Bonds.

## **Economic Factors**

As the State's economy begins to turn around, the need to make tough choices continues. The County has considered some of the following factors in the preparation of the 2012 calendar budget year.

The States new Revenue Sharing program has begun and has added some stability to the new budgets creation . With ongoing reductions in some areas of the County's budget, however, pressure continues on how to provide services that are mandated by the State with less and less funding being provided.

Even as the budget gets tighter, the County has made some gains in areas that improve services and help reduce costs. A new Boiler system was installed and is significantly reducing the fuel costs. The

Housing Department was privatized and actually increased the funds available to needy clients of the County. Contractual “Guardian” services are also expected to reduce the County’s necessary funding to supplement this service. The debt for the “Windows Project” will be paid off this calendar year. The conclusion of payments for this major Window renovation will be welcome and helpful to the general budget.

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

#### **Component Units**

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

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

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

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

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

#### **Requests for Information**

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

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF NET ASSETS  
December 31, 2011

	Primary Government			Component Units				
	Governmental Activities	Business-Type Activities	Total	Arenac County Drain Commission	Economic Development Corporation	Brownfield Redevelopment Authority	Arenac County Road Commission	Arenac County Land Bank Authority
<b>Assets</b>								
Cash and Cash Equivalents (Note 2)	\$ 1,273,002	\$ 1,302,658	\$ 2,575,660	\$ 307,276	\$ 64,669	\$ 5,544	\$ 1,081,972	\$ 0
Investments (Note 2)	102,593	324,196	426,789	0	0	0	0	0
Receivables:								
Property Taxes	1,841,669	0	1,841,669	0	0	0	0	0
Delinquent Taxes	0	1,122,405	1,122,405	0	0	0	0	0
Special Assessments	0	0	0	124,914	0	0	0	0
Accounts, Net	58,563	0	58,563	2,650	0	0	3,963	0
Interest	1,079	0	1,079	0	0	0	0	0
Due from Local Units	84,476	62,211	146,687	16,000	0	0	45,685	0
Due from Component Units (Note 3)	150,939	0	150,939	0	0	0	0	0
Due from State	181,827	0	181,827	0	0	0	412,226	0
Due from Federal Government	13,540	0	13,540	0	0	0	0	0
Prepaid Expenses	0	0	0	22,339	0	0	20,625	0
Inventory	0	0	0	0	0	0	350,425	63,000
Noncurrent Assets:								
Long-Term Mortgages Receivable (Note 1)	1,591,548	0	1,591,548	0	0	0	0	0
Due from Local Units	0	0	0	239,000	0	0	0	0
Special Assessments	0	0	0	788,452	0	0	0	0
Bond Issuance Costs, Net (Note 1)	0	0	0	12,629	0	0	0	0
Capital Assets Not Being Depreciated (Note 4)	337,162	1,458,771	1,795,933	673,290	0	0	160,561	0
Capital Assets, Net of Accumulated Depreciation (Note 4)	2,215,764	243,461	2,459,225	946,697	0	0	12,303,663	0
<b>Total Assets</b>	<b>7,852,162</b>	<b>4,513,702</b>	<b>12,365,864</b>	<b>3,133,247</b>	<b>64,669</b>	<b>5,544</b>	<b>14,379,120</b>	<b>63,000</b>
<b>Liabilities</b>								
Accounts Payable	202,635	451	203,086	19,728	0	0	61,121	0
Due to Primary Government (Note 3)	0	0	0	127,000	0	0	23,939	0
Due to Local Units	0	9,266	9,266	0	0	0	0	0
Due to State	3,144	0	3,144	0	0	0	131,340	0
Accrued Interest Payable	3,495	0	3,495	4,314	0	0	0	0
Escrow Deposits Payable	10,264	0	10,264	0	0	0	0	0
Accrued Liabilities	34,512	0	34,512	0	0	0	13,457	0
Deferred Revenue	1,552,363	0	1,552,363	0	0	0	379,103	0
Long Term Liabilities: (Note 6)								
Due Within One Year	99,400	0	99,400	96,209	0	0	3,377	0
Due In More Than One Year	584,236	0	584,236	975,262	0	0	125,935	0
<b>Total Liabilities</b>	<b>2,490,049</b>	<b>9,717</b>	<b>2,499,766</b>	<b>1,222,513</b>	<b>0</b>	<b>0</b>	<b>738,272</b>	<b>0</b>
<b>Net Assets</b>								
Invested in Capital Assets, Net of Related Debt	2,084,126	1,702,232	3,786,358	803,516	0	0	12,464,224	0
Restricted For:								
Public Safety	619,736	0	619,736	0	0	0	0	0
Health and Welfare	116,977	0	116,977	0	0	0	0	0
Tribal Grant Projects	13,326	0	13,326	0	0	0	0	0
County Roads	0	0	0	0	0	0	1,176,624	0
Land Bank Authority	0	0	0	0	0	0	0	63,000
Debt Service	0	0	0	110,186	0	0	0	0
Capital Projects	30,653	0	30,653	997,032	0	0	0	0
Community and Economic Development	1,716,474	0	1,716,474	0	64,669	0	0	0
Brownfield Redevelopment Authority	0	0	0	0	0	5,544	0	0
Other State Mandated Programs	117,908	0	117,908	0	0	0	0	0
Unrestricted	662,913	2,801,753	3,464,666	0	0	0	0	0
<b>Total Net Assets</b>	<b>\$ 5,362,113</b>	<b>\$ 4,503,985</b>	<b>\$ 9,866,098</b>	<b>\$ 1,910,734</b>	<b>\$ 64,669</b>	<b>\$ 5,544</b>	<b>\$ 13,640,848</b>	<b>\$ 63,000</b>

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

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2011

Function/Program	Expenses	Net (Expense) Revenue and Changes in Net Assets										
		Program Revenues			Primary Government			Component Units				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Arenac County Drain Commission	Economic Development Corporation	Brownfield Redevelopment Authority	Arenac County Road Commission	Arenac County Land Bank Authority
<b>Primary Government</b>												
Governmental Activities:												
General Government	\$ 3,052,421	\$ 884,151	\$ 853,924	\$ 0	\$ (1,314,346)	\$ 0	\$(1,314,346)					
Public Safety	3,066,131	243,070	322,066	68,917	(2,432,078)	0	(2,432,078)					
Public Works	98,198	0	0	0	(98,198)	0	(98,198)					
Health and Welfare	1,220,252	0	91,860	0	(1,128,392)	0	(1,128,392)					
Community and Economic Development	173,420	14,368	63,717	0	(95,335)	0	(95,335)					
Recreation and Cultural	16,113	0	0	0	(16,113)	0	(16,113)					
Interest and Fees on Long-Term Debt	22,258	0	0	0	(22,258)	0	(22,258)					
<b>Total Governmental Activities</b>	<b>7,648,793</b>	<b>1,141,589</b>	<b>1,331,567</b>	<b>68,917</b>	<b>(5,106,720)</b>	<b>0</b>	<b>(5,106,720)</b>					
Business-Type Activities:												
County Park	81,764	42,768	0	0	0	(38,996)	(38,996)					
Delinquent Tax Revolving	4,119	92,649	0	0	0	88,530	88,530					
Tax Reversion	79,292	128,011	0	0	0	48,719	48,719					
Jail Commissary	2,076	5,648	0	0	0	3,572	3,572					
<b>Total Business-Type Activities</b>	<b>167,251</b>	<b>269,076</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>101,825</b>	<b>101,825</b>					
<b>Total Primary Government</b>	<b>\$ 7,816,044</b>	<b>\$ 1,410,665</b>	<b>\$ 1,331,567</b>	<b>\$ 68,917</b>	<b>(5,106,720)</b>	<b>101,825</b>	<b>(5,004,895)</b>					
<b>Component Units</b>												
Drain Commission	\$ 447,835	\$ 257,416	\$ 201,710	\$ 0			\$ 11,291	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Economic Development	5,391	0	11,431	0			0	6,040	0	0	0	0
Road Commission	4,164,936	1,064,047	2,315,595	1,910,750			0	0	0	1,125,456	0	0
Land Bank Authority	0	0	63,000	0			0	0	0	0	0	63,000
<b>Total Component Units</b>	<b>\$ 4,618,162</b>	<b>\$ 1,321,463</b>	<b>\$ 2,591,736</b>	<b>\$ 1,910,750</b>			<b>11,291</b>	<b>6,040</b>	<b>0</b>	<b>1,125,456</b>	<b>0</b>	<b>63,000</b>

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

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2011

Function/Program	Net (Expense) Revenue and Changes in Net Assets											
	Program Revenues			Primary Government			Component Units					
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Arenac County Drain Commission	Economic Development Corporation	Brownfield Redevelopment Authority	Arenac County Road Commission	Arenac County Land Bank Authority
General Revenue:												
Property Taxes Levied For:												
General Operating					\$ 2,719,227	\$ 0	\$ 2,719,227	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Public Safety					853,486	0	853,486	0	0	0	0	0
Senior Citizens					410,073	0	410,073	0	0	0	0	0
Ambulance Services					273,371	0	273,371	0	0	0	0	0
State Revenue Sharing					291,421	0	291,421	0	0	0	0	0
Interest and Investment Earnings					15,062	268,278	283,340	0	0	0	1,784	0
Rent Income					7,270	0	7,270	0	0	0	0	0
Gain or Loss on Sale of Capital Assets					(1,402)	256	(1,146)	0	0	0	53,822	0
Other					171,898	0	171,898	31,253	0	0	0	0
Transfers					118,802	(118,802)	0	0	0	0	0	0
Total General Revenue and Transfers					<u>4,859,208</u>	<u>149,732</u>	<u>5,008,940</u>	<u>31,253</u>	<u>0</u>	<u>0</u>	<u>55,606</u>	<u>0</u>
Change in Net Assets					(247,512)	251,557	4,045	42,544	6,040	0	1,181,062	63,000
Net Assets - Beginning (Restated) (Note 15)					<u>5,609,625</u>	<u>4,252,428</u>	<u>9,862,053</u>	<u>1,868,190</u>	<u>58,629</u>	<u>5,544</u>	<u>12,459,786</u>	<u>0</u>
Net Assets - Ending					<u>\$ 5,362,113</u>	<u>\$ 4,503,985</u>	<u>\$ 9,866,098</u>	<u>\$ 1,910,734</u>	<u>\$ 64,669</u>	<u>\$ 5,544</u>	<u>\$ 13,640,848</u>	<u>\$ 63,000</u>

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

COUNTY OF ARENAC  
Standish, Michigan

BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2011

	Special Revenue Funds						Other Governmental Funds	Total Governmental Funds
	General Fund	911 Service Fund	Road Patrol Millage	Senior Citizen Millage	Housing Commission			
<b>ASSETS</b>								
Cash and Cash Equivalents (Note 2)	\$ 482,843	\$ 276,302	\$ 77,920	\$ 2,995	\$ 64,428	\$ 368,514	\$ 1,273,002	
Investments (Note 2)	0	102,593	0	0	0	0	102,593	
Receivables:								
Property Taxes	301,876	320,508	534,178	411,065	0	274,042	1,841,669	
Accounts, Net	32,781	12,449	0	0	9,000	4,333	58,563	
Interest	1,079	0	0	0	0	0	1,079	
Due from Local Units	84,476	0	0	0	0	0	84,476	
Due from Component Units (Note 3)	70,939	80,000	0	0	0	0	150,939	
Due from State	92,649	33,956	0	0	1,149	54,073	181,827	
Due from Federal Government	5,923	0	0	0	0	7,617	13,540	
Due from Other Funds (Note 3)	6,996	0	0	0	0	0	6,996	
Noncurrent Assets:								
Long-Term Mortgages Receivable (Note 1)	0	0	0	0	1,591,548	0	1,591,548	
<b>Total Assets</b>	<b>\$ 1,079,562</b>	<b>\$ 825,808</b>	<b>\$ 612,098</b>	<b>\$ 414,060</b>	<b>\$ 1,666,125</b>	<b>\$ 708,579</b>	<b>\$ 5,306,232</b>	
<b>LIABILITIES AND FUND EQUITY</b>								
<b>Liabilities</b>								
Accounts Payable	\$ 108,280	\$ 18,354	\$ 2,075	\$ 0	\$ 0	\$ 73,926	\$ 202,635	
Due to Other Funds (Note 3)	0	0	0	0	0	6,996	6,996	
Due to State	0	0	0	0	0	3,144	3,144	
Escrow Deposits Payable	0	0	0	0	10,264	0	10,264	
Accrued Liabilities	20,826	5,746	5,971	0	0	1,969	34,512	
Deferred Revenue (Note 5)	226,115	320,508	534,178	411,065	1,591,548	286,612	3,370,026	
<b>Total Liabilities</b>	<b>355,221</b>	<b>344,608</b>	<b>542,224</b>	<b>411,065</b>	<b>1,601,812</b>	<b>372,647</b>	<b>3,627,577</b>	
<b>Fund Equity</b>								
Fund Balances:								
Nonspendable	47,000	80,000	0	0	0	0	127,000	
Restricted	8,599	401,200	69,874	2,995	64,313	335,932	882,913	
Assigned	81,358	0	0	0	0	0	81,358	
Unassigned	587,384	0	0	0	0	0	587,384	
<b>Total Fund Equity</b>	<b>724,341</b>	<b>481,200</b>	<b>69,874</b>	<b>2,995</b>	<b>64,313</b>	<b>335,932</b>	<b>1,678,655</b>	
<b>Total Liabilities and Fund Equity</b>	<b>\$ 1,079,562</b>	<b>\$ 825,808</b>	<b>\$ 612,098</b>	<b>\$ 414,060</b>	<b>\$ 1,666,125</b>	<b>\$ 708,579</b>	<b>\$ 5,306,232</b>	

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

COUNTY OF ARENAC  
Standish, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
December 31, 2011

Total Governmental Fund Balances		\$	1,678,655
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 as assets in governmental funds. Capital assets at year end consist of:			
Capital Asset Cost	\$	5,145,377	
Accumulated Depreciation		<u>(2,592,451)</u>	
			2,552,926
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:			
Real and Personal Property Taxes		226,115	
Mortgages Receivable		<u>1,591,548</u>	
Net Difference			1,817,663
Accrued Interest on Long-Term Liabilities			(3,495)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:			
Bonds Payable		(340,000)	
Notes Payable		(128,800)	
Compensated Absences Payable		<u>(214,836)</u>	
Total Long-Term Liabilities			<u>(683,636)</u>
Total Net Assets - Governmental Activities		\$	<u>5,362,113</u>

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

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2011

	<u>Special Revenue Funds</u>					Other Governmental Funds	Total Governmental Funds
	<u>General Fund</u>	<u>911 Service Fund</u>	<u>Road Patrol Millage</u>	<u>Senior Citizen Millage</u>	<u>Housing Commission</u>		
<b>Revenue</b>							
Property Taxes	\$ 2,663,248	\$ 320,049	\$ 533,437	\$ 410,073	\$ 0	\$ 302,683	\$ 4,229,490
Federal Grants and Revenue	169,017	0	0	0	138,698	195,299	503,014
State Grants and Revenue	753,164	143,827	0	0	0	109,565	1,006,556
Contributions from Local Units	16,414	0	0	0	0	0	16,414
Licenses and Permits	11,285	0	0	0	0	49,765	61,050
Charges for Services	834,192	54,072	0	0	0	91,827	980,091
Fines and Forfeits	64,476	0	0	0	0	5,130	69,606
Interest and Rentals	18,632	2,501	0	0	14	0	21,147
Other Revenue	314,434	78	9,885	0	9,000	95,877	429,274
Total Revenue	<u>4,844,862</u>	<u>520,527</u>	<u>543,322</u>	<u>410,073</u>	<u>147,712</u>	<u>850,146</u>	<u>7,316,642</u>
<b>Expenditures</b>							
Current:							
General Government	2,212,486	0	0	0	0	215,711	2,428,197
Public Safety	1,123,983	591,196	551,849	0	0	153,151	2,420,179
Public Works	98,385	0	0	0	0	0	98,385
Health and Welfare	354,463	0	0	411,191	0	454,598	1,220,252
Community and Economic Development	3,715	0	0	0	145,364	7,668	156,747
Recreation and Cultural	8,635	0	0	0	0	0	8,635
Other	993,413	0	0	0	0	0	993,413
Capital Outlay	77,904	31,335	43,183	0	0	135,585	288,007
Debt Service:							
Principal	0	0	0	0	0	99,400	99,400
Interest and Fiscal Charges	0	0	0	0	0	22,886	22,886
Total Expenditures	<u>4,872,984</u>	<u>622,531</u>	<u>595,032</u>	<u>411,191</u>	<u>145,364</u>	<u>1,088,999</u>	<u>7,736,101</u>
Excess of Revenue Over (Under) Expenditures	<u>(28,122)</u>	<u>(102,004)</u>	<u>(51,710)</u>	<u>(1,118)</u>	<u>2,348</u>	<u>(238,853)</u>	<u>(419,459)</u>

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

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2011

	<u>Special Revenue Funds</u>					<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>911 Service Fund</u>	<u>Road Patrol Millage</u>	<u>Senior Citizen Millage</u>	<u>Housing Commission</u>		
<u>Other Financing Sources (Uses)</u>							
Sale of Capital Assets	\$ 0	\$ 0	\$ 678	\$ 0	\$ 0	\$ 0	\$ 678
Operating Transfers In	185,931	0	0	0	0	335,667	521,598
Operating Transfers Out	<u>(175,881)</u>	<u>(13,059)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(213,856)</u>	<u>(402,796)</u>
Total Other Financing Sources (Uses)	<u>10,050</u>	<u>(13,059)</u>	<u>678</u>	<u>0</u>	<u>0</u>	<u>121,811</u>	<u>119,480</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	(18,072)	(115,063)	(51,032)	(1,118)	2,348	(117,042)	(299,979)
Fund Balances - Beginning of Year (Restated) (Note 15)	<u>742,413</u>	<u>596,263</u>	<u>120,906</u>	<u>4,113</u>	<u>61,965</u>	<u>452,974</u>	<u>1,978,634</u>
Fund Balances - End of Year	<u>\$ 724,341</u>	<u>\$ 481,200</u>	<u>\$ 69,874</u>	<u>\$ 2,995</u>	<u>\$ 64,313</u>	<u>\$ 335,932</u>	<u>\$ 1,678,655</u>

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

COUNTY OF ARENAC  
Standish, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2011

Total Net Change in Fund Balances - Governmental Funds	\$	(299,979)
Amounts reported for governmental activities in the statement of activities are different because:		
Receivables not currently available are reported as revenue when collected or when currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements:		
Real and Personal Property Taxes		27,852
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital Outlay	\$ 270,325	
Current Year Depreciation Expense	(291,677)	
Gain on Sale of Capital Assets	<u>(2,080)</u>	
Net difference		(23,432)
Note receivable repayments and note disbursements are revenue and expenditures respectively in the governmental funds, but the repayments and disbursements reduce and increase the note receivable balances in the statement of net assets. The activity reported in the governmental funds is as follows:		
Current year note receivable principal receipts		(60,613)
Principal repayments on long-term debt are reported as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount of repayments reported as expenditures in the governmental funds consist of:		
Bonds Payable	35,000	
Notes Payable	<u>64,400</u>	
Net difference		99,400
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:		
Net Change in Accrued Interest	628	
Net Change in Accrued Compensated Absences	<u>8,632</u>	
		<u>9,260</u>
Change in Net Assets of Governmental Activities	\$	<u><u>(247,512)</u></u>

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

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
December 31, 2011

	Enterprise Funds			
	Major Funds		Other Enterprise Funds	Total
	Delinquent Tax Revolving	County Park		
<u>Assets</u>				
Current Assets:				
Cash and Cash Equivalents (Note 2)	\$ 900,946	\$ 2,383	\$ 399,329	\$ 1,302,658
Investments (Note 2)	324,196	0	0	324,196
Receivables:				
Delinquent Taxes	1,122,405	0	0	1,122,405
Due from Local Units	62,211	0	0	62,211
Total Current Assets	2,409,758	2,383	399,329	2,811,470
Noncurrent Assets:				
Capital Assets Not Being Depreciated (Note 4)	0	1,458,771	0	1,458,771
Capital Assets, Net of Accumulated Depreciation (Note 4)	0	243,461	0	243,461
Total Noncurrent Assets	0	1,702,232	0	1,702,232
Total Assets	2,409,758	1,704,615	399,329	4,513,702
<u>Liabilities</u>				
Current Liabilities:				
Accounts Payable	0	0	451	451
Due to Local Units	9,266	0	0	9,266
Total Liabilities	9,266	0	451	9,717
<u>Net Assets</u>				
Invested In Capital Assets	0	1,702,232	0	1,702,232
Unrestricted	2,400,492	2,383	398,878	2,801,753
Total Net Assets	\$ 2,400,492	\$ 1,704,615	\$ 398,878	\$ 4,503,985

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

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2011

	Enterprise Funds			
	Major Funds		Other Enterprise Funds	Total
	Delinquent Tax Revolving	County Park		
<u>Operating Revenue</u>				
Charges For Services	\$ 0	\$ 42,768	\$ 133,659	\$ 176,427
Tax Collection Fees	92,649	0	0	92,649
Interest and Penalties on Taxes	262,663	0	0	262,663
Total Operating Revenue	<u>355,312</u>	<u>42,768</u>	<u>133,659</u>	<u>531,739</u>
<u>Operating Expenses</u>				
Salaries and Wages	0	32,933	0	32,933
Payroll Taxes and Employee Benefits	0	4,086	0	4,086
Contractual Services	566	6,492	54,539	61,597
Depreciation	0	27,718	0	27,718
Dues and Subscriptions	0	0	250	250
Equipment	0	0	150	150
Gasoline and Oil	0	1,917	0	1,917
Operating Supplies	0	1,545	407	1,952
Postage	0	61	3,418	3,479
Printing and Advertising	3,553	35	4,946	8,534
Professional Fees and Services	0	0	15,170	15,170
Repair and Maintenance	0	2,946	0	2,946
Janitorial Supplies	0	1,152	0	1,152
Telephone	0	445	0	445
Travel and Training	0	975	562	1,537
Utilities	0	1,459	0	1,459
Other	0	0	1,926	1,926
Total Operating Expenses	<u>4,119</u>	<u>81,764</u>	<u>81,368</u>	<u>167,251</u>
Operating Income (Loss)	<u>351,193</u>	<u>(38,996)</u>	<u>52,291</u>	<u>364,488</u>
<u>Nonoperating Revenue</u>				
Interest and Investment Earnings	5,615	0	0	5,615
Gain or Loss on Sale of Capital Assets	0	256	0	256
Total Nonoperating Revenue	<u>5,615</u>	<u>256</u>	<u>0</u>	<u>5,871</u>
Income (Loss) Before Operating Transfers	<u>356,808</u>	<u>(38,740)</u>	<u>52,291</u>	<u>370,359</u>
Operating Transfers In	0	11,000	0	11,000
Operating Transfers Out	(129,802)	0	0	(129,802)
Net Operating Transfers	<u>(129,802)</u>	<u>11,000</u>	<u>0</u>	<u>(118,802)</u>
Change in Net Assets	227,006	(27,740)	52,291	251,557
Net Assets - Beginning of Year	<u>2,173,486</u>	<u>1,732,355</u>	<u>346,587</u>	<u>4,252,428</u>
Net Assets - End of Year	<u>\$ 2,400,492</u>	<u>\$ 1,704,615</u>	<u>\$ 398,878</u>	<u>\$ 4,503,985</u>

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

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2011

	Enterprise Funds			
	Major Funds		Other Enterprise Funds	Total
	Delinquent Tax Revolving	County Park		
<u>Cash Flows From Operating Activities</u>				
Receipts From Customers and Taxpayers	\$ 355,312	\$ 42,768	\$ 133,659	\$ 531,739
Payments to Suppliers for Goods and Services	(4,721)	(17,027)	(84,018)	(105,766)
Payments to Employees for Services	0	(37,019)	0	(37,019)
Net Delinquent Tax Collections (Purchases)	<u>44,143</u>	<u>0</u>	<u>0</u>	<u>44,143</u>
Net Cash Provided (Used) by Operating Activities	<u>394,734</u>	<u>(11,278)</u>	<u>49,641</u>	<u>433,097</u>
<u>Cash Flows From Non-Capital Financing Activities</u>				
Operating Subsidies and Transfers From (To) Other Funds	<u>(120,716)</u>	<u>11,000</u>	<u>0</u>	<u>(109,716)</u>
<u>Cash Flows From Capital and Related Financing Activities</u>				
Proceeds from Sale of Capital Asset	<u>0</u>	<u>256</u>	<u>0</u>	<u>256</u>
<u>Cash Flows From Investing Activities</u>				
Interest Earned	5,615	0	0	5,615
Purchase of Investment Securities	<u>(120,601)</u>	<u>0</u>	<u>0</u>	<u>(120,601)</u>
Net Cash Used by Investing Activities	<u>(114,986)</u>	<u>0</u>	<u>0</u>	<u>(114,986)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	159,032	(22)	49,641	208,651
Cash and Cash Equivalents at Beginning of Year (Note 1)	<u>741,914</u>	<u>2,405</u>	<u>349,688</u>	<u>1,094,007</u>
Cash and Cash Equivalents at End of Year (Note 1)	<u>\$ 900,946</u>	<u>\$ 2,383</u>	<u>\$ 399,329</u>	<u>\$ 1,302,658</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>				
<u>Provided (Used) by Operating Activities</u>				
Operating Income (Loss)	\$ 351,193	\$ (38,996)	\$ 52,291	\$ 364,488
Adjustments to Reconcile Operating Income (Loss) to Net Cash				
Provided (Used) by Operating Activities:				
Depreciation Expense	0	27,718	0	27,718
Change in Assets and Liabilities:				
Receivables	98,113	0	0	98,113
Due from Local Units	(62,211)	0	0	(62,211)
Accounts Payable	(602)	0	(2,650)	(3,252)
Due to Local Units	<u>8,241</u>	<u>0</u>	<u>0</u>	<u>8,241</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 394,734</u>	<u>\$ (11,278)</u>	<u>\$ 49,641</u>	<u>\$ 433,097</u>

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

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
December 31, 2011

<u>ASSETS</u>	<u>Trust and Agency</u>	<u>Library Penal Fines</u>	<u>Total</u>
Cash and Cash Equivalents (Note 2)	\$ <u>469,858</u>	\$ <u>107,458</u>	\$ <u>577,316</u>
<u>LIABILITIES</u>			
Due to Local Units	\$ 1,079	\$ 0	\$ 1,079
Due to State	521	0	521
Due to Other Agencies and Individuals	252,094	107,458	359,552
Undistributed Tax Collections	<u>216,164</u>	<u>0</u>	<u>216,164</u>
Total Liabilities	<u>\$ 469,858</u>	<u>\$ 107,458</u>	<u>\$ 577,316</u>

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

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of Arenac (County) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies:

A. Description of County Operations and Fund Types

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

B. Reporting Entity

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

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

1. Blended Component Units

a. Governmental Activity and Fund Type Component Units

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

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

2. Discretely Presented Component Units

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

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity (Continued)

a. Governmental Activity and Fund Type Component Units

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

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

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

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

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

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

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Joint Ventures

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

Central Michigan District Health Department

The County, in conjunction with Gladwin, Isabella, Osceola and Roscommon counties, has created the Central Michigan District Health Department under the authority of the Public Health Code. The District Health Board is composed of two members from each of the counties who are appointed by each participating County Board of Commissioners. All of the financial operations of the District Health Department are recorded in the records of Isabella County, as a discretely presented component unit. Complete financial statements for Isabella County can be obtained from the Isabella County Administration Office, 200 N. Main St., Mt. Pleasant, Michigan 48858. The funding formula approved by the member counties is based pro rata on each unit's population and State equalized valuation to the District's population and valuation. The County's appropriation for the year ended December 31, 2011 was \$128,106.

Bay Arenac Community Mental Health Services Board

The County, in conjunction with Bay County, has created the Bay Arenac Community Mental Health Services Board which is a community mental health organization defined in the Mental Health Code, MCL 330.1001, et seq., as amended. Community Mental Health Services Board is composed of 12 members apportioned between the member counties on the basis of population. The board appointments are approved by the respective County Board of Commissioners. All of the financial operations of the Mental Health Authority are recorded in the records of Bay County, as a discretely presented component unit. Complete financial statements for Bay County can be obtained from the Finance Office, Bay County Building, 515 Center Avenue, Suite 701, Bay City, Michigan 48708-5128. The funding of the Mental Health Authority operations is based pro rata on each unit's population to the district's total population. The County's 2011 appropriation to the Mental Health Board was \$104,812.

D. Basis of Presentation

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

**Government-Wide Financial Statements**

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

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

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

**Fund Financial Statements**

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

E. Fund Accounting

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

**Governmental Funds**

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

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

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

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

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

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

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

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

**Proprietary Funds**

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

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

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

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

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

**Fiduciary Funds**

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

F. Measurement Focus

**Government-Wide Financial Statements**

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

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

**Fund Financial Statements**

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

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Measurement Focus (Continued)

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

G. Basis of Accounting

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

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

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

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

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

**Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Basis of Accounting (Continued)

**Expenses/Expenditures**

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

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

H. Cash and Cash Equivalents

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

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

I. Receivables

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

The allowance for doubtful accounts at December 31, 2011 was \$0 for the primary government and the component units.

J. Interfund Receivables and Payables

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

K. Prepaid Items

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

L. Bond Issuance Costs

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Inventory

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

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

N. Long-Term Mortgages Receivable

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

O. Capital Assets

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

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

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

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

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

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Accrued Liabilities and Long-Term Obligations

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

Q. Compensated Absences

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

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

R. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The County's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Net asset reserves have been established for future debt service, capital projects, economic development, Brownfield Redevelopment Authority, county roads, Land Bank Authority and special revenue funds.

S. Fund Balances

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

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

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Fund Balances (Continued)

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

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

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

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

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

T. Operating Revenues and Expenses

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

U. Interfund Activity

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

V. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended December 31, 2011.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

W. Budgets and Budgetary Accounting

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

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

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

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

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

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

X. Use of Estimates

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

Y. Reclassifications

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

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 2 - DEPOSITS AND INVESTMENTS

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

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and Cash Equivalents	\$ 1,273,002	\$ 1,302,658	\$ 577,316	\$ 3,152,976	\$ 1,459,461
Investments	<u>102,593</u>	<u>324,196</u>	<u>0</u>	<u>426,789</u>	<u>0</u>
Total	<u>\$ 1,375,595</u>	<u>\$ 1,626,854</u>	<u>\$ 577,316</u>	<u>\$ 3,579,765</u>	<u>\$ 1,459,461</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank Deposits (Checking and Savings Accounts and Certificates of Deposit)	\$ 1,651,059	\$ 1,459,161
Investments in Money Market Accounts, Municipal Investment Account Pooled Funds, Repurchase Agreement Securities and Similar Vehicles	1,927,206	0
Petty Cash and Cash on Hand	<u>1,500</u>	<u>300</u>
Total	<u>\$ 3,579,765</u>	<u>\$ 1,459,461</u>

As of December 31, 2011, the County had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturities</u>
Primary Government:		
Investment Pools	\$ 1,062,562	Daily
Money Markets	32,602	Daily
Repurchase Agreements - Public Funds	<u>832,042</u>	Daily
	<u>\$ 1,927,206</u>	

Interest Rate Risk

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

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

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

Custodial Credit Risk - Deposits - Primary Government

In the case of deposits, this is the risk that in the event of a bank failure, the County's deposits may not be returned to it. As of December 31, 2011, \$939,595 of the County's bank balance of \$1,738,974 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Deposits - Component Units

In the case of deposits, this is the risk that in the event of a bank failure, the component unit's deposits may not be returned to it. As of December 31, 2011, \$317,524 of the Drain Commission's bank balance of \$317,524 was exposed to custodial credit risk; \$64,669 of the Economic Development Corporation's bank balance of \$64,669 was exposed to custodial credit risk; and \$5,544 of the Brownfield Redevelopment Authority's bank balance of \$5,544 was exposed to custodial credit risk because they were uninsured and uncollateralized. \$1,010,213 of the Road Commission's bank balance of \$1,196,873 was exposed to custodial credit risk because they were uninsured and uncollateralized.

Concentration of Credit Risk - Primary Government

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

Chemical Bank investment sweep account consisting of repurchase agreements of public funds which represents 43% of the County's total investments.

Custodial Credit Risk – Investments

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

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

At year end the County's investment in Chemical Bank's investment sweep account consisting of repurchase agreements of public funds was \$925,913. This investment was exposed to custodial credit risk because it was uninsured and held by the counterparty's trust department or agent, not in the County's name.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Foreign Currency Risk

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

Investments

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

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

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

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of December 31, 2011 were as follows:

Fund	Interfund Receivable	Interfund Payable
Major Governmental Funds:		
General Fund	\$ 6,996	\$ 0
Non-major Governmental Funds	0	6,996
	\$ 6,996	\$ 6,996

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES (CONTINUED)

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
<u>Due from Component Units</u>		<u>Due to Primary Government</u>	
General Fund	\$ 47,000	Drain Commission	\$ 47,000
General Fund	23,939	Arenac County Road Commission	23,939
911 Service Fund	<u>80,000</u>	Drain Commission	<u>80,000</u>
Total	<u>\$ 150,939</u>	Total	<u>\$ 150,939</u>

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

The County's due from component unit balance represents long-term loans to the Drain Commission and a receivable from the Road Commission for December employee benefits at December 31, 2011.

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the primary government for the fiscal year ended December 31, 2011, was as follows:

	<u>Balance 01/01/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/11</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 160,517	\$ 0	\$ 0	\$ 160,517
Construction in Progress	<u>0</u>	<u>176,645</u>	<u>0</u>	<u>176,645</u>
Subtotal	<u>160,517</u>	<u>176,645</u>	<u>0</u>	<u>337,162</u>
Capital Assets Being Depreciated:				
Land Improvements	7,809	0	0	7,809
Buildings	3,423,561	0	0	3,423,561
Machinery and Equipment	1,025,194	52,150	(28,593)	1,048,751
Vehicles	<u>286,564</u>	<u>41,530</u>	<u>0</u>	<u>328,094</u>
Subtotal	<u>4,743,128</u>	<u>93,680</u>	<u>(28,593)</u>	<u>4,808,215</u>
Less Accumulated Depreciation for:				
Land Improvements	(6,280)	(153)	0	(6,433)
Buildings	(1,778,386)	(99,823)	0	(1,878,209)
Machinery and Equipment	(358,032)	(149,395)	26,513	(480,914)
Vehicles	<u>(184,589)</u>	<u>(42,306)</u>	<u>0</u>	<u>(226,895)</u>
Subtotal	<u>(2,327,287)</u>	<u>(291,677)</u>	<u>26,513</u>	<u>(2,592,451)</u>
Capital Assets Being Depreciated	<u>2,415,841</u>	<u>(197,997)</u>	<u>(2,080)</u>	<u>2,215,764</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 2,576,358</u>	<u>\$ (21,352)</u>	<u>\$ (2,080)</u>	<u>\$ 2,552,926</u>

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Balance 01/01/11	Additions	Deletions	Balance 12/31/11
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,458,771	\$ 0	\$ 0	\$ 1,458,771
Capital Assets Being Depreciated:				
Land Improvements	94,796	0	0	94,796
Buildings	426,108	0	0	426,108
Machinery and Equipment	12,690	0	0	12,690
Vehicles	23,444	0	0	23,444
Subtotal	557,038	0	0	557,038
Less Accumulated Depreciation for:				
Land Improvements	(33,174)	(4,740)	0	(37,914)
Buildings	(220,358)	(21,709)	0	(242,067)
Machinery and Equipment	(8,883)	(1,269)	0	(10,152)
Vehicles	(23,444)	0	0	(23,444)
Subtotal	(285,859)	(27,718)	0	(313,577)
Capital Assets Being Depreciated	271,179	(27,718)	0	243,461
Business-Type Activities Total				
Capital Assets - Net of Depreciation	\$ 1,729,950	\$ (27,718)	\$ 0	\$ 1,702,232

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

<u>Governmental Activities</u>	
General Government	\$ 89,574
Public Safety	194,625
Recreation and Cultural	7,478
Total Governmental Activities	\$ 291,677
<u>Business-Type Activities</u>	
County Park	\$ 27,718

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

	Balance 01/01/11	Additions	Deletions	Balance 12/31/11
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 573,296	\$ 99,994	\$ 0	\$ 673,290

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Balance 01/01/2011	Additions	Deletions	Balance 12/31/2011
<u>Governmental Activities (Continued)</u>				
Capital Assets Being Depreciated:				
Infrastructure - 1913 Drains	\$ 115,440	\$ 0	\$ 0	\$ 115,440
Infrastructure - 1933 Drains	1,829,190	0	0	1,829,190
Infrastructure - 1953 Drains	1,692,600	0	0	1,692,600
Infrastructure - Bodwin Drain	192,167	0	0	192,167
Infrastructure - Whitney Drain	<u>440,761</u>	<u>0</u>	<u>0</u>	<u>440,761</u>
Subtotal	<u>4,270,158</u>	<u>0</u>	<u>0</u>	<u>4,270,158</u>
Less Accumulated Depreciation for:				
Infrastructure - 1913 Drains	(115,440)	0	0	(115,440)
Infrastructure - 1933 Drains	(1,829,190)	0	0	(1,829,190)
Infrastructure - 1953 Drains	(1,248,926)	(22,568)	0	(1,271,494)
Infrastructure - Bodwin Drain	(75,390)	(2,562)	0	(77,952)
Infrastructure - Whitney Drain	<u>(23,508)</u>	<u>(5,877)</u>	<u>0</u>	<u>(29,385)</u>
Subtotal	<u>(3,292,454)</u>	<u>(31,007)</u>	<u>0</u>	<u>(3,323,461)</u>
Capital Assets Being Depreciated	<u>977,704</u>	<u>(31,007)</u>	<u>0</u>	<u>946,697</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 1,551,000</u>	<u>\$ 68,987</u>	<u>\$ 0</u>	<u>\$ 1,619,987</u>

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

<u>Governmental Activities</u>	
Public Works	<u>\$ 31,007</u>

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

	Balance 01/01/11	Additions	Deletions	Balance 12/31/11
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 138,361	\$ 0	\$ 0	\$ 138,361
Construction in Progress	<u>257,073</u>	<u>0</u>	<u>(234,873)</u>	<u>22,200</u>
Subtotal	<u>395,434</u>	<u>0</u>	<u>(234,873)</u>	<u>160,561</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	384,931	0	0	384,931
Equipment - Road	3,326,150	91,173	(249,896)	3,167,427
Equipment - Shop	111,432	1,299	0	112,731
Equipment - Office	103,850	2,746	0	106,596
Equipment - Engineer's	43,447	0	0	43,447
Equipment - Yard and Storage	137,103	0	0	137,103
Infrastructure - Bridges	3,509,282	96,716	0	3,605,998
Infrastructure - Roads	<u>9,746,310</u>	<u>2,491,262</u>	<u>0</u>	<u>12,237,572</u>
Subtotal	<u>17,362,505</u>	<u>2,683,196</u>	<u>(249,896)</u>	<u>19,795,805</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(384,931)	0	0	(384,931)
Equipment - Road	(2,941,151)	(158,181)	249,896	(2,849,436)
Equipment - Shop	(102,508)	(1,019)	0	(103,527)
Equipment - Office	(89,877)	(3,631)	0	(93,508)
Equipment - Engineer's	(43,447)	0	0	(43,447)
Equipment - Yard and Storage	(137,103)	0	0	(137,103)
Infrastructure - Bridges	(308,644)	(76,272)	0	(384,916)
Infrastructure - Roads	<u>(2,777,512)</u>	<u>(717,762)</u>	<u>0</u>	<u>(3,495,274)</u>
Subtotal	<u>(6,785,173)</u>	<u>(956,865)</u>	<u>249,896</u>	<u>(7,492,142)</u>
Capital Assets Being Depreciated	<u>10,577,332</u>	<u>1,726,331</u>	<u>0</u>	<u>12,303,663</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 10,972,766</u>	<u>\$ 1,726,331</u>	<u>\$ (234,873)</u>	<u>\$ 12,464,224</u>

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

<u>County</u>	
Public Works	<u>\$ 956,865</u>

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 5 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

Primary Government:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Real and Personal Property Taxes	\$ 226,115	\$ 1,539,793	\$ 1,765,908
Mortgages Receivable	1,591,548	0	1,591,548
Grants Receivable	0	12,570	12,570
<b>Total</b>	<b>\$ 1,817,663</b>	<b>\$ 1,552,363</b>	<b>\$ 3,370,026</b>

Mortgages receivable have a set payment schedule for monthly payments to be made to the County. Due to the nature of these loans, loan payments are not always made in accordance with the payment schedule. As such, the estimate of the amount not expected to be collected in one year is \$1,547,824.

Component Units:

Arenac County Drain Commission:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Due from Local Units	\$ 255,000	\$ 0	\$ 255,000
Special Assessments Receivable	913,366	0	913,366
<b>Total</b>	<b>\$ 1,168,366</b>	<b>\$ 0</b>	<b>\$ 1,168,366</b>

The special assessment receivable balance not expected to be collected in one year is \$788,452. The due from local units not expected to be collected in one year is \$239,000.

NOTE 6 - LONG-TERM LIABILITIES

Primary Government:

A. Bonds Payable

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

	<u>Governmental</u>	<u>Business-Type</u>
	\$ 340,000	\$ 0

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Primary Government: (Continued)

B. Notes Payable

	Governmental	Business-Type
<p>\$322,000 installment purchase agreement dated June 26, 2008, due in annual installments through May 1, 2013, bearing interest at a rate of 3.49%. The purchase agreement was issued for building renovations. Payments are made from the Building Authority Debt Fund.</p>	\$ 128,800	\$ 0
<p>Total Primary Government</p>	468,800	0

Component Units:

C. Bonds Payable

	Governmental	Business-Type
<p>Drain Commission - \$532,000 Village of Twining Sanitary Sewer Drain, original bonds dated October 9, 1989, due in annual installments through May 1, 2018, bearing interest at the rate of 6%. Said bonds were issued for the purpose of improvements to the Twining Sanitary Drainage District. Payments are made from the Twining Village Sewer Debt Fund. \$143,000 of these bonds were paid early in the current year with proceeds from the 2011 Twining Sanitary Drain Bonds.</p>	74,000	0
<p>Drain Commission - \$525,000 2009 Au Gres River and East Branch Drain Bonds, dated October 13, 2009, due in annual installments through June 1, 2025, bearing interest at the rates of 2.25% - 5.25%. Said bonds were issued for the purpose of improvements to the Au Gres River and East Branch Drainage District. Payments are made from the Au Gres River Drain Debt Fund.</p>	500,000	0
<p>Drain Commission - \$1,690,000 Whitney Intercounty Drain Bonds, dated October 1, 2007, due in annual installments through June 1, 2022, bearing interest at the rate of 4%. Said bonds were issued for the purpose of constructing a drain in Ogemaw, Iosco and Arenac Counties. Arenac County's portion of said bonds is 22.92% or \$387,348. Payments are made from the Drain Capital Project Fund.</p>	286,471	0
<p>Drain Commission - \$286,000 2011 Twining Sanitary Drain Bonds, original bonds dated November 1, 2011, due in annual installments through May 1, 2041, bearing interest at the rate of 2.25%. Said bonds were issued for the purpose of paying on prior debt and to make improvements to the Twining Sanitary Drainage District. Payments are made from the Twining Sewer Construction Debt Fund. The County requests for funds to Rural Development as needed for construction expenses. At December 31, 2011 only \$181,000 of the bonds had been received by the County and are outstanding.</p>	181,000	0
<p>Total Bonds Payable</p>	1,041,471	0

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

D. Notes Payable

	<u>Governmental</u>	<u>Business-Type</u>
Drain Commission - \$210,000 Note Payable to Ralph E. Jr. and Joanne F. Lee for improvements to the Bodwin Drain Drainage District, dated December 1, 2004, due in annual installments through December 1, 2012, bearing interest at the rate of 3.69%. Said note is payable from the collection of special assessments against property and public corporations in the Bodwin Drain Special Assessment District. Payments are made from the Drain Capital Project Fund.	\$ <u>30,000</u>	\$ <u>0</u>
Total Component Units	\$ <u>1,071,471</u>	\$ <u>0</u>

E. Compensated Absences Payable

The County has an accrued liability for accumulated vested vacation and sick leave benefits of its employees. As of December 31, 2011, the accumulated vested vacation and sick leave benefits of the employees of various County departments and its component units were as follows:

	<u>Current Liability</u>	<u>Long-Term Liability</u>	<u>Total Balance</u>
<u>Accrued Employee Benefits Payable</u>			
<u>Primary Government</u>			
Governmental Activities	\$ <u>0</u>	\$ <u>214,836</u>	\$ <u>214,836</u>
<u>Component Unit</u>			
Road Commission	\$ <u>3,377</u>	\$ <u>44,595</u>	\$ <u>47,972</u>

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

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

F. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the County for the year ended December 31, 2011:

	<u>Balance</u> <u>01/01/11</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>12/31/11</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities</u>					
Primary Government:					
Bonds Payable	\$ 375,000	\$ 0	\$ (35,000)	\$ 340,000	\$ 35,000
Notes Payable	193,200	0	(64,400)	128,800	64,400
Compensated Absences	<u>223,468</u>	<u>0</u>	<u>(8,632) *</u>	<u>214,836</u>	<u>0</u>
Total Primary Government	<u>\$ 791,668</u>	<u>\$ 0</u>	<u>\$ (108,032)</u>	<u>\$ 683,636</u>	<u>\$ 99,400</u>
Component Units:					
Bonds Payable	\$ 1,076,680	\$ 181,000	\$ (216,209)	\$ 1,041,471	\$ 66,209
Notes Payable	60,000	0	(30,000)	30,000	30,000
Net OPEB Obligation	64,215	49,187	(32,062)	81,340	0
Compensated Absences	<u>51,346</u>	<u>18,208</u>	<u>(21,582)</u>	<u>47,972</u>	<u>3,377</u>
Total Component Units	<u>\$ 1,252,241</u>	<u>\$ 248,395</u>	<u>\$ (299,853)</u>	<u>\$ 1,200,783</u>	<u>\$ 99,586</u>

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

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

The interest expenditures on long-term obligations for the year were \$71,643.

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

The annual aggregate maturities for all debt outstanding (excluding compensated absences) as of December 31, 2011 are as follows:

Primary Government

<b>Bonds Payable</b>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2012	\$ 35,000	\$ 15,688	\$ 0	\$ 0	\$ 50,688
2013	35,000	14,095	0	0	49,095
2014	35,000	12,468	0	0	47,468
2015	35,000	10,805	0	0	45,805
2016	35,000	9,108	0	0	44,108
2017 - 2021	<u>165,000</u>	<u>19,625</u>	<u>0</u>	<u>0</u>	<u>184,625</u>
Total	<u>\$ 340,000</u>	<u>\$ 81,789</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 421,789</u>

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

<b>Notes Payable</b>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2012	\$ 64,400	\$ 3,372	\$ 0	\$ 0	\$ 67,772
2013	<u>64,400</u>	<u>1,124</u>	<u>0</u>	<u>0</u>	<u>65,524</u>
Total	<u>\$ 128,800</u>	<u>\$ 4,496</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 133,296</u>

Component Units

<b>Bonds Payable</b>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2012	\$ 66,209	\$ 43,600	\$ 0	\$ 0	\$ 109,809
2013	67,209	41,194	0	0	108,403
2014	72,209	38,550	0	0	110,759
2015	74,355	35,704	0	0	110,059
2016	75,355	32,684	0	0	108,039
2017 - 2021	373,775	114,950	0	0	488,725
2022 - 2026	250,359	41,316	0	0	291,675
2027 - 2031	49,000	16,076	0	0	65,076
2032 - 2033	<u>13,000</u>	<u>2,946</u>	<u>0</u>	<u>0</u>	<u>15,946</u>
Total	<u>\$ 1,041,471</u>	<u>\$ 367,020</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,408,491</u>

<b>Notes Payable</b>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2012	<u>\$ 30,000</u>	<u>\$ 1,107</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 31,107</u>

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real property and tangible personal property located in the County. Property taxes become an enforceable lien on property as of December 1, 2010 for winter taxes and July 1, 2011 for summer taxes. Taxes are levied on December 1, 2010 and July 1, 2011 and are payable by February 28, 2011 and September 15, 2011, respectively. The cities and townships within the County bill and collect the property taxes for the County.

County taxes levied December 1, 2010, are collected in and are intended to finance 2011 operations. The taxable value of real and personal property for the December 1, 2010 levy was \$548,163,255. The 2010 tax rate is currently .5000 mills for ambulance, 1.0000 mills for road patrol, .7500 mills for seniors and .6000 mills for 911 services.

County taxes levied July 1, 2011, are collected in and are intended to finance 2011 operations. The taxable value of real and personal property for the July 1, 2011 levy was \$549,404,320. The 2011 tax rate is currently 4.9176 mills for operations.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 7 - PROPERTY TAXES (CONTINUED)

By resolution of the Board of Commissioners and agreement with various taxing authorities, the County purchased at face value the real property taxes receivable returned delinquent on March 1, 2011. County funds were used to liquidate the amounts due the General Fund and various other funds and governmental agencies for purchase of the receivables. Subsequent collections on delinquent taxes receivable, plus interest and collection fees thereon and investment earnings, are used to replenish County funds. This activity is recorded in the Delinquent Tax Revolving Fund, which is a Enterprise Fund.

NOTE 8 - OPERATING TRANSFERS

During the year ended December 31, 2011, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
<u>Major Funds</u>		
Major Governmental Funds:		
General Fund	\$ 185,931	\$ 175,881
911 Service Fund	0	13,059
Major Business-Type Activity Funds:		
Delinquent Tax Revolving Fund	0	129,802
County Park Fund	<u>11,000</u>	<u>0</u>
Total Major Funds	196,931	318,742
 Non-major Governmental Funds	 <u>335,667</u>	 <u>213,856</u>
	<u>\$ 532,598</u>	<u>\$ 532,598</u>

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

NOTE 9 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

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

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

During the year ended December 31, 2011, the County incurred expenditures which were in excess of the amounts appropriated as follows:

<u>Fund/Activity</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund/Public Safety	\$ 1,080,910	\$ 1,123,983	\$ 43,073
General Fund/Capital Outlay	\$ 16,900	\$ 77,904	\$ 61,004

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 10 - RETIREMENT SYSTEM - MERS OPERATED

**Defined Benefit Plan**

**Primary Government**

Plan Description

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

Funding Policy

The County is required to contribute at actuarially determined amount/rates. The current amount/rate is \$3,504 per month for General-Other Members, \$14,439 per month for Sheriff Members, \$3,893 for Steelworkers Local Members, \$118 per month for District Court-Other Members, \$5,768 per month for Elected County Officials Members, 10.57% for District Court Steelworker Members, and 15.40% for Teamsters Members. The contribution requirements of plan members is 3.27% for Sheriff Members, 3% for District Court-Other Members and 0% for all others. If a member leaves the employment of the County, or dies, without a retirement allowance or other benefit payable on his/her account, the members' accumulated contributions (with interest) are refunded with spousal consent to the member, if living, or to the members' surviving spouse or beneficiary. The contribution requirements are established and may be amended by the MERS Retirement Board.

Annual Pension Cost

For the year ended December 31, 2011, the County's annual pension cost of \$361,191 was equal to the County's required and actual contributions. The required contribution was determined as part of the December 31, 2009 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases of 4.5% per year compounded annually, and (c) additional projected salary increases of 0% to 8.4% per year, depending on age, attributable to merit, longevity and promotions, and (d) 2.5% per year cost-of-living adjustments. Both (a) and (b) include an inflation component. The actuarial value of the plan assets was determined using techniques that spread the effect of short-term volatility in the market value of investments over a ten-year period. The plans unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2010 was 30 years.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
December 31, 2009	\$ 270,645	100 %	\$ 0
December 31, 2010	\$ 347,942	100 %	\$ 0
December 31, 2011	\$ 361,191	100 %	\$ 0

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

**NOTE 10 - RETIREMENT SYSTEM - MERS OPERATED (CONTINUED)**

Funded Status and Funding Progress

As of December 31, 2010, the most recent actuarial valuation date, the plan was 76% funded. The actuarial accrued liability for benefits was \$9,414,613, and the actuarial value of assets was \$7,157,393, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,257,220. The covered payroll (annual payroll of active employees covered by the plan) was \$1,973,973, and the ratio of the UAAL to the covered payroll was 114%.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/08	\$ 6,550,842	\$ 8,991,980	\$ 2,441,138	73 %	\$ 2,162,014	113 %
12/31/09	\$ 6,780,212	\$ 9,353,868	\$ 2,573,656	72 %	\$ 2,101,993	122 %
12/31/10	\$ 7,157,393	\$ 9,414,613	\$ 2,257,220	76 %	\$ 1,973,973	114 %

**Road Commission**

Following are the Road Commission Retirement System disclosures as presented in the Road Commission's audit and its report dated December 31, 2011.

Plan Description

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

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate. The current rate is 21.00% of annual covered payroll for the General unit, 31.11% for the Administrative unit, and 11.75% for for the Office Manager/Clerk unit. Employees in the General and Administrative units of the Road Commission are required to contribute 1% and 8.28% of their gross income to the plan, respectively. If a member leaves the employ of the Road Commission, or dies, without a retirement allowance or other benefit payable on his/her account, the member's accumulated contributions (with interest) are refunded with spousal consent to the member, if living, or to the members' surviving spouse or beneficiary. The contribution requirements of the Road Commission are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the Board of County Road Commissioners in accordance with negotiated labor agreements.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 10 - RETIREMENT SYSTEM - MERS OPERATED (CONTINUED)

Annual Pension Cost

For the year ended December 31, 2011, the Road Commission's annual pension cost of \$191,298 was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2009 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases of 4.5% per year compounded annually, (c) additional projected salary increases of 0% to 8.4% per year, depending on age, attributable to seniority/ merit, and (d) final average compensation increases of 3%. Both (a) and (b) include an inflation component. The actuarial value of the plan assets was determined using techniques that spread the effect of short-term volatility in the market value of investments over a ten-year period. The plans unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2010 was 28 years.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
December 31, 2009	\$ 216,821	100 %	\$ 0
December 31, 2010	\$ 203,547	100 %	\$ 0
December 31, 2011	\$ 191,298	100 %	\$ 0

Funded Status and Funding Progress

As of December 31, 2010, the most recent actuarial valuation date, the plan was 46% funded. The actuarial accrued liability for benefits was \$5,936,585, and the actuarial value of assets was \$2,733,788, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,202,797. The covered payroll (annual payroll of active employees covered by the plan) was \$833,008, and the ratio of the UAAL to the covered payroll was 384%.

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a) / c)</u>
12/31/08	\$ 2,843,188	\$ 5,964,204	\$ 3,121,016	48 %	\$ 904,642	345 %
12/31/09	\$ 2,794,317	\$ 5,934,918	\$ 3,140,601	47 %	\$ 917,662	342 %
12/31/10	\$ 2,733,788	\$ 5,936,585	\$ 3,202,797	46 %	\$ 833,008	384 %

**Defined Contribution Plan**

**Primary Government**

Plan Description

The County's defined contribution pension plan provides retirement benefits to plan members and beneficiaries. The plan covers employees hired on or after January 1, 2006 for new employees that would have formerly been eligible as part of the General-Other Members, Sheriff Members, Steelworkers Members, and Elected County Officials Members of the defined benefit plan. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple-employer, state-wide, public employee pension created under

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 10 - RETIREMENT SYSTEM - MERS OPERATED (CONTINUED)

Public Act 135 of 1945, and now operated under Public Act 220 of 1996, and the MERS Plan Document as revised. The plan services are by MERS, the plan administrator. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing MERS of Michigan, 1134 Municipal Way, Lansing, Michigan, 48917 or by calling 1-800-767-6377.

Funding Policy

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

Vesting

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

Plan Contributions

During the year ended December 31, 2011, the County contributed \$59,705 on behalf of eligible employees. Employee contributions amounted to \$19,901.

NOTE 11 - POSTEMPLOYMENT BENEFITS

**Road Commission**

Plan Description

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

Funding Policy

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

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 11 - POSTEMPLOYMENT BENEFITS (CONTINUED)

Funding Progress

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

Annual required contribution	\$	46,297
Interest on net OPEB obligation		2,890
Adjustment to annual required contribution		<u>(14,762)</u>
Annual OPEB cost		34,425
Contributions made		<u>(17,300)</u>
Increase in net OPEB obligation		17,125
Net OPEB obligation, beginning of year		<u>64,215</u>
Net OPEB obligation, end of year	\$	<u><u>81,340</u></u>

The Road Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2011 is as follows:

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2009	\$ 43,702	21.7 %	\$ 34,207
December 31, 2010	\$ 39,973	24.9 %	\$ 64,215
December 31, 2011	\$ 34,425	50.3 %	\$ 81,340

The funded status of the plan as of the most recent actuarial valuation date of December 31, 2009 is as follows:

Schedule of Funding Progress

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

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 11 - POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions

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

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

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

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

1. Actuarial Cost Method: Alternate Method as provided under GASB 45 for plans with fewer than 100 employees
2. Retirement age for active employees: Based on the historical average retirement age for the covered group, active plan members were generally assumed to retire at age 55, or at the first subsequent year in which the member would qualify for benefits.
3. Marital status: Marital status of members at the calculation date was assumed to continue throughout retirement.
4. Mortality: Life expectancies were based on mortality tables from the United States Social Security Administration. The 2007 Period Life Table for males and females was used.
5. Employee Turnover/Withdrawal: Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.
6. Healthcare cost trend rate: The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 5.9% initially, with gradual increases to 7.2% through 2016 and later was used.
7. Healthcare premiums: 2009 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 11 - POSTEMPLOYMENT BENEFITS (CONTINUED)

8. Inflation rate: The expected long-term inflation assumption of 2.8% was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in the 2009 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds for an intermediate growth scenario.
9. Payroll growth rate: The expected long-term payroll growth rate was assumed to be 2.5%; relatively consistent with the rate of inflation.

NOTE 12 - DEFERRED COMPENSATION PLAN

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

NOTE 13 - RISK MANAGEMENT

The County is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The County is self-insured for comprehensive liability; motor vehicle physical damage; and comprehensive, property and crime coverage through the Michigan Municipal Risk Management Authority (the Authority). The County has purchased commercial insurance for all other types of risks of loss.

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

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

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

Road Commission (Component Unit)

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

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 13 - RISK MANAGEMENT (CONTINUED)

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

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

NOTE 14 - CONTINGENCIES AND COMMITMENTS

The County participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended December 31, 2011, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the County expects such amounts, if any, to be immaterial.

At December 31, 2011, the County had not settled union agreements with the Local 214 and Local Union 15157-15. They are currently following the agreement that ended on December 31, 2010. Any future liability is not presently determinable.

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

The County has contractual commitments in the amount of \$8,386 outstanding at December 31, 2011.

**Construction contracts**

As of December 31, 2011, the County had the following construction contract in progress:

<u>Project</u>	<u>Total Contract</u>	<u>Remaining Construction Commitment at December 31, 2011</u>	<u>Contract Payable at December 31, 2011</u>
Boiler Replacement	\$ <u>83,865</u>	\$ <u>8,386</u>	\$ <u>0</u>

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 15 - PRIOR PERIOD ADJUSTMENT AND CHANGES IN ACCOUNTING PRINCIPLES

In the prior year, in the General Fund, the due from state was understated because of an unrecorded court equity payment. A prior period adjustment has been recorded to increase the prior year due from state by \$15,883. In the prior year, in the Drain Commission Governmental Activities, the special assessment receivable was understated due to not having subsidiary schedules for the Au Gres River Drain Special Assessment. A prior period adjustment has been recorded to increase the prior year special assessment receivable by \$30,991.

	<u>Governmental Activities</u>	<u>Governmental Funds</u>	<u>Component Unit - Arenac County Drain Commission</u>
Net Assets/Fund Balance - Beginning	\$ 5,593,742	\$ 1,962,751	\$ 1,837,199
Adjustment to record court equity receivable in the General Fund	15,883	15,883	0
Adjustment to the Au Gres River Drain special assessment	<u>0</u>	<u>0</u>	<u>30,991</u>
Net Assets / Fund Balance - Beginning (Restated)	<u>\$ 5,609,625</u>	<u>\$ 1,978,634</u>	<u>\$ 1,868,190</u>

In the current year, a prior period adjustment was needed due to the implementation of GASB 54 to close the Law Library Fund, Soldiers and Sailors Relief Fund, and the Department of Human Services Fund into the General Fund.

	<u>Original 2010</u>	<u>Restatement</u>	<u>Restated 2010</u>
General Fund - Fund Balance	\$ 717,540	\$ 24,873	\$ 742,413
Law Library Fund - Fund Balance	\$ 45	\$ (45)	\$ 0
Soldiers and Sailors Relief Fund - Fund Balance	\$ 5,767	\$ (5,767)	\$ 0
Department of Human Services Fund - Fund Balance	\$ 3,178	\$ (3,178)	\$ 0

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2011

NOTE 16 - FUND CHANGES AND FUND BALANCES

Amounts for specific purposes by fund and fund balance classifications for the year ended December 31, 2011, are as follows:

<u>Classification/Fund</u>	<u>Purpose</u>		
Nonspendable			
General Fund	Long-Term Advances to Component Units	\$	47,000
911 Service Fund	Long-Term Advances to Component Units		80,000
Restricted			
General Fund	Law Library		2,047
General Fund	Veterans Relief		3,379
General Fund	Health and Human Services		3,173
911 Service Fund	911 Services		401,200
Road Patrol Millage Fund	Road Patrol Activities		69,874
Senior Citizen Millage Fund	Care of Senior Citizens		2,995
Housing Commission Fund	Home Rehabilitation		64,313
Ambulance Fund	EMS Services		75,399
Friend of Court Fund	Child Support Establishment and Enforcement		30,684
Circuit Court Counseling Fund	Counseling Services		34,845
Survey and Remonumentation Fund	Remonumentation Activities		4,113
Building Department Fund	Building Department Activities		21,547
Residence Exemption Administration Fund	PA 105 Enforcement/PRE Denials		27,207
Register of Deeds Automation Fund	Register of Deeds Equipment		19,012
MCOLES Deputy Training Fund	Training of Deputies		3,111
Correction Officer Training Fund	Training of Correction Officers		13,544
Drug Law Enforcement Fund	Prosecutor's Office Drug Enforcement		12,620
School Officer Fund	School Officer Activities		2,778
Sheriff Department Donations Fund	Sheriff Department Law Enforcement		6,927
Chippewa Indian 2% Money Fund	Various Tribal Grants		13,326
Family Court Juvenile Fund	Youth Mentor Grant		6,151
Child Care Probate Fund	Child Care		23,269
Veterans Trust Fund	Veterans Relief		2,611
Animal Welfare Fund	Donations for Education/Improvements		8,135
GIS Mapping Project Fund	Allocation for County Mapping		176
Building Renovation Fund	Building Renovations		30,477
Assigned			
General Fund	2012 Budgeted Expenditures		81,358
Unassigned			
General Fund	County Operations		587,384
Total fund balances		\$	<u><u>1,678,655</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF ARENAC  
Standish, Michigan

POSTEMPLOYMENT BENEFITS SCHEDULES OF FUNDING  
PROGRESS AND EMPLOYER CONTRIBUTIONS  
For the Year Ended December 31, 2011

**Road Commission**

Schedule of Funding Progress

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

Schedule of Employer Contributions

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
12/31/09	\$ 43,702	21.7 %
12/31/10	\$ 39,973	24.9 %
12/31/11	\$ 34,425	50.3 %

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
For the Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Property Taxes	\$ 2,633,000	\$ 2,640,435	\$ 2,663,248	\$ 22,813
Federal Grants and Revenue	122,423	122,423	169,017	46,594
State Grants and Revenue	782,190	765,558	753,164	(12,394)
Contributions from Local Units	24,000	24,000	16,414	(7,586)
Licenses and Permits	14,700	14,100	11,285	(2,815)
Charges for Services	775,600	823,835	834,192	10,357
Fines and Forfeits	54,000	58,500	64,476	5,976
Interest and Rentals	41,000	31,000	18,632	(12,368)
Other Revenue	<u>277,501</u>	<u>301,941</u>	<u>314,434</u>	<u>12,493</u>
Total Revenue	<u>4,724,414</u>	<u>4,781,792</u>	<u>4,844,862</u>	<u>63,070</u>
<u>Expenditures</u>				
Current:				
General Government	2,202,162	2,280,017	2,212,486	67,531
Public Safety	1,038,994	1,080,910	1,123,983	(43,073)
Public Works	94,949	99,140	98,385	755
Health and Welfare	349,224	356,297	354,463	1,834
Community and Economic Development	5,300	5,300	3,715	1,585
Recreation and Cultural	8,635	8,635	8,635	0
Other	1,031,600	1,030,895	993,413	37,482
Capital Outlay	<u>15,000</u>	<u>16,900</u>	<u>77,904</u>	<u>(61,004)</u>
Total Expenditures	<u>4,745,864</u>	<u>4,878,094</u>	<u>4,872,984</u>	<u>5,110</u>
Excess of Revenue Over (Under) Expenditures	<u>(21,450)</u>	<u>(96,302)</u>	<u>(28,122)</u>	<u>68,180</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	500	500	0	(500)
Operating Transfers In	163,037	160,037	185,931	25,894
Operating Transfers Out	<u>(213,851)</u>	<u>(265,096)</u>	<u>(175,881)</u>	<u>89,215</u>
Total Other Financing Sources (Uses)	<u>(50,314)</u>	<u>(104,559)</u>	<u>10,050</u>	<u>114,609</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	(71,764)	(200,861)	(18,072)	182,789
Fund Balances - Beginning of Year (Restated)	<u>742,413</u>	<u>742,413</u>	<u>742,413</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 670,649</u>	<u>\$ 541,552</u>	<u>\$ 724,341</u>	<u>\$ 182,789</u>

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
911 SERVICE FUND - SPECIAL REVENUE FUND  
For the Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Property Taxes	\$ 318,000	\$ 318,000	\$ 320,049	\$ 2,049
State Grants and Revenue	130,000	134,850	143,827	8,977
Charges for Services	80,000	80,000	54,072	(25,928)
Interest and Rentals	7,540	7,540	2,501	(5,039)
Other Revenue	200	200	78	(122)
Total Revenue	<u>535,740</u>	<u>540,590</u>	<u>520,527</u>	<u>(20,063)</u>
<u>Expenditures</u>				
Current:				
Public Safety	585,812	617,462	591,196	26,266
Capital Outlay	0	398,292	31,335	366,957
Total Expenditures	<u>585,812</u>	<u>1,015,754</u>	<u>622,531</u>	<u>393,223</u>
Excess of Revenue Over (Under) Expenditures	(50,072)	(475,164)	(102,004)	373,160
<u>Other Financing Uses</u>				
Operating Transfers Out	<u>(13,400)</u>	<u>(13,400)</u>	<u>(13,059)</u>	<u>341</u>
Excess of Revenue Over (Under) Expenditures and Other Uses	(63,472)	(488,564)	(115,063)	373,501
Fund Balances - Beginning of Year	<u>596,263</u>	<u>596,263</u>	<u>596,263</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 532,791</u>	<u>\$ 107,699</u>	<u>\$ 481,200</u>	<u>\$ 373,501</u>

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
ROAD PATROL MILLAGE - SPECIAL REVENUE FUND  
For the Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Property Taxes	\$ 530,000	\$ 530,000	\$ 533,437	\$ 3,437
Other Revenue	<u>8,000</u>	<u>8,000</u>	<u>9,885</u>	<u>1,885</u>
Total Revenue	<u>538,000</u>	<u>538,000</u>	<u>543,322</u>	<u>5,322</u>
<u>Expenditures</u>				
Current:				
Public Safety	560,876	575,979	551,849	24,130
Capital Outlay	<u>78,500</u>	<u>70,897</u>	<u>43,183</u>	<u>27,714</u>
Total Expenditures	<u>639,376</u>	<u>646,876</u>	<u>595,032</u>	<u>51,844</u>
Excess of Revenue Over (Under) Expenditures	(101,376)	(108,876)	(51,710)	57,166
<u>Other Financing Sources</u>				
Sale of Capital Assets	<u>0</u>	<u>0</u>	<u>678</u>	<u>678</u>
Excess of Revenue and Other Sources Over (Under) Expenditures	(101,376)	(108,876)	(51,032)	57,844
Fund Balances - Beginning of Year	<u>120,906</u>	<u>120,906</u>	<u>120,906</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 19,530</u>	<u>\$ 12,030</u>	<u>\$ 69,874</u>	<u>\$ 57,844</u>

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
SENIOR CITIZEN MILLAGE - SPECIAL REVENUE FUND  
For the Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Property Taxes	\$ 410,000	\$ 410,000	\$ 410,073	\$ 73
<u>Expenditures</u>				
Current:				
Health and Welfare	<u>408,000</u>	<u>412,000</u>	<u>411,191</u>	<u>809</u>
Excess of Revenue Over (Under) Expenditures	2,000	(2,000)	(1,118)	882
Fund Balances - Beginning of Year	<u>4,113</u>	<u>4,113</u>	<u>4,113</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 6,113</u>	<u>\$ 2,113</u>	<u>\$ 2,995</u>	<u>\$ 882</u>

COUNTY OF ARENAC  
Standish, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
HOUSING COMMISSION - SPECIAL REVENUE FUND  
For the Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Federal Grants and Revenue	\$ 169,000	\$ 169,000	\$ 138,698	\$ (30,302)
Interest and Rentals	0	0	14	14
Other Revenue	<u>25,000</u>	<u>25,000</u>	<u>9,000</u>	<u>(16,000)</u>
Total Revenue	<u>194,000</u>	<u>194,000</u>	<u>147,712</u>	<u>(46,288)</u>
<u>Expenditures</u>				
Current:				
Community and Economic Development	213,000	213,000	145,364	67,636
Capital Outlay	<u>1,000</u>	<u>1,000</u>	<u>0</u>	<u>1,000</u>
Total Expenditures	<u>214,000</u>	<u>214,000</u>	<u>145,364</u>	<u>68,636</u>
Excess of Revenue Over (Under) Expenditures	(20,000)	(20,000)	2,348	22,348
<u>Other Financing Sources</u>				
Operating Transfers In	<u>20,000</u>	<u>20,000</u>	<u>0</u>	<u>(20,000)</u>
Excess of Revenue and Other Sources Over Expenditures	0	0	2,348	2,348
Fund Balances - Beginning of Year	<u>61,965</u>	<u>61,965</u>	<u>61,965</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 61,965</u>	<u>\$ 61,965</u>	<u>\$ 64,313</u>	<u>\$ 2,348</u>

OTHER INFORMATION

COUNTY OF ARENAC  
Standish, Michigan

COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
December 31, 2011

	Special Revenue Funds							
	Ambulance Fund	Friend of Court	Circuit Court Counseling	Planning Commission	Survey and Remuneration	Building Department	Residence Exemption Administration	Register of Deeds Automation
<b><u>ASSETS</u></b>								
Cash and Cash Equivalents	\$ 75,399	\$ 13,648	\$ 34,845	\$ 0	\$ 11,263	\$ 21,907	\$ 27,207	\$ 19,012
Receivables:								
Property Taxes	274,042	0	0	0	0	0	0	0
Accounts, Net	0	0	0	0	0	0	0	0
Due from State	0	32,114	0	0	12,773	0	0	0
Due from Federal Government	0	0	0	0	0	0	0	0
<b>Total Assets</b>	<b><u>\$ 349,441</u></b>	<b><u>\$ 45,762</u></b>	<b><u>\$ 34,845</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 24,036</u></b>	<b><u>\$ 21,907</u></b>	<b><u>\$ 27,207</u></b>	<b><u>\$ 19,012</u></b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>								
<b><u>Liabilities</u></b>								
Accounts Payable	\$ 0	\$ 13,469	\$ 0	\$ 0	\$ 19,923	\$ 0	\$ 0	\$ 0
Due to Other Funds	0	0	0	0	0	0	0	0
Due to State	0	0	0	0	0	0	0	0
Accrued Liabilities	0	1,609	0	0	0	360	0	0
Deferred Revenue	274,042	0	0	0	0	0	0	0
<b>Total Liabilities</b>	<b><u>274,042</u></b>	<b><u>15,078</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>19,923</u></b>	<b><u>360</u></b>	<b><u>0</u></b>	<b><u>0</u></b>
<b><u>Fund Equity</u></b>								
Fund Balances:								
Restricted	75,399	30,684	34,845	0	4,113	21,547	27,207	19,012
<b>Total Liabilities and Fund Equity</b>	<b><u>\$ 349,441</u></b>	<b><u>\$ 45,762</u></b>	<b><u>\$ 34,845</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 24,036</u></b>	<b><u>\$ 21,907</u></b>	<b><u>\$ 27,207</u></b>	<b><u>\$ 19,012</u></b>

COUNTY OF ARENAC  
Standish, Michigan

COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
December 31, 2011

	Special Revenue Funds							
	Rural Drug Enforcement	MCOLES Deputy Training	Correction Officer Training	Drug Law Enforcement	Community Safety Grant	School Officer	Sheriff Department Donations	Revenue Sharing Reserve Fund
<u>ASSETS</u>								
Cash and Cash Equivalents	\$ 0	\$ 3,111	\$ 13,544	\$ 8,287	\$ 0	\$ 806	\$ 7,016	\$ 0
Receivables:								
Property Taxes	0	0	0	0	0	0	0	0
Accounts, Net	0	0	0	4,333	0	0	0	0
Due from State	0	0	0	0	0	0	0	0
Due from Federal Government	5,645	0	0	0	0	1,972	0	0
Total Assets	<u>\$ 5,645</u>	<u>\$ 3,111</u>	<u>\$ 13,544</u>	<u>\$ 12,620</u>	<u>\$ 0</u>	<u>\$ 2,778</u>	<u>\$ 7,016</u>	<u>\$ 0</u>
<u>LIABILITIES AND FUND EQUITY</u>								
<u>Liabilities</u>								
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 89	\$ 0
Due to Other Funds	5,645	0	0	0	0	0	0	0
Due to State	0	0	0	0	0	0	0	0
Accrued Liabilities	0	0	0	0	0	0	0	0
Deferred Revenue	0	0	0	0	0	0	0	0
Total Liabilities	<u>5,645</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>89</u>	<u>0</u>
<u>Fund Equity</u>								
Fund Balances:								
Restricted	0	3,111	13,544	12,620	0	2,778	6,927	0
Total Liabilities and Fund Equity	<u>\$ 5,645</u>	<u>\$ 3,111</u>	<u>\$ 13,544</u>	<u>\$ 12,620</u>	<u>\$ 0</u>	<u>\$ 2,778</u>	<u>\$ 7,016</u>	<u>\$ 0</u>

COUNTY OF ARENAC  
Standish, Michigan

COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
December 31, 2011

	Special Revenue Funds					Debt Service Fund	Capital Project Funds		Total Other Governmental Funds
	Chippewa Indian 2% Money	Family Court Juvenile	Child Care Probate	Veterans Trust	Animal Welfare	Building Authority Debt	GIS Mapping Project	Building Renovation	
<b><u>ASSETS</u></b>									
Cash and Cash Equivalents	\$ 60,138	\$ 927	\$ 32,616	\$ 0	\$ 8,135	\$ 0	\$ 176	\$ 30,477	\$ 368,514
Receivables:									
Property Taxes	0	0	0	0	0	0	0	0	274,042
Accounts, Net	0	0	0	0	0	0	0	0	4,333
Due from State	0	5,224	0	3,962	0	0	0	0	54,073
Due from Federal Government	0	0	0	0	0	0	0	0	7,617
<b>Total Assets</b>	<b>\$ 60,138</b>	<b>\$ 6,151</b>	<b>\$ 32,616</b>	<b>\$ 3,962</b>	<b>\$ 8,135</b>	<b>\$ 0</b>	<b>\$ 176</b>	<b>\$ 30,477</b>	<b>\$ 708,579</b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>									
<b><u>Liabilities</u></b>									
Accounts Payable	\$ 34,242	\$ 0	\$ 6,203	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 73,926
Due to Other Funds	0	0	0	1,351	0	0	0	0	6,996
Due to State	0	0	3,144	0	0	0	0	0	3,144
Accrued Liabilities	0	0	0	0	0	0	0	0	1,969
Deferred Revenue	12,570	0	0	0	0	0	0	0	286,612
<b>Total Liabilities</b>	<b>46,812</b>	<b>0</b>	<b>9,347</b>	<b>1,351</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>372,647</b>
<b><u>Fund Equity</u></b>									
Fund Balances:									
Restricted	13,326	6,151	23,269	2,611	8,135	0	176	30,477	335,932
<b>Total Liabilities and Fund Equity</b>	<b>\$ 60,138</b>	<b>\$ 6,151</b>	<b>\$ 32,616</b>	<b>\$ 3,962</b>	<b>\$ 8,135</b>	<b>\$ 0</b>	<b>\$ 176</b>	<b>\$ 30,477</b>	<b>\$ 708,579</b>

COUNTY OF ARENAC  
Standish, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2011

	Special Revenue Funds							
	Ambulance Fund	Friend of Court	Circuit Court Counseling	Planning Commission	Survey and Remonumentation	Building Department	Residence Exemption Administration	Register of Deeds Automation
<b>Revenue</b>								
Property Taxes	\$ 273,371	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 29,312	\$ 0
Federal Grants and Revenue	0	131,579	0	0	0	0	0	0
State Grants and Revenue	0	15,993	0	0	25,636	0	0	0
Licenses and Permits	0	0	1,920	0	0	47,845	0	0
Charges for Services	0	26,487	0	0	0	35,912	0	21,535
Fines and Forfeits	0	0	0	0	0	0	0	0
Other Revenue	0	3,200	85	0	0	0	0	0
<b>Total Revenue</b>	<b>273,371</b>	<b>177,259</b>	<b>2,005</b>	<b>0</b>	<b>25,636</b>	<b>83,757</b>	<b>29,312</b>	<b>21,535</b>
<b>Expenditures</b>								
Current:								
General Government	0	183,506	800	0	21,523	0	7,215	2,667
Public Safety	0	0	0	0	0	69,963	0	0
Health and Welfare	247,470	0	0	0	0	0	0	0
Community and Economic Development	0	0	0	7,668	0	0	0	0
Capital Outlay	0	0	0	0	0	0	0	208
Debt Service:								
Principal	0	0	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>247,470</b>	<b>183,506</b>	<b>800</b>	<b>7,668</b>	<b>21,523</b>	<b>69,963</b>	<b>7,215</b>	<b>2,875</b>
Excess of Revenue Over (Under) Expenditures	25,901	(6,247)	1,205	(7,668)	4,113	13,794	22,097	18,660
<b>Other Financing Sources (Uses)</b>								
Operating Transfers In	0	18,851	0	0	0	0	0	0
Operating Transfers Out	0	0	0	0	0	0	(1,400)	0
<b>Total Other Financing Sources (Uses)</b>	<b>0</b>	<b>18,851</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1,400)</b>	<b>0</b>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	25,901	12,604	1,205	(7,668)	4,113	13,794	20,697	18,660
Fund Balances - Beginning of Year	49,498	18,080	33,640	7,668	0	7,753	6,510	352
Fund Balances - End of Year	\$ 75,399	\$ 30,684	\$ 34,845	\$ 0	\$ 4,113	\$ 21,547	\$ 27,207	\$ 19,012

COUNTY OF ARENAC  
Standish, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2011

	Special Revenue Funds							Revenue
	Rural Drug Enforcement	MCOLES Deputy Training	Correction Officer Training	Drug Law Enforcement	Community Safety Grant	School Officer	Sheriff Department Donations	Sharing Reserve Fund
<b>Revenue</b>								
Property Taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Federal Grants and Revenue	59,720	0	0	0	0	4,000	0	0
State Grants and Revenue	0	2,637	0	0	0	0	0	0
Licenses and Permits	0	0	0	0	0	0	0	0
Charges for Services	0	0	7,893	0	0	0	0	0
Fines and Forfeits	0	0	0	5,130	0	0	0	0
Other Revenue	645	0	0	0	0	0	6,397	0
<b>Total Revenue</b>	<b>60,365</b>	<b>2,637</b>	<b>7,893</b>	<b>5,130</b>	<b>0</b>	<b>4,000</b>	<b>6,397</b>	<b>0</b>
<b>Expenditures</b>								
Current:								
General Government	0	0	0	0	0	0	0	0
Public Safety	61,395	4,900	5,663	0	0	0	9,975	0
Health and Welfare	0	0	0	0	0	0	0	0
Community and Economic Development	0	0	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0	0	0
Debt Service:								
Principal	0	0	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>61,395</b>	<b>4,900</b>	<b>5,663</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9,975</b>	<b>0</b>
Excess of Revenue Over (Under) Expenditures	(1,030)	(2,263)	2,230	5,130	0	4,000	(3,578)	0
<b>Other Financing Sources (Uses)</b>								
Operating Transfers In	1,030	0	0	0	0	0	0	0
Operating Transfers Out	0	0	0	0	(1)	(2,318)	0	(161,637)
<b>Total Other Financing Sources (Uses)</b>	<b>1,030</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1)</b>	<b>(2,318)</b>	<b>0</b>	<b>(161,637)</b>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	0	(2,263)	2,230	5,130	(1)	1,682	(3,578)	(161,637)
Fund Balances - Beginning of Year	0	5,374	11,314	7,490	1	1,096	10,505	161,637
Fund Balances - End of Year	\$ 0	\$ 3,111	\$ 13,544	\$ 12,620	\$ 0	\$ 2,778	\$ 6,927	\$ 0

COUNTY OF ARENAC  
Standish, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2011

	Special Revenue Funds					Debt Service Fund	Capital Project Funds		Total Other Governmental Funds
	Chippewa Indian 2% Money	Family Court Juvenile	Child Care Probate	Veterans Trust	Animal Welfare	Building Authority Debt	GIS Mapping Project	Building Renovation	
<b>Revenue</b>									
Property Taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 302,683
Federal Grants and Revenue	0	0	0	0	0	0	0	0	195,299
State Grants and Revenue	0	13,255	43,972	8,072	0	0	0	0	109,565
Licenses and Permits	0	0	0	0	0	0	0	0	49,765
Charges for Services	0	0	0	0	0	0	0	0	91,827
Fines and Forfeits	0	0	0	0	0	0	0	0	5,130
Other Revenue	55,843	0	26,561	0	3,146	0	0	0	95,877
<b>Total Revenue</b>	<b>55,843</b>	<b>13,255</b>	<b>70,533</b>	<b>8,072</b>	<b>3,146</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>850,146</b>
<b>Expenditures</b>									
Current:									
General Government	0	0	0	0	0	0	0	0	215,711
Public Safety	0	0	0	0	1,255	0	0	0	153,151
Health and Welfare	0	14,687	186,231	6,210	0	0	0	0	454,598
Community and Economic Development	0	0	0	0	0	0	0	0	7,668
Capital Outlay	57,185	0	0	0	169	0	0	78,023	135,585
Debt Service:									
Principal	0	0	0	0	0	99,400	0	0	99,400
Interest and Fiscal Charges	0	0	0	0	0	22,886	0	0	22,886
<b>Total Expenditures</b>	<b>57,185</b>	<b>14,687</b>	<b>186,231</b>	<b>6,210</b>	<b>1,424</b>	<b>122,286</b>	<b>0</b>	<b>78,023</b>	<b>1,088,999</b>
Excess of Revenue Over (Under) Expenditures	(1,342)	(1,432)	(115,698)	1,862	1,722	(122,286)	0	(78,023)	(238,853)
<b>Other Financing Sources (Uses)</b>									
Operating Transfers In	0	0	85,000	0	0	122,286	0	108,500	335,667
Operating Transfers Out	(48,500)	0	0	0	0	0	0	0	(213,856)
<b>Total Other Financing Sources (Uses)</b>	<b>(48,500)</b>	<b>0</b>	<b>85,000</b>	<b>0</b>	<b>0</b>	<b>122,286</b>	<b>0</b>	<b>108,500</b>	<b>121,811</b>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	(49,842)	(1,432)	(30,698)	1,862	1,722	0	0	30,477	(117,042)
Fund Balances - Beginning of Year	63,168	7,583	53,967	749	6,413	0	176	0	452,974
Fund Balances - End of Year	\$ 13,326	\$ 6,151	\$ 23,269	\$ 2,611	\$ 8,135	\$ 0	\$ 176	\$ 30,477	\$ 335,932

COUNTY OF ARENAC  
Standish, Michigan

COMBINING STATEMENT OF NET ASSETS  
OTHER ENTERPRISE FUNDS  
December 31, 2011

	<u>Tax</u> <u>Foreclosure</u>	<u>Jail</u> <u>Commissary</u>	<u>Total</u>
<u>Assets</u>			
Cash and Cash Equivalents	\$ 389,503	\$ 9,826	\$ 399,329
<u>Liabilities</u>			
Current Liabilities:			
Accounts Payable	<u>451</u>	<u>0</u>	<u>451</u>
<u>Net Assets</u>			
Unrestricted	<u>\$ 389,052</u>	<u>\$ 9,826</u>	<u>\$ 398,878</u>

COUNTY OF ARENAC  
Standish, Michigan

COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
OTHER ENTERPRISE FUNDS  
For the Year Ended December 31, 2011

	<u>Tax</u> <u>Foreclosure</u>	<u>Jail</u> <u>Commissary</u>	<u>Total</u>
<u>Operating Revenue</u>			
Charges For Services	\$ 128,011	\$ 5,648	\$ 133,659
<u>Operating Expenses</u>			
Contractual Services	54,539	0	54,539
Dues and Subscriptions	250	0	250
Equipment	0	150	150
Operating Supplies	407	0	407
Postage	3,418	0	3,418
Printing and Advertising	4,946	0	4,946
Professional Fees and Services	15,170	0	15,170
Travel and Training	562	0	562
Other	<u>0</u>	<u>1,926</u>	<u>1,926</u>
Total Operating Expenses	<u>79,292</u>	<u>2,076</u>	<u>81,368</u>
Change in Net Assets	48,719	3,572	52,291
Net Assets - Beginning of Year	<u>340,333</u>	<u>6,254</u>	<u>346,587</u>
Net Assets - End of Year	<u>\$ 389,052</u>	<u>\$ 9,826</u>	<u>\$ 398,878</u>

COUNTY OF ARENAC  
Standish, Michigan

COMBINING STATEMENT OF CASH FLOWS  
OTHER ENTERPRISE FUNDS  
For the Year Ended December 31, 2011

	<u>Tax</u> <u>Foreclosure</u>	<u>Jail</u> <u>Commissary</u>	<u>Total</u>
<u>Cash Flows From Operating Activities</u>			
Receipts from Customers and Taxpayers	\$ 128,011	\$ 5,648	\$ 133,659
Payments to Suppliers for Goods and Services	<u>(81,942)</u>	<u>(2,076)</u>	<u>(84,018)</u>
Net Cash Provided by Operating Activities/Increase in Cash and Cash Equivalents	46,069	3,572	49,641
Cash and Cash Equivalents at Beginning of Year	<u>343,434</u>	<u>6,254</u>	<u>349,688</u>
Cash and Cash Equivalents at End of Year	<u>\$ 389,503</u>	<u>\$ 9,826</u>	<u>\$ 399,329</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating</u> <u>Activities</u>			
Operating Income	\$ 48,719	\$ 3,572	\$ 52,291
Change in Assets and Liabilities:			
Accounts Payable	<u>(2,650)</u>	<u>0</u>	<u>(2,650)</u>
Net Cash Provided by Operating Activities	<u>\$ 46,069</u>	<u>\$ 3,572</u>	<u>\$ 49,641</u>

COUNTY OF ARENAC  
Standish, Michigan

COMBINING BALANCE SHEET  
ARENAC COUNTY DRAIN COMMISSION - COMPONENT UNIT  
GOVERNMENTAL FUNDS  
December 31, 2011

	<u>Debt Retirement Funds</u>			<u>Capital Project Funds</u>				<u>Total Governmental Funds</u>	
	<u>Twining Village Sewer</u>	<u>Au Gres River Drain Debt</u>	<u>Twining Sewer Construction Debt</u>	<u>Twining Sewer Construction</u>	<u>Au Gres River Drain Construction</u>	<u>Drain Equipment</u>	<u>Drain Drain</u>		<u>Drain Revolving</u>
<b><u>ASSETS</u></b>									
Cash and Cash Equivalents	\$ 20	\$ 110,166	\$ 0	\$ 7,134	\$ 1,014	\$ 2,587	\$ 156,045	\$ 30,310	\$ 307,276
Receivables:									
Special Assessments	0	420,196	0	0	0	0	493,170	0	913,366
Accounts, Net	0	0	0	0	0	0	2,650	0	2,650
Due from Local Units	74,000	0	181,000	0	0	0	0	0	255,000
Due from Other Funds	0	0	0	0	0	0	0	16,690	16,690
Deferred Expense	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>22,339</u>	<u>0</u>	<u>22,339</u>
Total Assets	<u>\$ 74,020</u>	<u>\$ 530,362</u>	<u>\$ 181,000</u>	<u>\$ 7,134</u>	<u>\$ 1,014</u>	<u>\$ 2,587</u>	<u>\$ 674,204</u>	<u>\$ 47,000</u>	<u>\$ 1,517,321</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>									
<b><u>Liabilities</u></b>									
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 19,728	\$ 0	\$ 19,728
Due to Other Funds	0	0	0	0	0	0	16,690	0	16,690
Due to Primary Government	0	0	0	0	0	0	80,000	47,000	127,000
Deferred Revenue	74,000	420,196	181,000	0	0	0	493,170	0	1,168,366
Total Liabilities	<u>74,000</u>	<u>420,196</u>	<u>181,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>609,588</u>	<u>47,000</u>	<u>1,331,784</u>
<b><u>Fund Equity</u></b>									
<b>Fund Balances:</b>									
Nonspendable:									
Deferred Expenses	0	0	0	0	0	0	22,339	0	22,339
Restricted:									
Debt Retirement	20	110,166	0	0	0	0	0	0	110,186
Capital Projects	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,134</u>	<u>1,014</u>	<u>2,587</u>	<u>42,277</u>	<u>0</u>	<u>53,012</u>
Total Fund Equity	<u>20</u>	<u>110,166</u>	<u>0</u>	<u>7,134</u>	<u>1,014</u>	<u>2,587</u>	<u>64,616</u>	<u>0</u>	<u>185,537</u>
Total Liabilities and Fund Equity	<u>\$ 74,020</u>	<u>\$ 530,362</u>	<u>\$ 181,000</u>	<u>\$ 7,134</u>	<u>\$ 1,014</u>	<u>\$ 2,587</u>	<u>\$ 674,204</u>	<u>\$ 47,000</u>	<u>\$ 1,517,321</u>

COUNTY OF ARENAC  
Standish, Michigan

ARENAC COUNTY DRAIN COMMISSION - COMPONENT UNIT  
RECONCILIATION OF THE GOVERNMENTAL FUND  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
December 31, 2011

Total Governmental Fund Balances		\$	185,537
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 as assets in governmental funds. Capital assets at year end consist of:			
Capital Asset Cost	\$	4,943,448	
Accumulated Depreciation		<u>(3,323,461)</u>	1,619,987
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:			
Special Assessments		913,366	
Due from Local Units		<u>255,000</u>	1,168,366
Net Difference			
Accrued Interest on Long-Term Liabilities			(4,314)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:			
Bonds Payable (Net of Unamortized Bond Issuance Costs)		(1,028,842)	
Notes Payable		<u>(30,000)</u>	
Total Long-Term Liabilities			<u>(1,058,842)</u>
Total Net Assets - Governmental Activities		\$	<u>1,910,734</u>

COUNTY OF ARENAC  
Standish, Michigan

COMBINING STATEMENT OF  
REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -  
ARENAC COUNTY DRAIN COMMISSION - COMPONENT UNIT - GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2011

	Debt Retirement Funds			Capital Project Funds				Total Governmental Funds
	Twining Village Sewer	Au Gres River Drain Debt	Twining Sewer Construction Debt	Twining Sewer Construction	Au Gres River Drain Construction	Drain Equipment	Drain Revolving	
<b>Revenue</b>								
Contributions from Local Units	\$ 179,710	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 179,710
Special Assessments	0	120,811	0	0	0	0	220,124	340,935
Other Revenue	0	0	0	7,000	0	0	31,253	38,253
Total Revenue	<u>179,710</u>	<u>120,811</u>	<u>0</u>	<u>7,000</u>	<u>0</u>	<u>0</u>	<u>251,377</u>	<u>558,898</u>
<b>Expenditures</b>								
Current:								
Public Works	0	944	0	16,080	0	1,249	197,013	215,286
Capital Outlay	0	0	0	0	35,477	0	64,517	99,994
Debt Service:								
Principal	166,000	25,000	0	0	0	0	55,209	246,209
Bond Issuance Costs	0	0	0	12,700	0	0	0	12,700
Interest and Fiscal Charges	13,710	22,454	0	0	0	0	14,425	50,589
Total Expenditures	<u>179,710</u>	<u>48,398</u>	<u>0</u>	<u>28,780</u>	<u>35,477</u>	<u>1,249</u>	<u>331,164</u>	<u>624,778</u>
Excess of Revenue Over (Under) Expenditures	<u>0</u>	<u>72,413</u>	<u>0</u>	<u>(21,780)</u>	<u>(35,477)</u>	<u>(1,249)</u>	<u>(79,787)</u>	<u>(65,880)</u>
<b>Other Financing Sources (Uses)</b>								
Bond Proceeds	0	0	0	181,000	0	0	0	181,000
Payments to Local Units	0	0	0	(152,086)	0	0	0	(152,086)
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>28,914</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>28,914</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	0	72,413	0	7,134	(35,477)	(1,249)	(79,787)	(36,966)
Fund Balances - Beginning of Year	<u>20</u>	<u>37,753</u>	<u>0</u>	<u>0</u>	<u>36,491</u>	<u>3,836</u>	<u>144,403</u>	<u>222,503</u>
Fund Balances - End of Year	<u>\$ 20</u>	<u>\$ 110,166</u>	<u>\$ 0</u>	<u>\$ 7,134</u>	<u>\$ 1,014</u>	<u>\$ 2,587</u>	<u>\$ 64,616</u>	<u>\$ 185,537</u>

COUNTY OF ARENAC  
Standish, Michigan

ARENAC COUNTY DRAIN COMMISSION - COMPONENT UNIT  
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2011

Total Net Change in Fund Balances - Governmental Funds \$ (36,966)

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

Receivables not currently available are reported as revenue when collected or when currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements:

Special Assessments	\$ (83,519)	
Due from Local Units	<u>15,000</u>	
Net difference		(68,519)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlay	99,994	
Current Year Depreciation Expense	<u>(31,007)</u>	
Net difference		68,987

Principal repayments on long-term debt are reported as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount of repayments reported as expenditures in the governmental funds consist of:

Bonds Payable	216,209	
Notes Payable	<u>30,000</u>	
		246,209

The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term liabilities is as follows:

Bond Proceeds	(181,000)	
Bond Issuance Costs	12,700	
Amortization of Bond Costs	<u>(71)</u>	
		(168,371)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Net Change in Accrued Interest		<u>1,204</u>
--------------------------------	--	--------------

Change in Net Assets of Governmental Activities		<u>\$ 42,544</u>
---	--	------------------

COUNTY OF ARENAC  
Standish, Michigan

COMBINING BALANCE SHEET  
ECONOMIC DEVELOPMENT CORPORATION - COMPONENT UNIT  
GOVERNMENTAL FUND  
December 31, 2011

Special Revenue  
Fund  
Economic  
Development  
Corporation

ASSETS

Cash and Cash Equivalents

\$ 64,669

LIABILITIES AND FUND EQUITY

Liabilities

\$ 0

Fund Equity

Fund Balances:

Restricted

Economic Development

64,669

Total Liabilities and Fund Equity

\$ 64,669

COUNTY OF ARENAC  
Standish, Michigan

COMBINING STATEMENT OF  
REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE -  
ECONOMIC DEVELOPMENT CORPORATION - COMPONENT UNIT - GOVERNMENTAL FUND  
For the Year Ended December 31, 2011

	<u>Special Revenue Fund Economic Development Corporation</u>
<u>Revenue</u>	
Federal Grants and Revenue	\$ 3,274
Contributions from Local Units	4,857
Other Revenue	<u>3,300</u>
Total Revenue	11,431
<u>Expenditures</u>	
Current:	
Community and Economic Development	<u>5,391</u>
Excess of Revenue Over Expenditures	6,040
Fund Balances - Beginning of Year	<u>58,629</u>
Fund Balances - End of Year	<u><u>\$ 64,669</u></u>

COUNTY OF ARENAC  
Standish, Michigan

COMBINING BALANCE SHEET  
BROWNFIELD REDEVELOPMENT AUTHORITY - COMPONENT UNIT  
GOVERNMENTAL FUND  
December 31, 2011

Special  
Revenue  
Fund  

---

Brownfield  
Redevelopment  
Authority  

---

ASSETS

Cash and Cash Equivalents \$ 5,544

LIABILITIES AND FUND EQUITY

Liabilities \$ 0

Fund Equity

Fund Balances:

Restricted

Brownfield Redevelopment Authority 5,544

Total Liabilities and Fund Equity \$ 5,544

COUNTY OF ARENAC  
Standish, Michigan

COMBINING STATEMENT OF  
REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BROWNFIELD REDEVELOPMENT AUTHORITY - COMPONENT UNIT - GOVERNMENTAL FUND  
For the Year Ended December 31, 2011

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



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Kyle E. Troyer, CPA

COUNTY OF ARENAC  
STANDISH, MICHIGAN

SINGLE AUDIT REPORTS AS REISSUED  
YEAR ENDED DECEMBER 31, 2011

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May 22, 2012

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Arenac, Standish, Michigan, as of and for the year ended December 31, 2011, which collectively comprise the County of Arenac's basic financial statements and have issued our report thereon dated May 22, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Arenac County Road Commission, a component unit, as described in our report on the County of Arenac, Standish, Michigan. This report does not include the result of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of County of Arenac, Standish, Michigan, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County of Arenac'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 County of Arenac's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County of Arenac's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies, 2011-001 and 2011-002, described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies, 2011-003 and 2011-004, described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Members of the Board of Commissioners  
County of Arenac  
May 22, 2012  
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Arenac'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*.

We noted certain other matters that we reported to management of the County of Arenac in a separate letter dated May 22, 2012.

The County of Arenac's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County of Arenac's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Commissioners, the Michigan Department of Treasury, 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.

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



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Kyle E. Troyer, CPA

May 22, 2012,  
except for additional testing and finding described in the paragraph below as to which the date is August 2, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD  
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the County of Arenac's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County of Arenac's major federal programs for the year ended December 31, 2011. The County of Arenac's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County of Arenac's management. Our responsibility is to express an opinion on the County of Arenac's compliance based on our audit.

This report is replacing a previously issued report dated May 22, 2012. The original report did not include the Water and Waste Disposal Systems for Rural Communities award, CFDA No. 10.760. This program was selected as a major program and resulted in an additional finding at 2011-006. No other changes were made to the Single Audit based on this additional program being tested as a major program.

County of Arenac's financial statements include the operations of the Arenac County Road Commission, which received \$894,074 in federal awards which is not included in the schedule during the year ended December 31, 2011. Our audit, described below, did not include the operations of the Arenac County Road Commission because the Road Commission engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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

In our opinion, the County of Arenac, Standish, Michigan, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-005.

Internal Control Over Compliance

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-006 to be a material weakness.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Arenac as of and for the year ended December 31, 2011, and have issued our report thereon dated May 22, 2012, which contained unqualified opinions on the financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. 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 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, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

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

COUNTY OF ARENAC  
Standish, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended December 31, 2011

Findings – Financial Statements Audit

Findings – Financial Statements Audit

2010-1 Financial Statement Preparation

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

**Current Status:** The situation still exists and is included as a current year audit finding as part of 2011-001.

2010-2 Central Management of Grant Documents

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

**Current Status:** The situation still exists and is included as a current year audit finding as part of 2011-002.

2010-3 Board Review and Approval of Pre-Authorized Disbursements

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

**Current Status:** The situation still exists and is included as a current year audit finding as part of 2011-003.

COUNTY OF ARENAC  
Standish, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2011

Summary of Auditors' Results

- (1) The auditors' report expresses an unmodified opinion on the financial statements of the County of Arenac.
- (2) Two material weaknesses and two significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (3) No instances of noncompliance material to the financial statements of the County of Arenac, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (4) One material weakness relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance For Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award programs for the County of Arenac expresses an unmodified opinion.
- (6) The auditors' report disclosed one audit finding relative to the major federal award programs for the County of Arenac.
- (7) The programs tested as major programs included:
  - CFDA #10.433 Rural Development Housing Preservation Grant
  - CFDA #10.760 Water and Waste Disposal Systems for Rural Communities
  - CFDA #14.228 Community Development Block Grant
  - CFDA #93.560 Child Support Enforcement Incentive Payment
  - CFDA #93.563 Child Support Enforcement
- (8) The threshold used for distinguishing between Type A and B programs was \$300,000.
- (9) The County of Arenac did not qualify as a low-risk auditee.

COUNTY OF ARENAC  
Standish, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2011

Summary of Auditors' Results (Continued)

Findings – Financial Statements Audit

2011-001 Financial Statement Preparation

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

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

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

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

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

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

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

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

**Questioned Costs:** None.

COUNTY OF ARENAC  
Standish, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2011

Summary of Auditors' Results (Continued)

Findings – Financial Statements Audit (Continued)

2011-001 Financial Statement Preparation (Continued)

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

2011-002 Central Management of Grant Documents

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

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

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

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

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

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

**Questioned Costs:** None

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

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

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

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

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

COUNTY OF ARENAC  
Standish, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2011

Summary of Auditors' Results (Continued)

Findings – Financial Statements Audit (Continued)

2011-003 Board Review and Approval of Pre-Authorized Disbursements (Continued)

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

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

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

**Questioned Costs:** None

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

2011-004 Inmate Trust Bank Account

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

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

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

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

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

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

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

**Questioned Costs:** None

COUNTY OF ARENAC  
Standish, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2011

Summary of Auditors' Results (Continued)

Findings – Financial Statements Audit (Continued)

2011-004 Inmate Trust Bank Account (Continued)

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

Findings and Questioned Costs – Major Federal Award Programs Audit

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Passed through Michigan State Housing Development Authority

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

**Criteria:** The County has an Administrative Home Improvement Guide requiring the Housing Commission to obtain a signed approval of bid specification forms on each project.

**Condition:** Two new project files did not have signed bid specification forms from the Homeowner.

**Effect:** Documentation required by the County is not complete for two housing projects.

**Cause:** Former Housing Director was not aware of the requirement.

**Context:** The County has established a policy to obtain a signed approval of bid specification forms, but these forms were not always obtained.

**Auditor's Recommendation:** We recommend that the Housing Director obtain signed approval of bid specifications on each project and include them in the files.

**Questioned Costs:** None

**View of Responsible Officials and Planned Corrective Action:** Effective in 2012, the new contracted Housing Director is aware of the requirement, and is using a checklist to ensure that the required documents are all included.

U.S. DEPARTMENT OF AGRICULTURE

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

2011-006 Lack of a Procurement Policy

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

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

COUNTY OF ARENAC  
Standish, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2011

Summary of Auditors' Results (Continued)

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

2011-006 Lack of Procurement Policy (Continued)

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

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

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

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

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

**Questioned Costs:** None

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

COUNTY OF ARENAC  
Standish, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2011

<u>Federal Grantor or Pass Through Grantor Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Current Year Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Rural Development Housing Preservation Grant	10.433	\$ 16,327
Water and Waste Disposal Systems for Rural Communities	10.760	181,000
Rural Business Enterprise Grant	10.769	<u>3,274</u>
Total U.S. Department of Agriculture		<u>200,601</u>
<u>U.S. Department of Housing and Urban Development</u>		
Passed through Michigan State Housing Development Authority:		
Community Development Block Grant MSC-2009-0322-HOA	14.228	24,325
Community Development Block Grant Program Income		<u>51,832</u>
		<u>76,157</u>
Passed through Michigan State Housing Development Authority:		
Home Investment Partnership M-2009-0322-HO	14.239	40,715
Home Program Income		<u>5,499</u>
		<u>46,214</u>
Total U.S. Department of Housing and Urban Development		<u>122,371</u>
<u>U.S. Department of Justice</u>		
Passed through Michigan Department of Community Health:		
Crime Victim Assistance CVA 10105-8U11	16.575	16,808
Crime Victim Assistance CVA 10105-9U12		<u>5,385</u>
		22,193
Passed through Michigan State Police:		
Recovery Act Edward Byrne Memorial Justice Assistance Grant 2009-SB-B90894	16.738	4,000
Recovery Act Assistance to Rural Law Enforcement to Combat Crime and Drugs Improving Rural Law Enforcement Investigations 2009-SD-B9-0094	16.810	<u>59,720</u>
Total U.S. Department of Justice		<u>85,913</u>

The accompanying notes are an integral part of this schedule.

COUNTY OF ARENAC  
Standish, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2011

<u>Federal Grantor or Pass Through Grantor Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Current Year Expenditures</u>
<u>U.S. Department of Health and Human Services</u>		
Passed through the Michigan Department of Human Services:		
Child Support Enforcement Incentive Payment	93.560	\$ <u>19,342</u>
Child Support Enforcement CSPA-10-06002	93.563	42,478
Child Support Enforcement CSFOC-10-06001		<u>112,237</u>
		<u>154,715</u>
Legal Support Services Title IV-E Prosecuting Attorney PROFC-11-06001	93.658	<u>13,912</u>
Guardian Services GUARD-09-06001	93.667	<u>4,260</u>
Total U.S. Department of Health and Human Services		<u>192,229</u>
<u>U.S. Department of Homeland Security</u>		
Passed through Michigan Department of Natural Resources:		
2011 Marine Safety Program Grant Agreement	97.012	3,500
Passed through Michigan State Police:		
Emergency Management Program	97.042	5,923
Passed through Michigan 3rd District Regional Homeland Security Planning Board:		
Non-Cash Assistance		
2008 Homeland Security & Citizens Corps Grant	97.067	71,574
2009 Homeland Security & Citizens Corps Grant		<u>5,177</u>
		<u>76,751</u>
Total U.S. Department of Homeland Security		<u>86,174</u>
Total Federal Awards		<u>\$ 687,288</u>

The accompanying notes are an integral part of this schedule.

COUNTY OF ARENAC  
Standish, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2011

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

2. Reconciliation to financial statements:

Federal revenue presented in the financial statements	\$	503,014
Federal loans reported in the financial statements as bonds payable that fall under the Single Audit Scope of Arenac County		
#10.760 Water and Waste Disposal Systems for Rural Communities		181,000
Federal revenues reported in the Economic Development Corporation Component Unit, not included in the primary government financial statements.		
#10.769 Rural Business Enterprise Grant		<u>3,274</u>
Federal revenue on the Schedule of Expenditures of Federal Awards	\$	<u>687,288</u>



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

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

May 22, 2012

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

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the County of Arenac for the year ended December 31, 2011 and have issued our report dated May 22, 2012. Our opinions on the financial statements and this report, insofar as they relate to the Arenac County Road Commission, are based solely on the report of other auditors. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, Government Auditing Standards and OMB Circular A-133 as well as certain information related to the planned scope and timing of our audit. The appendices to this letter set forth those communications as follows:

I Communication with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the County during the audit and met with management on May 22, 2012 we would also be pleased to meet with you to discuss these matters at your convenience.

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

Very truly yours,

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

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

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

As stated in our engagement letter dated July 21, 2011, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing the audit, we will consider the County of Arenac's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County of Arenac's financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also in accordance with OMB Circular A-133, we will examine, on a test basis, evidence about the County of Arenac's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the County of Arenac's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on the County of Arenac's compliance with those requirements.

**Planned Scope and Timing of the Audit**

We performed the audit as outlined in our engagement letter related to planning matters dated July 21, 2011.

**Significant Audit Findings**

**Qualitative Aspects of Accounting Practices**

- Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County of Arenac are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the County changed their accounting policies related to Fund Balance by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", in 2011. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Balance Sheet. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.
- Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.
- Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users.

**Difficulties Encountered in Performing the Audit**

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

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

**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. The adjustments identified during the audit have been communicated to management. A summary of audit differences, both adjusted and unadjusted was provided to management on May 22, 2012. Management has determined that the effects of the unadjusted audit differences are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

**Disagreements with Management**

For purposes of this letter, 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 auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

**Management Representations**

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

**Management Consultations with Other Independent Accountants**

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

**Other Audit Findings or Issues**

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

**Other Information in Documents Containing Audited Financial Statements**

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

## **APPENDIX II MANAGEMENT COMMENTS**

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the County of Arenac as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the County of Arenac's internal control over financial reporting (internal control) as a basis for designing 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 County of Arenac's internal control. Accordingly, we do not express an opinion on the effectiveness of the County of Arenac's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

### **FINANCIAL STATEMENT PREPARATION CONTROLS**

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

View of Responsible Officials:

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

## **APPENDIX II MANAGEMENT COMMENTS**

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

During our audit procedures related to the OMB Circular A-133 single audit, we determined that the County Board sent a memo to all departments requiring grant agreements to be filed with the County Clerk in response to a prior audit finding. However, not all departments complied with this memo. As such, the County does not have a centralized location for the tracking of Federal Grants. Because of this, it is difficult for the staff at the County to identify all grants that need to be included on the Schedule of Expenditures of Federal Awards. This issue has also caused mistakes in classifications in the general ledger by the Treasurer's office between the Federal and State Grants. We recommend that the County enforce its policy establishing a centralized location for the tracking of all grant agreements. This enforcement should include all grants including those signed electronically.

View of Responsible Officials:

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the County of Arenac's internal control to be significant deficiencies:

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

Under the County's current system of internal control certain expenditures including payroll expenditures are considered to be approved through the budget process. Supporting documentation is never reviewed by the Board of Commissioners when the actual amounts are paid. While it is allowable for certain, limited payments to be authorized to be paid before Board approval, the Accounting Procedures Manual for Local Units of Government in Michigan states that these payments must be approved after they are made. We recommend that all disbursements are reviewed by the Board of Commissioners. Disbursements authorized for payment at the beginning of the year through the budget process should still be reviewed after payment is made. This review should include a disbursement journal or check register along with invoices, contracts, or other supporting documentation to compare to the disbursement journal or check register. In 2011, the Board of Commissioners adopted a fiscal responsibility policy that stated that these disbursements should be reviewed after the fact. However, during our audit, it came to our attention that this had yet to be implemented. We recommend that the Board of Commissioners implement the policy it has adopted and begin immediately reviewing these disbursements.

View of Responsible Officials:

The County Clerk's office will provide the Board with a listing and the supporting invoices for all disbursements made prior to the board meeting, for the board's review and approval.

### **INMATE TRUST BANK ACCOUNT**

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

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

## **APPENDIX II MANAGEMENT COMMENTS**

View of Responsible Officials:

The Sheriff's Department will work with the County Treasurer to ensure the bank account is reconciled to the Sheriff's Department software and the County's general ledger.

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

### **BUDGET PREPARATION AND CONTROL**

We observed that the County's General Fund public safety and capital outlay expenditures exceeded appropriated amounts for December 31, 2011. We recommend that the Board of Commissioners amend the budgets for all funds periodically as needed and take into consideration recurring year-end adjustments and the homeland security grant funds received from the Michigan 3<sup>rd</sup> District Regional Homeland Security Planning Board.

### **PARKS INTERNAL CONTROLS**

During our audit procedures, we obtained an understanding of the internal controls in place over the County's Parks. As a result of this activity, we discovered some areas where these internal controls could be improved. We developed the following recommendations that should be implemented to assist the County in protecting its Park assets:

- The night before or the morning of each activity week, the Supervisor of each location should document the starting ticket numbers for the week with his/her initials on that week's activity log. Then on the last day of that activity week, the Supervisor should document the ending ticket number. The Supervisor should then calculate the expected revenue by taking the total tickets sold (ending number less beginning number) and multiplying that number by the average fee of \$5. This expected revenue should be reasonably close to the revenue deposited at the County for that week.
- Each night, a cash count sheet should be utilized totaling the dollars collected for the day. This cash count sheet should total to the total cash included in the envelope and should then be dated and signed by the employee preparing the sheet. This cash count sheet should then be attached to the deposit slip/receipt that is taken and stored at the Treasurer's office for comparison.
- A member of the park board should compare the Supervisors' calculations for expected revenue to the amount deposited at the Treasurer's office along with the signed cash count sheet by the employee on a periodic basis to ensure that all funds collected are deposited into the County's bank account.

### **ANIMAL CONTROL DEPARTMENT INTERNAL CONTROLS**

During our audit procedures, we obtained an understanding of the internal controls in place over the County's Animal Control Department. As a result of this activity, we discovered some areas where these internal controls could be improved. We developed the following recommendations that should be implemented to assist the County in protecting its Animal Control Department assets:

- To ensure that all customers receive a receipt and know that they should receive a receipt, consider posting a notice that all transactions will result in a receipt.
- Unused receipt books should be stored with an independent party at the County so that only one receipt book is utilized at the Shelter at a time. When a new receipt book is needed, it should be signed out at the County building and the previous, completed receipt book would be reviewed by this independent party for completeness and tied to the beginning and ending receipt numbers turned in with the weekly transmittals to the Treasurer's office.

**APPENDIX II  
MANAGEMENT COMMENTS**

- Consider establishing an agreement with the County’s current financial institution regarding the possibility of the financial institution maintaining custody of the key to unlock the donation box. When it is time to empty the donation box, it can be obtained from its location and taken to the financial institution directly to be unlocked and deposited directly into the County’s bank account.
- The County should begin logging and tracking all in-kind donations. This will allow for periodic reviews of the items that should be included in inventory as well as allow for the estimated value of all in-kind contributions to be recorded into the County’s general ledger system at year end.

**STATUS OF PRIOR YEAR COMMENTS:**

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

<u>Comment</u>	<u>Situation Corrected</u>	<u>Decision To Not Implement</u>	<u>Progress Made</u>	<u>Still Exists</u>
Financial Statement Preparation Controls		X		
Central Management of Grant Documents			X	
Board Review and Approval of Pre-Authorized Disbursements				X
Review of Cancelled Checks	X			
Subsidiary Ledger for Special Assessments	X			
Collectibility of Housing Mortgage Receivables	X			
Budget Preparation and Control				X