

OTSEGO COUNTY ROAD COMMISSION
FINANCIAL REPORT
DECEMBER 31, 2011

OTSEGO COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS

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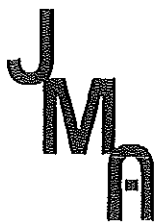
Tom Deans
Engineer - Manager

Kelly McGinn
Finance Director

OTSEGO COUNTY ROAD COMMISSION

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James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

March 19, 2012

Board of County Road Commissioners
Otsego County Road Commission
Gaylord, MI 49734

I have audited the accompanying financial statements of the governmental activities and major fund of the Otsego County Road Commission, a component unit of the County of Otsego, Michigan as of and for the year ended December 31, 2011, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.


In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major fund of the Otsego County Road Commission as of December 31, 2011, and the respective changes in financial position where applicable there of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 19, 2012, on my consideration of the Otsego County Road Commission's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

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Board of County Road Commissioners
Otsego County Road Commission
March 19, 2012

The management's discussion and analysis are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Otsego County Road Commission's basic financial statements. The supplemental information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Otsego County Road Commission. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.


JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

OTSEGO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION & ANALYSIS
DECEMBER 31, 2011

USING THIS ANNUAL REPORT

The Otsego County Road Commission's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the road commission's financial activity; c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

REPORTING THE ROAD COMMISSION AS A WHOLE

The statement of net assets and the statement of activities report information about the commission as a whole and about its activities in a way that helps answer the question on whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

REPORTING THE ROAD COMMISSION'S MAJOR FUND

Our analysis of the road commission's major fund begins on page 4. The fund financial statements begin on page 9 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental type.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

OTSEGO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)
DECEMBER 31, 2011

THE ROAD COMMISSION AS A WHOLE

The road commission's net assets decreased \$1,311,289 or approximately 7.47% for the year ended December 31, 2011. The net assets and change in net assets are summarized below.

Net assets as of the year ended December 31, 2011 and 2010 follows:

	<u>Governmental Activities</u>		<u>Increase (Decrease)</u>
	<u>2011</u>	<u>2010</u>	
Current and Other Assets	\$ 1,840,498	\$ 2,018,611	\$ (178,113)
Capital Assets (Less Depreciation)	<u>20,498,282</u>	<u>19,817,303</u>	<u>680,979</u>
Total Assets	<u>22,338,780</u>	<u>21,835,914</u>	<u>502,866</u>
Current Liabilities	352,015	463,307	(111,292)
Other Liabilities	<u>5,759,670</u>	<u>3,834,223</u>	<u>1,925,447</u>
Total Liabilities	<u>6,111,685</u>	<u>4,297,530</u>	<u>1,814,155</u>
Net Assets			
Invested in Capital Assets	19,613,282	19,817,303	(204,021)
Unrestricted	<u>(3,386,187)</u>	<u>(2,278,919)</u>	<u>(1,107,268)</u>
Total Net Assets	<u>\$ 16,227,095</u>	<u>\$ 17,538,384</u>	<u>\$ (1,311,289)</u>

OTSEGO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)
DECEMBER 31, 2011

A summary of changes in net assets for the year ended December 31, 2011 and 2010 follows:

	Governmental Activities		Increase (Decrease)
	2011	2010	
Program Revenues:			
Charges for Services (includes permits)	\$ 879,600	\$ 860,968	\$ 18,632
Federal Sources	799,499	465,443	334,056
State Sources	3,994,493	4,111,553	(117,060)
Contributions from Local Units	832,302	375,753	456,549
Interest Income	2,277	7,488	(5,211)
General Revenues:			
Gain on Disposal of Equipment	3,385	13,835	(10,450)
Other Miscellaneous Sources	5,092	8,739	(3,647)
Total Revenues	6,516,648	5,843,779	672,869
Program Expenses:			
Primary Roads:			
Maintenance	1,482,983	1,388,242	94,741
Local Roads:			
Maintenance	1,521,923	1,351,916	170,007
State Trunkline:			
Maintenance	835,077	847,382	(12,305)
Equipment Expense	537,966	208,859	329,107
Administrative	468,011	486,486	(18,475)
Infrastructure Depreciation	1,911,530	1,849,500	62,030
Compensated Absences	9,173	(14,191)	23,364
Post Employment Benefits	1,061,274	1,089,345	(28,071)
Total Expenses	7,827,937	7,207,539	620,398
Increase (Decrease) in Net Assets	\$ (1,311,289)	\$ (1,363,760)	\$ 52,471

OTSEGO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)
DECEMBER 31, 2011

THE ROAD COMMISSION'S FUND

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2011, the fund balance of the general operations fund decreased by \$36,821 as compared to an increase of \$187,933 in the fund balance for the year ended December 31, 2010. Total revenues were \$6,516,763 with an additional \$685,000 in bond proceeds issued for the construction of a new salt storage facility.

Total expenditures were \$7,438,584, an increase of \$231,045, as compared to last year. This change in expenditures is primarily due to the construction of the new salt storage building.

BUDGETARY HIGHLIGHTS

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year. The revenue budget for 2011 was lower than the actual receipts by \$1,967,894. This is primarily due to the road commission not budgeting for some of the federal and state grant revenues and the bond proceeds.

Road Commission expenditures were projected as \$5,433,869 while actual expenditures were \$7,438,584. This resulted in total expenditures being over budget by \$2,004,715. This is primarily due to the recording of grant activity at year end administered by third parties and the salt storage facility construction which had not been budgeted.

OTSEGO COUNTY ROAD COMMISSION
 MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)
 DECEMBER 31, 2011

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2011, the road commission had \$2,049,282 invested in capital assets as follows:

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 170,157	\$ 170,157	\$ -0-
Other Capital Assets			
Buildings and Improvements	3,723,613	3,010,705	712,908
Road Equipment	5,389,619	5,285,576	104,043
Other Equipment	215,814	207,041	8,773
Infrastructure and Improvements	<u>39,070,327</u>	<u>37,048,743</u>	<u>2,021,584</u>
Total Capital Assets at Historic Cost	48,569,530	45,722,222	2,847,308
Total Accumulated Depreciation	<u>(28,071,248)</u>	<u>(25,904,919)</u>	<u>2,166,329</u>
Total Net Capital Assets	<u>\$ 20,498,282</u>	<u>\$ 19,817,303</u>	<u>\$ 680,979</u>

Current year's major additions included the following:

Various Projects (Primary and Local)	\$ 2,021,584	\$ 1,707,369
Buildings	\$ 712,908	\$ -0-
Trucks/Equipment	\$ 163,366	\$ 35,145

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

We had a very busy year last year, due in part to the further deterioration of our public road system and the financial assistance from our township partners. For the first time in several years, our crew was under contract to upgrade a local gravel road. We were able to partner with five other townships as well using our own forces in some fashion.

Two very nice reconstruction road projects were completed on Mancelona Road and W. Otsego Lake Drive with the use of federal transportation dollars and local match dollars. We were able to utilize the financial commitment from two townships to assist with the local match.

Although our chip seal program was reduced by seven miles, we were still able to prep and complete twenty-five miles of chip seal. Our strong commitment to preventative maintenance included an expanded crack sealing program over the summer.

The construction of our new salt storage facility and underground storage tank will be very beneficial to our future productivity and the environmental impact on road commission property.

As operating costs continue to rise, it is imperative that the Board spends the public's money wisely and equitably to maintain a safe and efficient road system.

OTSEGO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)
DECEMBER 31, 2011

CONTACTING THE ROAD COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Otsego County Road Commission Administrative Offices at 669 W. McCoy Road, P.O. Box 537, Gaylord MI 49734-0537.

OTSEGO COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

ASSETS

Cash and Investments	\$ 659,614
Accounts receivable Due from other governmental units	645,000
Inventories	535,884
Capital Assets (Net of Accumulated Depreciation)	<u>20,498,282</u>
Total Assets	<u>22,338,780</u>

LIABILITIES

Current Liabilities	
Accounts payable	66,377
Accrued liabilities	40,557
Escrow deposits	10,000
Advances from MDOT	205,081
Bonds payable	30,000
Non Current Liabilities	
Bonds Payable	855,000
Vested Employee Benefits Payable	71,804
Post Employment Benefit Liabilities	<u>4,832,866</u>
Total Liabilities	<u>6,111,685</u>

NET ASSETS

Investment in Capital Fixed Assets Net of Related Debt	19,613,282
Restricted for County Roads	<u>(3,386,187)</u>
Total Net Assets	<u>\$ 16,227,095</u>

See accompanying notes to the financial statements.

OTSEGO COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Program Expenses	
Primary Road Maintenance	\$ 1,482,983
Local Road Maintenance	1,521,923
State Trunkline Maintenance	835,077
Net Equipment Expense	537,966
Net Administrative Expense	468,011
Infrastructure Depreciation	1,911,530
Compensated Absences	9,173
Post-Employment Benefits	<u>1,061,274</u>
Total Program Expenses	<u>7,827,937</u>
Program Revenue	
Federal Grants	799,499
State Grants	3,994,493
Contributions from Local Units	832,302
Charges for Services	884,692
Investment Earnings	<u>2,277</u>
Total Program Revenue	<u>6,513,263</u>
Net Program Revenue	<u>(1,314,674)</u>
General Revenue	
Gain (Loss) on Asset Disposal	<u>3,385</u>
Total General Revenues	<u>3,385</u>
Change in Net Assets	(1,311,289)
Net Assets	
Beginning of Year	<u>17,538,384</u>
End of Year	<u>\$ 16,227,095</u>

See accompanying notes to the financial statements.

OTSEGO COUNTY ROAD COMMISSION
BALANCE SHEET
DECEMBER 31, 2011

	Governmental <u>Fund Type</u> General <u>Operating</u>
ASSETS	
Cash demand and investments	\$ 659,614
Accounts receivable:	
Due from other governmental units	645,000
Inventories	<u>535,884</u>
Total Assets	<u>\$ 1,840,498</u>
LIABILITIES AND FUND BALANCES	
Accounts payable	\$ 66,377
Accrued liabilities	40,557
Escrow deposits	10,000
Advances from governmental units	<u>205,081</u>
Total Liabilities	<u>322,015</u>
Fund Balances:	
Non-Spendable	535,884
Undesignated	<u>982,599</u>
Total Fund Balances	<u>1,518,483</u>
Total Liabilities and Fund Balances	<u>\$ 1,840,498</u>

See accompanying notes to the financial statements.

OTSEGO COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO
THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

Total governmental fund balance	\$ 1,518,483
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	20,498,282
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	<u>(5,789,670)</u>
Net assets of governmental activities	<u>\$ 16,227,095</u>

See accompanying notes to the financial statements.

OTSEGO COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
DECEMBER 31, 2011

	Operating Fund
Revenues	
Federal Grants	\$ 799,499
State Grants	3,792,738
Contributions From Local Units	466,831
Charges for Services	821,996
Interest and Rents	2,277
Other Revenue	633,422
Total Revenues	6,516,763
Expenditures	
Public Works	6,867,544
Net Capital Outlay	571,040
Total Expenditures	7,438,584
Excess of Revenues Over (Under) Expenditures	(921,821)
Other Financing Sources:	
Bond Proceeds	885,000
Total Other Financing Sources	885,000
Excess:	
Revenue and Other Financing Sources Over (Under) Expenditures	(36,821)
Fund Balance - January 1, 2011	1,555,304
Fund Balance - December 31, 2011	\$ 1,518,483

See accompanying notes to the financial statements.

OTSEGO COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Net Change in fund balance - total governmental funds \$ (36,821)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities. 680,979

Bond proceeds provide current financial resources to governmental funds, but entering into bond/lease purchase agreements increases long-term liabilities in the statement of net assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. (885,000)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (Increase in compensated absences, post employment benefits and decrease in interest expense). (1,070,447)

Change in net assets of governmental activities. \$ (1,311,289)

See accompanying notes to the financial statements.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Otsego County Road Commission conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

DESCRIPTION OF ROAD COMMISSION OPERATIONS - The Otsego County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Otsego, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, reimbursements from the Department of State Highways for work performed by the County on State trunkline and contributions from other local units of government for work performed by the Road Commission work force.

The Road Commission which is established pursuant to the County Road Law (MCL224.1) operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. A different Road Commissioner is elected biannually to serve a six year term.

FINANCIAL REPORTING ENTITY - The Road Commission is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. This financial report has been prepared to meet this State requirement.

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

BASIS OF PRESENTATION - GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION - FUND FINANCIAL STATEMENTS

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

MEASUREMENT FOCUS/BASIS OF ACCOUNTING - GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

Amounts reported as program revenue include: charges to customer or applicants for goods or services or privileges provided; Michigan transportation funds; and State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING - FUND FINANCIAL STATEMENTS

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

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

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING

The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 621 of 1978, in the preparation and execution of its annual general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law.

CASH, CASH EQUIVALENTS AND INVESTMENTS

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

INVENTORY

Inventories consisting of equipment parts and supplies of \$149,088 and road materials of \$386,796, are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are recorded at average cost which approximates market.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Otsego County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Otsego County Road Commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the statement of net assets.

ADVANCES FROM THE STATE OF MICHIGAN

The State of Michigan advances funds on a State maintenance agreement it has with the Otsego County Road Commission for specified maintenance which the Road Commission will perform during the year and for equipment purchases. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCRUED VACATION AND SICK - In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts.

EQUIPMENT RENTALS - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

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

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

LONG-TERM OBLIGATIONS - In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in operating fund statement of net assets.

ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

FUND BALANCE - Fund balance is essentially the difference between the assets and liabilities reported in a governmental fund. There are five separate components of fund balance, each of which identifies the extent to which the Road Commission is bound to honor constraints on the specific purpose for which amounts can be spent.

1. Non-spendable fund balance (inherently non-spendable)
2. Restricted fund balance (externally enforceable limitations on use)
3. Committed fund balance (self-imposed limitations on use)
4. Assigned fund balance (limitation resulting from intended use)
5. Unassigned fund balance (the residual classification of the general fund)

As a general rule, when multiple categories of fund balance are available for expenditure, the Road Commission will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE B - CASH AND INVESTMENTS

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

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

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

Imprest Cash	\$ 200
Cash Demand and Time Deposits	35,000
County Pooled Cash	<u>624,414</u>
Total	<u>\$ 659,614</u>

Deposits

At year-end the carrying amount of the County Road Commissions deposits were \$35,000 and the bank balance was \$238,255. According to the Federal Deposit Insurance Corporation, approximately 100% of the total bank balance was covered by federal depository insurance. The County Treasurer maintains a pooled cash account for the County which includes \$624,414 of road commission funds. The amount of FDIC insurance for these funds is unknown.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to municipal money markets.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE B - CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

Concentration of Credit Risk

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

Custodial Credit Risk

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

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

OTSEGO COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2011

NOTE C - CAPITAL ASSETS

The following is a summary of changes in the Capital Assets Account Group.

	<u>Balance 1/01/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/11</u>
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 170,157	\$ -0-	\$ -0-	\$ 170,157
Subtotal	<u>170,157</u>	<u>-0-</u>	<u>-0-</u>	<u>170,157</u>
Capital Assets Being Depreciated:				
Buildings	3,010,705	712,908	-0-	3,723,613
Road Equipment	5,285,576	150,060	46,017	5,389,619
Shop Equipment	102,808	8,466	4,533	106,741
Office Equipment	78,105	4,840	-0-	82,945
Engineers Equipment	19,568	-0-	-0-	19,568
Yard & Storage Equipment	1,800	-0-	-0-	1,800
Depletable Assets	4,760	-0-	-0-	4,760
Traffic Signals	44,756	-0-	-0-	44,756
Infrastructure-Bridges	1,780,278	37	-0-	1,780,315
Infrastructure-Roads	<u>35,223,709</u>	<u>2,021,547</u>	<u>-0-</u>	<u>37,245,256</u>
Total	<u>45,552,065</u>	<u>2,897,858</u>	<u>50,550</u>	<u>48,399,373</u>
Less Accumulated Depreciation:				
Buildings	1,301,067	72,457	-0-	1,373,524
Road Equipment	4,721,042	227,654	45,902	4,902,794
Shop Equipment	97,128	2,840	4,533	95,435
Office Equipment	77,003	1,818	-0-	78,821
Engineers Equipment	16,466	465	-0-	16,931
Yard & Storage Equipment	1,800	-0-	-0-	1,800
Traffic Signals	26,061	2,984	-0-	29,045
Infrastructure-Bridges	411,238	70,946	-0-	482,184
Infrastructure-Roads	<u>19,253,114</u>	<u>1,837,600</u>	<u>-0-</u>	<u>21,090,714</u>
Total	<u>25,904,919</u>	<u>2,216,764</u>	<u>50,435</u>	<u>28,071,248</u>
Net Capital Assets Being Depreciated	<u>19,647,146</u>	<u>681,094</u>	<u>115</u>	<u>20,328,125</u>
Total Net Capital Assets	<u>\$19,817,303</u>	<u>\$ 681,094</u>	<u>\$ 115</u>	<u>\$20,498,282</u>

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE D - PENSION PLAN

DEFINED BENEFIT PENSION PLAN

Plan Description - The Otsego County Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability in the most efficient and effective manner possible. As such, MERS is a non-profit entity qualified under section 401 (a) of the Internal Revenue Code, which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the tax payers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

All full-time Road Commission employees and Commissioners are eligible to participate in the system. Benefits vest after ten years of service. Employees who retire at or after age 60 with 10 years credited service are entitled to an annual retirement benefit, payable monthly for life in an amount equal to 2.0 percent of the member's five-year final average compensation. The system also provides death and disability benefits which are established by State Statute.

OTSEGO COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2011

NOTE D - PENSION PLAN (CONTINUED)

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 2010. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2010 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/10)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 6,776,704
Terminated employees not yet receiving benefits	75,725
Current Employees:	
Accumulated employees contributions including allocated investment income	-0-
Employer financed	<u>2,697,911</u>
Total actuarial accrued liability	9,550,340
Net assets available for benefits, at actuarial value (Market value is \$5,520,092)	<u>6,419,431</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ 3,130,909</u>

GASB 27 INFORMATION (as of 12/31/10)

Fiscal year beginning	January 1, 2012
Annual required contribution (ARC)	\$ 288,204
Amortization factor used	0.055889

OTSEGO COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2011

NOTE D - PENSION PLAN (CONTINUED)

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2010 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 28 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Annual Pension Cost

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2008	\$ 256,452	100%	\$ -0-
2009	281,074	100%	-0-
2010	288,204	100%	-0-

The Road Commission was required to contribute \$265,211 and elected to pay an additional \$120,000 for the year ended December 31, 2011. Payments were based on contribution calculations made by MERS.

Aggregate Accrued Liabilities - Comparative Schedule

<u>Actuarial Valuation Date December 31</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
2008	\$ 6,593,589	\$ 8,917,923	\$ 2,324,334	74%	\$ 1,360,494	171%
2009	6,541,763	9,253,348	2,711,585	71%	1,365,098	199%
2010	6,419,431	9,550,340	3,130,909	67%	1,198,321	261%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1997, 2000, 2004, 2008, 2009 and 2010 valuations.

OTSEGO COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2011

NOTE E - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE F - LONG TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

	<u>Balance 12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/11</u>	<u>Due Within One Year</u>
General Obligation:					
Bonds payable	\$ -0-	\$ 885,000	\$ -0-	\$ 885,000	\$ 30,000
Compensated absences	62,631	(1) 9,173	-0-	71,804	-0-
Totals	<u>\$ 62,631</u>	<u>\$ 894,173</u>	<u>\$ -0-</u>	<u>\$ 956,804</u>	<u>\$ 30,000</u>

(1) The change in compensated absences is shown as a net addition.

The Otsego County Building Authority issued the 2011 Series Bonds on behalf of the Otsego Road Commission for the purpose of constructing a new salt storage facility. The bonds were issued in denominations of \$5,000 totaling \$885,000. The bonds mature annually starting June 1, 2012 and each June 1st thereafter with the final maturities on June 1, 2031. The interest notes on the bonds range from 3.25% to 5.0%.

Annual Debt Service Requirements:

Year	<u>Amount</u>
2012	\$ 73,496
2013	66,237
2014	65,263
2015	69,163
2016	67,938
2017	66,712
2018	65,488
2019	69,175
2020	67,775
2021-2031	<u>742,436</u>
Total Payments	1,353,683
Less Interest & Fees	(468,683)
Net Balance Due	<u>\$ 885,000</u>

COMPENSATED ABSENCES - Substantially all employees of the Road Commission can accumulate vacation hours. The accumulated hours at December 31, 2011 at current wage rates amounted to \$71,804 and is reflected in the Long-Term Debt Group. Sick leave is not vested and accordingly is not accrued.

OTSEGO COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2011

NOTE G - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2011 the County Road Commission incurred expenditures in certain areas which were in excess of the amounts appropriated as follows:

<u>Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Primary Road:			
Heavy Maintenance	\$ 670,359	\$ 1,524,791	\$ (854,432)
Maintenance	\$ 1,265,440	\$ 1,482,946	\$ (217,506)
Local Road:			
Heavy Maintenance	\$ 445,582	\$ 496,830	\$ (51,248)
Maintenance	\$ 1,482,046	\$ 1,521,923	\$ (39,877)
State Trunkline Non-Maintenance	\$ -0-	\$ 14,379	\$ (14,379)
Equipment Expense - Net	\$ 231,497	\$ 537,966	\$ (306,469)
Administrative Expense - Net	\$ 422,518	\$ 468,011	\$ (45,493)
Capital outlay - Net	\$ (196,501)	\$ 571,040	\$ (767,541)

NOTE H - RISK MANAGEMENT

Otsego County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Otsego Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.

At December 31, 2011, there were no claims which exceeded insurance coverage. The Road Commission had no significant reduction in insurance coverage from the previous years.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE I - FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation that Road Commissioners report total federal financial assistance for Highway Research, Planning and construction pertaining to their County. However, only the federal financial assistance applicable to negotiated account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by the Michigan Department of Transportation.

During the year ended December 31, 2011, the Road Commission recorded \$799,499 of Department of Transportation Federal Highway grant money expended on public road improvement projects where work was performed by independent contractors or under non-negotiated contracts between the Road Commission and the Michigan Department of Transportation.

NOTE J - OTHER POST EMPLOYMENT HEALTH CARE BENEFITS

Otsego County Road Commission provides hospitalization and medical coverage for eligible retirees and their spouses through the road commission's group health insurance plan, which covers both active and retired members. The following are the Governmental Accounting Standards Board Statement #45 required disclosures which have been implemented prospectively by the road commission.

- . Employees hired prior to December 31, 2008, and retire with 20 years of employment and age 55 years, or greater, will receive health insurance comparable to that provided to the current employees until age 65 years and supplemental health insurance for the employee and spouse for their lifetimes.

The plan does not issue a separate stand-alone financial statement.

Funding Policy - The Road Commission's annual other post employment benefit (OPEB) cost 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 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 to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The Road Commission has no obligation to make contributions in advance of when the premiums are due for payment (i.e., may be financed on a "pay-as-you-go" basis). The only current contributions being made are to pay the actual current premiums of the retirees. That amount was less than the annual required contribution and is reflected in the schedule that follows. Administrative costs of the plan are paid for by the Road Commission.

OTSEGO COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2011

NOTE J - OTHER POST EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

Funding Progress - For the year ended December 31, 2011, the Road Commission has determined an estimated cost of providing post-employment benefits through the alternative measurement method of calculation as of December 31, 2011. The calculation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed 30 years.

The Road Commission's computed contribution and actual funding is summarized as follows:

Annual required contribution/Annual OPEB cost (ARC)	\$ 1,348,848
Interest on beginning of year net OPEB obligation	<u>150,864</u>
Annual OPEB Costs	1,499,712
Amounts contributed:	
Payments of current premiums	<u>438,438</u>
Net OPEB obligation	1,061,274
OPEB obligation - Beginning of year	<u>3,771,592</u>
OPEB obligation - End of year	<u>\$ 4,832,866</u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the fiscal year ended December 31, 2009, 2010, and 2011, were as follows:

	2009	2010	2011
Annual OPEB costs	\$ 1,715,693	\$ 1,456,138	\$ 1,499,712
Percentage contributed	17.96 %	25.18 %	29.23 %
Net OPEB obligation	\$ 2,682,247	\$ 3,771,592	\$ 4,832,866

The current funding progress of the plan as of December 31, 2010, the most recent valuation date, is as follows:

Actuarial value of assets	\$ -
Actuarial accrued liability (AAL)	13,009,780
Unfunded AAL (UAAL)	13,009,780
Funded ratio	0 %
Annual covered payroll	1,397,173
Ratio of UAAL to covered payroll	931 %

The year ended December 31, 2008 was the first year that an actuarial valuation was done, so no information is available for years prior to that. Also, information related to funding progress with multi year trend information indicating whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits is not presented since there currently are no plan assets.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE J - OTHER POST EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

Actuarial Methods and Assumptions - 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 simplifying assumptions were made:

Assumptions About Employees and Members: Based on historical average retirement age of the covered group, active plan members were assumed to retire at various ages between 55 and 65 or the first year thereafter in which the member would qualify for benefits. Marital status as of the calculation date was assumed to continue throughout retirement. Life expectancy was based on mortality tables published in the 1994 Group Annuity Mortality Table. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using specific age-based turnover data.

Assumptions About Healthcare Costs: The 2010 health insurance premiums for retirees were used to calculate the present value of total benefits to be paid. The expected rate of increase in health insurance premiums were based on the 2009 version of the National Health Expenditures (NHE) released in September 2010, Centers for Medicare & Medicaid Services, Office of the Actuary.

Other Assumptions and Methods: The inflation rate was assumed to be 4.0%. Based on the historical and expected returns of the Commission's investments, the investment rate of return was assumed to be 4%. The value of Plan assets was set at market value. A simplified version of the entry age actuarial cost method was used in the actuarial valuation. The UAAL is amortized over a thirty-year period as a level percent of projected payroll on an open basis. Payroll was assumed to grow over the long-term at the same rate as inflation.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

NOTE K - FUND BALANCE CLASSIFICATIONS

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which Otsego County Road Commission is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Non-spendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision-making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. The governing body, the budget or finance committee or a delegated municipality official, determines this.

Unassigned - all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative Fund Balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, Otsego County Road Commission's highest level of decision-making authority is the County Road Board. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is by vote and approval by the County Road Board.

For assigned fund balance, the Road Commission Manager is authorized to assign amounts to a specific purpose. Such assignments cannot exceed the available fund balance in any particular fund.

For the classification of fund balances, the Otsego County Road Commission considers restricted amounts to have been spent when expenditures are incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the road commission considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

REQUIRED SUPPLEMENTAL INFORMATION

OTSEGO COUNTY ROAD COMMISSION
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
BUDGETARY COMPARISON SCHEDULE
TWELVE MONTHS ENDED DECEMBER 31, 2011

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Michigan Transportation Funds:				
Primary road	\$	\$	\$ 2,108,670	\$
Local road			1,232,704	
Snow removal			214,755	
Engineering			10,000	
Subtotal	<u>(1)3,232,359</u>	<u>(1)3,528,536</u>	<u>3,566,129</u>	<u>37,593</u>
Federal Aid:				
Category D	359,550	-0-	136,391	136,391
Surface Tran Program (STP)	-0-	-0-	663,108	663,108
State Aid:				
Rural Primary D	-0-	-0-	141,500	141,500
Urban Area F	375,000	-0-	-0-	-0-
Capital Grant - Salt Storage	-0-	-0-	201,755	201,755
State forest road funds	85,113	85,109	85,109	-0-
State trunkline maintenance	851,573	906,135	807,617	(98,518)
State trunkline non-maintenance	-0-	-0-	14,379	14,379
County Raised Funds:				
Township contributions and other contributions	757,287	842,785	832,302	(10,483)
Other Revenue:				
Gain (Loss) on sale of Equipment	-0-	-0-	3,500	3,500
Interest, salvage sales, permits and refunds	40,600	71,304	64,973	(6,331)
Total Revenue	<u>5,701,482</u>	<u>5,433,869</u>	<u>6,516,763</u>	<u>1,082,894</u>
Other Financing Sources:				
Proceeds from Sale of Bonds	-0-	-0-	885,000	885,000
Total Other Financing Sources	<u>-0-</u>	<u>-0-</u>	<u>885,000</u>	<u>885,000</u>
Total Revenue and Other Financing Sources	<u>\$ 5,701,482</u>	<u>\$ 5,433,869</u>	<u>\$ 7,401,763</u>	<u>\$ 1,967,894</u>

(1) Budgeted in Total

OTSEGO COUNTY ROAD COMMISSION
STATEMENT OF EXPENDITURES -
BUDGETARY COMPARISON SCHEDULE
TWELVE MONTHS ENDED DECEMBER 31, 2011

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Primary Road:				
Heavy maintenance	\$ 1,296,500	\$ 670,359	\$ 1,524,791	\$ (854,432)
Maintenance	1,451,578	1,265,440	1,482,946	(217,506)
Local Road:				
Heavy maintenance	220,000	445,582	496,830	(51,248)
Maintenance	1,456,646	1,482,046	1,521,923	(39,877)
Subtotal	<u>4,424,724</u>	<u>3,863,427</u>	<u>5,026,490</u>	<u>(1,163,063)</u>
State Trunkline Maintenance	<u>831,573</u>	<u>906,135</u>	<u>820,698</u>	<u>85,437</u>
State Trunkline Non- Maintenance	<u>-0-</u>	<u>-0-</u>	<u>14,379</u>	<u>(14,379)</u>
Equipment Expense - Net:				
Direct	856,426	752,210	852,389	(100,179)
Indirect	512,539	540,148	606,698	(66,550)
Operating	395,709	368,088	367,292	796
Less:				
Equipment Rental	<u>(1,655,987)</u>	<u>(1,428,949)</u>	<u>(1,288,413)</u>	<u>(140,536)</u>
Subtotal	<u>108,687</u>	<u>231,497</u>	<u>537,966</u>	<u>(306,469)</u>
Administrative Expense - Net:				
Administrative expense			559,226	
Less:				
Overhead - State trunkline			(91,097)	
Purchase discounts and Handling Charges			(118)	
Subtotal	<u>(1) 354,261</u>	<u>422,518</u>	<u>468,011</u>	<u>(45,493)</u>
Capital Outlay - Net:				
Capital Outlay	341,000	203,499	876,274	(672,775)
Less:				
Depreciation	<u>(359,985)</u>	<u>(400,000)</u>	<u>(305,234)</u>	<u>(94,766)</u>
Subtotal	<u>(18,985)</u>	<u>(196,501)</u>	<u>571,040</u>	<u>(767,541)</u>
Contingency	<u>1,222</u>	<u>206,793</u>	<u>-0-</u>	<u>206,793</u>
Total Expenditures	<u>\$ 5,701,482</u>	<u>\$ 5,433,869</u>	<u>\$ 7,438,584</u>	<u>\$(2,004,715)</u>

(1) Budgeted in total

SUPPLEMENTAL SCHEDULES

OTSEGO COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES OF FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2011

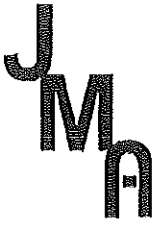
	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>	<u>Totals</u>
Total Revenues and other Financing Sources	\$ 3,607,842	\$ 1,451,226	\$ 2,342,695	\$ 7,401,763
Total Expenditures	<u>3,434,630</u>	<u>2,450,132</u>	<u>1,553,822</u>	<u>7,438,584</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures before Optional Transfers	173,212	(998,906)	788,873	(36,821)
Optional Transfers / Adjustments	<u>(173,212)</u>	<u>998,906</u>	<u>(825,694)</u>	<u>-0-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures After Transfers	-0-	-0-	(36,821)	(36,821)
Fund Balance - January 1	<u>-0-</u>	<u>-0-</u>	<u>1,555,304</u>	<u>1,555,304</u>
Fund Balance - December 31	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,518,483</u>	<u>\$ 1,518,483</u>

OTSEGO COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
Motor Vehicle Highway Funds:				
Primary road	\$ 2,108,670	\$ -0-	\$ -0-	\$ 2,108,670
Local road	-0-	1,232,704	-0-	1,232,704
Snow removal	-0-	214,755	-0-	214,755
Engineering	6,233	3,767	-0-	10,000
Subtotal	<u>2,114,903</u>	<u>1,451,226</u>	<u>-0-</u>	<u>3,566,129</u>
Federal Aid:				
Surface Tran Program (STP)	663,108	-0-	-0-	663,108
Category D	136,391	-0-	-0-	136,391
State Aid:				
Rural Primary D	141,500	-0-	-0-	141,500
Capital Grant - Salt Storage	-0-	-0-	201,755	201,755
State Forest Road Funds	85,109	-0-	-0-	85,109
State Trunkline Maintenance	-0-	-0-	807,617	807,617
State Trunkline Non-Maintenance	-0-	-0-	14,379	14,379
County Raised Funds:				
Township contributions and other contributions	466,831	-0-	365,471	832,302
Other Revenue:				
Gain (Loss) on Sale of Equipment	-0-	-0-	3,500	3,500
Interest, Salvage Sales, Permits and Refunds	-0-	-0-	64,973	64,973
Total Revenue	<u>3,607,842</u>	<u>1,451,226</u>	<u>1,457,695</u>	<u>651,763</u>
Other Financing Sources:				
Proceeds from Sale of Bonds	-0-	-0-	885,000	885,000
Total Other Financing Sources	<u>-0-</u>	<u>-0-</u>	<u>885,000</u>	<u>885,000</u>
Total Revenue and Other Financing Sources	<u>\$ 3,607,842</u>	<u>\$ 1,451,226</u>	<u>\$ 2,342,695</u>	<u>\$ 7,401,763</u>

OTSEGO COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
Primary Road:				
Heavy maintenance	\$ 1,524,791	\$ -0-	\$ -0-	\$ 1,524,791
Maintenance	1,482,946	-0-	-0-	1,482,946
Local Road:				
Heavy maintenance	-0-	496,830	-0-	496,830
Maintenance	-0-	1,521,923	-0-	1,521,923
Subtotal	<u>3,007,737</u>	<u>2,018,753</u>	<u>-0-</u>	<u>5,026,490</u>
State Trunkline Maintenance	<u>-0-</u>	<u>-0-</u>	<u>820,698</u>	<u>820,698</u>
State Trunkline Non-Maintenance	<u>-0-</u>	<u>-0-</u>	<u>14,379</u>	<u>14,379</u>
Equipment Expense - Net:				
Direct	232,673	385,683	234,033	852,389
Indirect	165,607	274,514	166,577	606,698
Operating	100,258	166,190	100,844	367,292
Less:				
Equipment Rental	<u>(351,692)</u>	<u>(582,972)</u>	<u>(353,749)</u>	<u>(1,288,413)</u>
Subtotal	<u>146,846</u>	<u>243,415</u>	<u>147,705</u>	<u>537,966</u>
Administrative Expense - Net:				
Administrative expense	334,664	224,562	-0-	559,226
Less:				
Overhead - State trunkline	(54,510)	(36,587)	-0-	(91,097)
Purchase discounts and				
Handling charges	<u>(107)</u>	<u>(11)</u>	<u>-0-</u>	<u>(118)</u>
Subtotal	<u>280,047</u>	<u>187,964</u>	<u>-0-</u>	<u>468,011</u>
Capital Outlay - Net:				
Capital Outlay	-0-	-0-	876,274	876,274
Less:				
Depreciation	<u>-0-</u>	<u>-0-</u>	<u>(305,234)</u>	<u>(305,234)</u>
Subtotal	<u>-0-</u>	<u>-0-</u>	<u>571,040</u>	<u>571,040</u>
Total Expenditures	<u>\$ 3,434,630</u>	<u>\$ 2,450,132</u>	<u>\$ 1,553,822</u>	<u>\$ 7,438,584</u>



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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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

March 19, 2012

Board of County Road Commissioners
Otsego County Road Commission
Gaylord, MI 49734

I have audited the component unit financial statements of the governmental activities and major fund of the Otsego County Road Commission, a Special Revenue Fund of the County of Otsego, Michigan, as of and for the year ended December 31, 2011, and have issued my report thereon dated March 19, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

Financial Statement Preparation

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the Road Commission's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). As is the case with most small and medium-sized entities, the Road Commission has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statement and footnotes as part of its external financial reporting process. Accordingly, the Road Commission'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 a part of the government's internal controls. This condition was caused by the Road Commission's determination that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Road Commission to perform this task internally.

A Control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Otsego County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control. I consider the deficiencies described above to be significant deficiencies in internal control over financial reporting.


A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Otsego County Road Commission's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of County Road Commissioners, management, federal awarding agencies, and pass-through agencies, and is not intended to be and should not be used by anyone other than these specified parties.


JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT