

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | |
|---|---------------------------------|---|-------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name Benzie County Road Commission | County Benzie |
| Audit Date 9/30/05 | Opinion Date 11/17/05 | Date Accountant Report Submitted to State: 12/15/05 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- Yes No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- Yes No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- Yes No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- Yes No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- Yes No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- Yes No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- Yes No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- Yes No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- Yes No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | ✓ | | |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|--|--------------------------|-------------------------|---------------------|
| Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC | | | |
| Street Address 16978 S. Riley Avenue | City Kincheloe | State MI | ZIP 49788 |
| Accountant Signature <i>Anderson Tackman & Co PLC</i> | | Date 12/15/05 | |

BENZIE COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS

September 30, 2005

BENZIE COUNTY

BOARD OF COUNTY ROAD COMMISSIONERS

W. John Nuske
Vice - Chairman

Robert Rosa
Chairman

Roger Griner
Member

Robert Weaver
Manager

Brenda Rae
Financial Manager/Clerk

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Benzie County Road Commission
Honor, Michigan 49640

We have audited the accompanying financial statements of the governmental activities and major fund, of the Benzie County Road Commission (a component unit of the County of Benzie, Michigan) as of and for the year ended September 30, 2005, 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 Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund, of the Benzie County Road Commission as of September 30, 2005, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2005, on our consideration of the Benzie County Road Commission's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on page 3 and budgetary comparisons are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Benzie County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

November 17, 2005

Management's Discussion and Analysis

Using This Annual Report

The Benzie 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 road commission as a whole and about its activities in a way that helps answer the question of 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 11. The fund financial statements begin on page 26 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 fund 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.

The Road Commission as a Whole

The road commission's net assets increased approximately 18% from \$5.7 million to \$6.7 million for the year ended September 30, 2005. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$235 thousand. The primary reason for this was an increase in federal support for road projects. Fuel prices negatively impacted net assets. The investment in capital assets category increased \$807 thousand.

It is important for the reader to realize that the increase in net assets is largely a result of the road commission electing to report infrastructure assets.

Net assets as of the year ended September 30, 2005 and 2004 is as follows:

| | <u>Governmental Activities</u> <u>2005</u> | <u>Governmental Activities</u> <u>2004</u> |
|--|---|---|
| Current and Other Assets | \$ 1,597,623 | \$ 1,303,859 |
| Capital Assets | <u>5,845,077</u> | <u>4,979,236</u> |
| Total Assets | <u>7,442,700</u> | <u>6,283,095</u> |
| Current Liabilities | 516,470 | 319,610 |
| Other Liabilities | <u>199,081</u> | <u>279,135</u> |
| Total Liabilities | <u>715,551</u> | <u>598,745</u> |
| Net Assets | | |
| Invested in Capital Assets (net of debt) | 5,612,503 | 4,804,640 |
| Restricted | <u>1,114,646</u> | <u>879,710</u> |
| Total Net Assets | <u>\$ 6,727,149</u> | <u>\$ 5,684,350</u> |

A summary of changes in net assets for the year ended September 30, 2005 and 2004 is as follows:

| | <u>Governmental Activities</u> <u>2005</u> | <u>Governmental Activities</u> <u>2004</u> |
|------------------------------------|---|---|
| Program Revenues | | |
| Charges for Services | \$ 1,007,878 | \$ 1,203,834 |
| Operating Grants and Contributions | 3,200,290 | 2,961,778 |
| General Revenues | | |
| Interest Income | 16,329 | 11,246 |
| Gain on Disposal of Equipment | <u>85,632</u> | <u>-</u> |
| Total Revenues | <u>4,310,129</u> | <u>4,176,858</u> |
| Program Expenses | | |
| Primary Roads | | |
| Maintenance | 921,286 | 928,264 |
| Local Roads | | |
| Maintenance | 1,163,003 | 1,045,904 |
| State Trunkline | 973,489 | 963,605 |
| Equipment | (34,977) | (80,629) |
| Administrative | 245,469 | 235,413 |
| Interest Expense and Other | <u>(939)</u> | <u>7,173</u> |
| Total Expenses | <u>3,267,331</u> | <u>3,099,730</u> |
| Increase in Net Assets | <u>\$ 1,042,798</u> | <u>\$ 1,077,128</u> |

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 September 30, 2005, the fund balance of the general operations fund increased \$225 thousand as compared to a decrease of \$(347) thousand in the fund balance for the year ended September 30, 2004 (last year). Total revenues were \$4.5 million, an increase of \$200 thousand as compared to last year. This change in revenues resulted primarily from an increase in financing sources for equipment.

Total expenditures were \$4.3 million, a decrease of \$200 thousand as compared to last year. This change in expenditures is primarily the increase in capital outlay in the current year. The road commission experienced a decrease in local road expenditures.

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 budget year for 2005 was for a year, October through September. This was required by the State of Michigan, due to Benzie County changing their fiscal year end from December 31st to September 30th, to coincide with the State of Michigan's fiscal year.

The revenue budget for 2005 was lower than the actual receipts by \$58,772. This was due, in a large part, to the increase in federal aid project costs and state trunkline maintenance costs. Expenditures for construction on local roads are limited to 50% of the contract costs. The Road Commission budgets for the receipt of funds from townships for projects on local roads.

Road Commission expenditures were projected at \$4,434,300 while actual expenditures were \$4,303,380. This resulted in total expenditures under budget by \$130,920. There were three items that account for most of the variance in the projection of the budget. The largest share of the variance is in the area of local road maintenance. There was a maintenance project that was budgeted but not completed due to time constraints. The capital outlay portion of the budget was understated by the amount of a Homeland Emergency Management grant awarded to Benzie County and contributed to the cost of a building back up generator for fuel supplies. The third item was a year end adjustment for depreciation in the equipment section of the budget.

Capital Asset and Debt AdministrationCapital Assets

As of September 30, 2005, the road commission had \$5.8 million invested in capital assets as follows:

| | <u>2005</u> | <u>2004</u> |
|--|---------------------|---------------------|
| Capital Assets Not Being Depreciated | | |
| Land and Improvements | \$ 2,140,884 | \$ 1,523,321 |
| Capital Assets Being Depreciated | | |
| Buildings and Improvements | 993,839 | 901,056 |
| Road Equipment | 4,089,625 | 4,247,674 |
| Other Equipment | 304,349 | 320,095 |
| Infrastructure and Improvements | <u>2,567,349</u> | <u>2,119,682</u> |
| Total Capital Assets Being Depreciated | 7,955,162 | 7,588,507 |
| Total Accumulated Depreciation | <u>(4,250,969)</u> | <u>(4,132,592)</u> |
| Total Net Capital Assets | <u>\$ 5,845,077</u> | <u>\$ 4,979,236</u> |

Current year's major additions included the following:

| | |
|------------------------------|---------------------|
| Buildings | <u>\$ 101,112</u> |
| Various Resurfacing Projects | <u>\$ 1,065,230</u> |
| Trucks/Equipment | <u>\$ 366,097</u> |

Debt

The road commission currently experiences a standard debt status. Notes issued in prior years have been paid currently and a new note was issued for \$218 thousand for new trucks. The road commission currently has long-term debt in the amount of \$95 thousand which represents compensated absences payable.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy, another factor is fuel prices. The road commission derives approximately 58% of its revenues from the fuel tax collected. The State of Michigan's economic downturn and the increase in fuel prices has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed.

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

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show 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 Benzie County Road Commission administrative offices at 11318 Main Street, P.O. Box 68, Honor, Michigan.

Basic Financial Statements

Benzie County Road Commission

Statement of Net Assets September 30, 2005

ASSETS

| | |
|--|---------------------|
| Cash and Equivalents | \$ 596,245 |
| Accounts Receivable: | |
| Michigan Transportation Fund | 414,377 |
| State – Other | 80,862 |
| Sundry Accounts | 57,147 |
| Trunkline Maintenance | 16,561 |
| Inventories: | |
| Road Materials | 262,960 |
| Equipment, Parts and Materials | 169,471 |
| Capital Assets (Net of Accumulated Depreciation) | <u>5,845,077</u> |
| Total Assets | <u>\$ 7,442,700</u> |

LIABILITIES

| | |
|---|----------------|
| Current Liabilities: | |
| Accounts Payable | \$ 39,582 |
| Due to State | 61,310 |
| Accrued Liabilities | 21,032 |
| Advances from State | 257,342 |
| Deferred Revenue | 8,716 |
| Installment Purchase Agreements Payable | 128,488 |
| Noncurrent Liabilities: | |
| Vested Employee Benefits | 94,995 |
| Installment Purchase Agreements Payable | <u>104,086</u> |
| Total Liabilities | <u>715,551</u> |

NET ASSETS

| | |
|--------------------------------|---------------------|
| Investment in Capital Assets – | |
| Net of Related Debt | 5,612,503 |
| Restricted for County Road | <u>1,114,646</u> |
| Total Net Assets | <u>\$ 6,727,149</u> |

Benzie County Road Commission

Statement of Activities For the Year Ended September 30, 2005

| | |
|--------------------------------|---------------------|
| Program Expenses: | |
| Primary Road Maintenance | \$ 921,286 |
| Local Road Maintenance | 1,163,003 |
| State Trunkline Maintenance | 973,489 |
| Net Equipment Expense | (34,977) |
| Net Administrative Expense | 245,469 |
| Compensated Absences | (9,544) |
| Interest Expense | <u>8,605</u> |
| Total Program Expenses | <u>3,267,331</u> |
| Program Revenues: | |
| License and Permits | 15,335 |
| Federal Grants | 252,551 |
| State Grants | 2,645,422 |
| Contributions from Local Units | 100,842 |
| Charges for Services | 1,007,878 |
| Other | <u>186,140</u> |
| Total Program Revenues | <u>4,208,168</u> |
| Net Program Revenues | <u>940,837</u> |
| General Revenue | |
| Gain on Equipment Disposal | 85,632 |
| Investment Income | <u>16,329</u> |
| Total General Revenues | <u>101,961</u> |
| Change in Net Assets | 1,042,798 |
| Net Assets | |
| Beginning of Year | <u>5,684,351</u> |
| End of Year | <u>\$ 6,727,149</u> |

Benzie County Road Commission

Balance Sheet
September 30, 2005

Governmental
Fund Type
General
Operating Fund

ASSETS

| | |
|---------------------------------|---------------------|
| Cash and Equivalents | \$ 596,245 |
| Accounts Receivable: | |
| Michigan Transportation Fund | 414,377 |
| State Trunkline Maintenance | 16,561 |
| State – Other | 80,862 |
| Sundry Accounts | 57,147 |
| Inventories: | |
| Road Materials | 262,960 |
| Equipment, Parts, and Materials | <u>169,471</u> |
| Total Assets | <u>\$ 1,597,623</u> |

LIABILITIES AND FUND EQUITIES

| | |
|-------------------------------------|---------------------|
| Liabilities: | |
| Accounts Payable | \$ 39,582 |
| Accrued Liabilities | 21,032 |
| Advances from State | 257,342 |
| Due to State | 61,310 |
| Deferred Revenue | <u>8,716</u> |
| Total Liabilities | <u>387,982</u> |
| Fund Equities: | |
| Fund Balance | |
| Unreserved and Undesignated | <u>1,209,641</u> |
| Total Fund Equities | <u>1,209,641</u> |
| Total Liabilities and Fund Equities | <u>\$ 1,597,623</u> |

Benzie County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended September 30, 2005

| | |
|---|---------------------|
| Total Governmental Fund Balance | \$ 1,209,641 |
| 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. | 5,845,077 |
| Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds. | <u>(327,569)</u> |
| Net Assets of Governmental Activities | <u>\$ 6,727,149</u> |

**Statement of Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended September 30, 2005**

| | <u>General Operating Fund</u> |
|---|---------------------------------------|
| Revenues | |
| License and Permits | \$ 15,335 |
| Federal Sources | 252,551 |
| State Sources | 2,645,422 |
| Contributions from Local Units | 100,842 |
| Charges for Services | 1,007,878 |
| Interest and Rents | 16,329 |
| Other Revenue | <u>271,773</u> |
| Total Revenues | <u>4,310,130</u> |
| Expenditures | |
| Public Works | 4,136,531 |
| Capital Outlay | (2,420) |
| Debt Service | <u>169,269</u> |
| Total Expenditures | <u>4,303,380</u> |
| Excess of Revenues Over (Under) Expenditures | <u>6,750</u> |
| Other Financing Sources | |
| Installment Loan Proceeds | <u>218,642</u> |
| Total Other Financing Sources | <u>218,642</u> |
| Excess of Revenues and Other Financing Sources Over Expenditures | 225,392 |
| Fund Balance – October 1, 2004 | <u>984,249</u> |
| Fund Balance – September 30, 2005 | <u>\$ 1,209,641</u> |

Benzie 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 September 30, 2005

| | | |
|--|----|------------------|
| Net Change in Fund Balance – Total Governmental Funds | \$ | 225,392 |
| Amounts reported for governmental activities in the statements 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 outlay exceeded depreciation in the current period. | | 865,840 |
| Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. | | (57,978) |
| Expenses which do not require the use of current financial resources and therefore are not reported in governmental funds. | | <u>9,544</u> |
| Change in Net Assets of Governmental Activities | \$ | <u>1,042,798</u> |

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Benzie County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member Board of County Road Commissioners appointed by the County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

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 Benzie County Road Commission, a discretely presented component unit of Benzie County.

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

B. Government-Wide and Fund 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 of the activities of the Benzie County Road Commission. There is only one major fund reported in the fund 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

D. Assets, Liabilities, and Net Assets or Equity**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 six months or less when acquired.

Inventories

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Expenses

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

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 Benzie County Road Commission as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Benzie County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other 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 Department | 4 to 10 years |
| Office Equipment | 3 to 10 years |
| Infrastructure – Roads | 8 to 20 years |
| Infrastructure – Bridges | 12 to 30 years |

Long-Term Obligations

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Vacation and Sick Leave)

The maximum accumulation of vacation hours according to the union agreement is 176 hours. Any unused vacation is lost at calendar year end. Employees accrued hours on January 1st each year. Sick leave is payable up to 384 hours at current wages upon retirement only, to a maximum of \$3,000 per employee.

Use of Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Clerk and Manager prepare a budget in accordance with the Act which is adopted by the Board at a public hearing each August. All budgets lapse at fiscal year end.

NOTE 3 - CASH AND EQUIVALENTS

The cash and equivalents are classified in the following categories:

| | |
|---|-------------------|
| Imprest Cash | \$ 500 |
| Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit) | <u>595,745</u> |
| Total Cash and Equivalents | <u>\$ 596,245</u> |

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and 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; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; 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.

NOTE 3 - CASH AND EQUIVALENTS (Continued)

The Road Commission has adopted the County’s investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

| | <u>Carrying Amount</u> | <u>Financial Institution Balance</u> |
|---|----------------------------|--|
| Bank Deposits (Checking and Savings Accounts, Certificates of Deposit) | \$ 595,745 | \$ 700,268 |

Interest rate risk. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Commission has no investment policy that would further limit its investment choices.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the Commission’s deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end, \$400,268 of the Commission’s bank balance of \$700,268 was exposed to credit risk because it was uninsured and uncollateralized.

NOTE 4 - DEFERRED COMPENSATION PLAN

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

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Benzie County Road Commission for the current year was as follows:

| | Beginning Balances 10/01/04 | Additions | Adjustments/ Deductions | Ending Balances 09/30/05 |
|--------------------------------------|-----------------------------------|-------------------|----------------------------|--------------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 12,708 | \$ - | \$ - | \$ 12,708 |
| Land Improvements | <u>1,510,613</u> | <u>607,448</u> | <u>(10,115)</u> | <u>2,128,176</u> |
| Subtotal | <u>1,523,321</u> | <u>607,448</u> | <u>(10,115)</u> | <u>2,140,884</u> |
| Capital Assets Being Depreciated | | | | |
| Buildings | 901,056 | 101,112 | 8,329 | 993,839 |
| Road Equipment | 4,247,674 | 362,148 | 520,197 | 4,089,625 |
| Shop Equipment | 46,199 | - | 4,764 | 41,435 |
| Office Equipment | 47,814 | - | 2,325 | 45,489 |
| Engineer's Equipment | 43,292 | 3,949 | 12,606 | 34,635 |
| Yard and Storage | 182,790 | - | - | 182,790 |
| Infrastructure | <u>2,119,682</u> | <u>457,782</u> | <u>10,115</u> | <u>2,567,349</u> |
| Subtotal | <u>7,588,507</u> | <u>924,991</u> | <u>558,336</u> | <u>7,955,162</u> |
| Less Accumulated Depreciation | | | | |
| Buildings | \$ 426,422 | \$ 84,974 | \$ 8,329 | \$ 503,067 |
| Road Equipment | 3,466,079 | 351,798 | 515,991 | 3,301,886 |
| Shop Equipment | 31,812 | 5,052 | 4,764 | 32,100 |
| Office Equipment | 38,240 | 4,134 | 2,325 | 40,049 |
| Engineer's Equipment | 34,045 | 4,623 | 12,606 | 26,062 |
| Yard and Storage | 77,062 | 14,841 | - | 91,903 |
| Infrastructure | <u>58,932</u> | <u>196,970</u> | <u>-</u> | <u>255,902</u> |
| Subtotal | <u>4,132,592</u> | <u>662,392</u> | <u>544,015</u> | <u>4,250,969</u> |
| Net Capital Assets Being Depreciated | <u>3,455,915</u> | <u>262,599</u> | <u>14,321</u> | <u>3,704,193</u> |
| Total Net Capital Assets | <u>\$ 4,979,236</u> | <u>\$ 870,047</u> | <u>\$ 4,206</u> | <u>\$ 5,845,077</u> |

Depreciation expense was charged to operations as follows:

| | |
|----------------|-------------------|
| Primary | \$ 117,974 |
| Local | 78,996 |
| Equipment | 351,799 |
| Administration | 8,756 |
| Other | <u>104,867</u> |
| Total | <u>\$ 662,392</u> |

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Benzie County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 447 North Canal Street, Lansing, Michigan.

Funding Policy – The obligation to contribute and maintain the system for these employees was established by negotiation with the Benzie County Road Commission's competitive bargaining units and requires a contribution based on gross wages by County Road Commission only.

Annual Pension Costs – For year ended 2005, the Benzie County Road Commission's pension cost of \$218,729 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2002, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31 follows:

| | <u>2002</u> | <u>2003</u> | <u>2004</u> |
|---|--------------|--------------|--------------|
| Actuarial Value of Assets | \$ 2,310,321 | \$ 2,505,519 | \$ 2,688,848 |
| Actuarial Accrued Liability | 4,093,879 | 4,830,963 | 5,371,854 |
| Unfunded AAL | 1,783,558 | 2,325,444 | 2,683,006 |
| Funded Ratio | 56% | 52% | 50% |
| Covered Payroll | 1,146,459 | 1,179,287 | 1,227,814 |
| UAAL as a Percentage of Covered Payroll | 156% | 197% | 219% |

| <u>Year Ended Dec 31</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|--------------------------|----------------------------------|--------------------------------------|-------------------------------|
| 2002 | \$ 148,952 | 100% | 0 |
| 2003 | 113,921 | 100% | 0 |
| 2004 | 133,921 | 100% | 0 |

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2005, the federal aid received and expended by the Road Commission was \$252,551 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more.

NOTE 8 - 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 9 - LONG-TERM DEBT

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

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Within One Year</u> |
|--|------------------------------|-------------------|-------------------|---------------------------|----------------------------|
| Installment payable to Finance Company, 4.34% interest rate, payable in monthly installments of \$5,422, secured by equipment. | \$ 47,924 | \$ - | \$ 47,924 | \$ - | \$ - |
| Installment payable to Bank, 3.85% interest rate, payable in monthly installments of \$5,972, secured by equipment. | 126,672 | - | 67,967 | 58,705 | 58,705 |
| Installment payable to Finance Company, 3.5% interest rate, payable in monthly installments of \$6,475, secured by equipment. | - | 218,642 | 44,773 | 173,869 | 69,783 |
| Vested Employee Benefits (1) | <u>104,539</u> | <u>-</u> | <u>9,544</u> | <u>94,995</u> | |
| TOTAL | <u>\$ 279,135</u> | <u>\$ 218,642</u> | <u>\$ 170,208</u> | <u>\$ 327,569</u> | |

Annual debt service requirements:

Installments payable:

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>Total</u> |
|-----------|-------------------|------------------|------------------|-------------|-------------------|
| Principal | <u>\$ 128,488</u> | <u>\$ 75,372</u> | <u>\$ 28,714</u> | <u>\$ -</u> | <u>\$ 232,574</u> |

NOTE 10 - POST EMPLOYMENT BENEFITS

The employer provides health insurance to a retiree who retires under the Employer's MERS plan. Coverage is for a period of five years or until the retiree reaches age 65, whichever event occurs first. The retiree is responsible for the cost of health insurance for his/her spouse and/or children. After the retiree's eligibility for Employer-paid benefits expires, he/she shall be responsible for the total cost of health insurance. Employer contributions were \$18,577.

For any employee who retired prior to June 30, 1993, he/she will, after reaching age 65, receive a 50% contribution for the Commission toward the cost of health insurance, supplemental to Medicare for the retiree and his/her spouse and/or dependent children. Post-employment benefits paid during 2005 were \$37,872.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at September 30, 2005.

Risk Management - The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

NOTE 12 - SUBSEQUENT EVENTS

During August 2005, the Commission ordered four trucks amounting to \$470,000. The Commission also expects to obtain financing for the purchase in a similar amount. The vehicles are to be delivered in 2006.

During October 2005, the State of Michigan audited various 2003 maintenance expenditures and is requesting a reimbursement of \$55,873. The Commission anticipates remitting any amounts due upon a final review by the Board during 2006 in accordance with the road agreement terms.

Required Supplementary Information

Benzie County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues and Other Financing Sources For the Year Ended September 30, 2005

| | <u>Original Budget</u> | <u>Final Amended Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|-------------------------------------|----------------------------|-------------------------------------|---------------------|---|
| Licenses and Permits | | | | |
| Permits | \$ 15,000 | \$ 15,100 | \$ 15,335 | \$ 235 |
| Federal Sources | | | | |
| Surface Transportation Program | 494,500 | 314,000 | 252,551 | (61,449) |
| State Sources | | | | |
| Michigan Transportation Fund | | | | |
| Engineering | 10,000 | 10,000 | 10,000 | - |
| Primary Road | 1,570,000 | 1,674,000 | 1,656,444 | (17,556) |
| Local Road | 832,000 | 850,000 | 935,761 | 85,761 |
| Economic Development Fund | | | | |
| Forest Road | 43,000 | 43,000 | 43,217 | 217 |
| Contributions from Local Units | | | | |
| Townships | 114,950 | 75,000 | 100,842 | 25,842 |
| Charges for Services | | | | |
| State Trunkline | 650,000 | 974,000 | 1,000,655 | 26,655 |
| Salvage Sales | 1,500 | 7,000 | 7,223 | 223 |
| Interest and Rents | 15,000 | 15,000 | 16,329 | 1,329 |
| Other Revenue and Financing Sources | | | | |
| Installment Proceeds | 222,000 | 218,600 | 218,642 | 42 |
| Other | 56,000 | 184,500 | 186,141 | 1,641 |
| Gain on Equipment Disposal | <u>20,000</u> | <u>89,800</u> | <u>85,632</u> | <u>(4,168)</u> |
| Total Revenue | <u>\$ 4,043,950</u> | <u>\$ 4,470,000</u> | <u>\$ 4,528,772</u> | <u>\$ 58,772</u> |

Benzie County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended September 30, 2005

| | Original Budget | Final Amended Budget | Actual | Variance Favorable (Unfavorable) |
|--------------------------------|--------------------|----------------------------|--------------|--|
| Primary Road | | | | |
| Preservation | \$ 712,500 | 572,200 | \$ 564,909 | \$ 7,291 |
| Maintenance | 658,000 | 879,000 | 855,967 | 23,033 |
| Local Road | | | | |
| Construction | 1,026,650 | 64,000 | 63,645 | 355 |
| Preservation | 368,700 | 452,500 | 436,677 | 15,823 |
| Maintenance | 766,100 | 1,086,800 | 1,031,352 | 55,448 |
| State Trunkline | | | | |
| Maintenance | 705,200 | 626,000 | 626,734 | (734) |
| Nonmaintenance | - | 350,000 | 346,755 | 3,245 |
| Equipment Expense – Net | (419,500) | 4,100 | (34,977) | 39,077 |
| Administrative Expense – Net | 115,300 | 256,500 | 245,469 | 11,031 |
| Capital Outlay – Net | (90,500) | (26,800) | (2,420) | (24,380) |
| Debt Service | | | | |
| Principal | 182,000 | 161,000 | 160,664 | 336 |
| Interest | 11,000 | 9,000 | 8,605 | 395 |
| Total Expenditures | 4,035,450 | 4,434,300 | \$ 4,303,380 | \$ 130,920 |
| Fund Balance – October 1, 2004 | 984,249 | 984,249 | | |
| Total Budget | \$ 5,019,699 | \$ 5,418,549 | | |

Benzie County Road Commission

Analysis of Changes in Fund Balances For the Year Ended September 30, 2005

| | <u>Primary Road Fund</u> | <u>Local Road Fund</u> | <u>County Road Commission</u> | <u>Total</u> |
|--|----------------------------------|--------------------------------|---------------------------------------|---------------------|
| Total Revenues | \$ 1,905,961 | \$ 1,206,230 | \$ 1,416,581 | \$ 4,528,772 |
| Total Expenditures | <u>1,528,281</u> | <u>1,645,352</u> | <u>1,129,747</u> | <u>4,303,380</u> |
| Excess of Revenues Over (Under) Expenditures | 377,680 | (439,122) | 286,834 | 225,392 |
| Other Financing Sources (Uses) Optional Transfers In (Out) | <u>(413,591)</u> | <u>413,591</u> | <u>-</u> | <u>-</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | (35,911) | (25,531) | 286,834 | 225,392 |
| Fund Balance – October 1, 2004 | <u>331,463</u> | <u>25,531</u> | <u>627,255</u> | <u>984,249</u> |
| Fund Balance – September 30, 2005 | <u>\$ 295,552</u> | <u>\$ -</u> | <u>\$ 914,089</u> | <u>\$ 1,209,641</u> |

Benzie County Road Commission

Analysis of Revenues For the Year Ended September 30, 2005

| | Primary Road Fund | Local Road Fund | County Road Commission | Total |
|---------------------------------------|-------------------------|-----------------------|------------------------------|---------------------|
| Licenses and Permits | \$ - | \$ - | \$ 15,335 | \$ 15,335 |
| Federal Sources | | | | |
| Safety | 200,000 | 52,551 | - | 252,551 |
| State Sources | | | | |
| Michigan Transportation Fund | | | | |
| Engineering | 6,300 | 3,700 | - | 10,000 |
| Primary Road | 1,656,444 | - | - | 1,656,444 |
| Local Road | - | 935,761 | - | 935,761 |
| Economic Development Fund | | | | |
| Forest Road | 43,217 | - | - | 43,217 |
| Contributions from Local Units | | | | |
| Township | - | 75,842 | 25,000 | 100,842 |
| Charges for Services | | | | |
| State Trunkline | - | - | 1,000,655 | 1,000,655 |
| Salvage Sales | - | - | 7,223 | 7,223 |
| Interest and Rents | - | - | 16,329 | 16,329 |
| Other Revenue and Financing Resources | | | | |
| Other | - | 138,376 | 47,765 | 186,141 |
| Gain on Disposals | - | - | 85,632 | 85,632 |
| Installment Proceeds | - | - | 218,642 | 218,642 |
| Total Revenue | <u>\$ 1,905,961</u> | <u>\$ 1,206,230</u> | <u>\$ 1,416,581</u> | <u>\$ 4,528,772</u> |

Benzie County Road Commission

Analysis of Expenditures For the Year Ended September 30, 2005

| | Primary Road Fund | Local Road Fund | County Road Commission | Total |
|--------------------------------|-------------------------|-----------------------|------------------------------|---------------------|
| Primary Road | | | | |
| Preservation | \$ 564,909 | \$ - | \$ - | \$ 564,909 |
| Maintenance | 855,967 | - | - | 855,967 |
| Local Road | | | | |
| Construction | - | 63,645 | - | 63,645 |
| Preservation | - | 436,677 | - | 436,677 |
| Maintenance | - | 1,031,352 | - | 1,031,352 |
| State Trunkline Maintenance | - | - | 626,734 | 626,734 |
| State Trunkline Nonmaintenance | - | - | 346,755 | 346,755 |
| Equipment Expense – Net | (10,724) | (13,662) | (10,591) | (34,977) |
| Administrative Expense – Net | 118,129 | 127,340 | - | 245,469 |
| Capital Outlay – Net | - | - | (2,420) | (2,420) |
| Debt Service | | | | |
| Debt Principal Payments | - | - | 160,664 | 160,664 |
| Interest Expense | - | - | 8,605 | 8,605 |
| Total Expenditures | <u>\$ 1,528,281</u> | <u>\$ 1,645,352</u> | <u>\$ 1,129,747</u> | <u>\$ 4,303,380</u> |

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS
MEMBER MACPA
OFFICES IN
MICHIGAN & WISCONSIN

**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***

Board of County Road Commissioners
Benzie County Road Commission
Honor, Michigan 49640

We have audited the financial statements of the governmental activities and major fund, of the Benzie County Road Commission as of and for the year ended September 30, 2005, which collectively comprise the Benzie County Road Commission's basic financial statements and have issued our report thereon dated November 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Benzie County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error for fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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



Anderson, Tackman & Company, PLC
Certified Public Accountants

November 17, 2005

Benzie County Road Commission

**Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2005**

| <u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Project</u> | <u>Federal Expenditures</u> |
|---|------------------------------------|---|----------------|---------------------------------|
| U.S. DEPARTMENT OF TRANSPORTATION: | | | | |
| Pass-Through Programs from the State of Michigan Department of Transportation (MDOT) | | | | |
| Pioneer Road from North of Cinder Road | 20.205 | STP 0510(007) | 80547 | \$ <u>200,000</u> |
| Subtotal MDOT Administered Awards | | | | <u>200,000</u> |
| Pass-Through Programs from the State of Michigan Department of Transportation (MDOT) | | | | |
| Bentley Road at Little Betsie River | 20.205 | STP 0410(011) | 74555 | <u>52,551</u> |
| Subtotal Benzie County Road Commission Administered Awards | | | | <u>52,551</u> |
| Total U.S. Department of Transportation | | | | <u>252,551</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | | <u>\$ 252,551</u> |



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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DIVISION FOR CPA FIRMS
MEMBER MACPA
OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Members of the Board of County Road Commissioners
Benzie County Road Commission
11318 Main Street
Honor, Michigan 49640

We have audited the basic financial statements of the Benzie County Road Commission for the year ended September 30, 2005 as part of the overall basic financial statement audit of Benzie County, Michigan. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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

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

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Benzie County Road Commission are described in Note 1 to the financial statements. We noted no transactions entered into by the Benzie County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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 component unit financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Benzie County Road Commission that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. Copies of any adjustments are available from the Clerk.

Disagreement with Management

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

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 Road's financial 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.

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

There were no instances of noncompliance with laws and regulations nor significant adjustments to the financial records noted during our component unit audit procedures.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

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



Anderson, Tackman & Company, PLC
Certified Public Accountants

November 17, 2005