

# COUNTY OF CLARE, MICHIGAN



## **Comprehensive Annual Financial Report** **For the Fiscal Year Ended September 30, 2004**

*Prepared by:*  
*Randolph D. Terronez, County Administrator*

# **CLARE COUNTY, MICHIGAN**

Comprehensive Annual Financial Report  
Year Ended September 30, 2004

**Prepared by:  
Administrator's Office**

**Randolph D. Terronez  
County Administrator**

Clare County, Michigan

Comprehensive Annual Financial Report  
Year Ended September 30, 2004

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## **INTRODUCTORY SECTION**

March 31, 2005

The Honorable Chairperson and  
Members of the Board of Commissioners  
Clare County  
Harrison, Michigan

The Office of County Administrator is pleased to submit the Comprehensive Annual Financial Report (CAFR) for the County of Clare, Michigan for the fiscal year ended September 30, 2004.

This report is published to provide the Board of Commissioners, County staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of County government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the County.

This is the first year that the County of Clare is presenting its financial statements in a Comprehensive Annual Financial Report and the second year that the County has prepared its financial statements in accordance with Statement No. 34 of the Government Accounting Standards Board (GASB #34) entitled "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." Previously, the financial statements provided information about individual funds of the County. These funds established by the County show restrictions on planned use of resources or to measure, in the short term, the revenues and expenditures arising from municipal activities. While some of the statements in the Comprehensive Annual Financial Report remain on an individual fund basis, GASB #34 required government-wide financial statements, which were prepared using full accrual accounting for all governmental activities. These statements at the government-wide level will help readers assess the finances of the government in its entirety, determine if the County's overall financial position improved or deteriorated, and see how the County invested in capital assets like water mains, sewers, parks, etc. The government-wide statements are aimed at viewing the County as a whole from a long-term perspective.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment the MD&A and should be read in conjunction with it. Clare County's MD&A can be found immediately following the report of the independent auditors.

## THE REPORTING ENTITY AND ITS SERVICES

### **Location**

Clare County is located in the central part of Lower Michigan. Harrison is the county seat with a unique transportation activity as the hub of the US-127, US-10 and M-115 intersections which provide ready access to the northern portion of Michigan's lower peninsula and make travel to Detroit, Chicago, Cleveland, Indianapolis, and other major metropolitan markets simple and easy. In addition, the Michigan Department of Transportation (MDOT) multi-year upgrade of US-127/US-10 totaled \$5 million and prepared Clare County to accommodate present and future transportation needs. The County encompasses an area of approximately 576 square miles, has a population of approximately 31,252.

The County operates under the State of Michigan and is a Commission-Manager form of government. The County Commission is comprised of the seven Commissioners elected on a partisan basis for terms of two years from single member districts. The Board of Commissioners elects from its ranks a Chairperson and Vice-Chairperson by majority vote. The Board of Commissioners primary functions include adoption of local laws and policies, determination of the type and level of County services, adoption of the County budget, equalization of County property values, legislative oversight of County services and the appointment of various board, commissions and County officials.

The administration of the County, other than as delegated to certain elected officials, falls to the County Administrator who is appointed by the County Board of Commissioners. The County Administrator also coordinates activities with the six elected county offices of Clerk/Register, Treasurer, Prosecuting Attorney, Sheriff, Drain Commissioner and Surveyor, who are all elected at-large for four-year terms on a partisan basis.

Additionally, the County Administrator maintains communications with the three courts (Circuit, Probate and District) each headed by an elected judge who serves a six-year nonpartisan term. Clare County shares the three court offices with the County of Gladwin.

The Basic Financial Statements of the County include all government activities, organizations and functions for which the County is financially accountable as defined by the Governmental Accounting Standards Board.

### **Services Provided**

The County provides a full range of services that are either mandated by State statute, or authorized by the County Board of Commissioners. These services are carried out by its approximately 135 full-time and 65 part-time employees and include legislative, judicial, public safety, public works, health, welfare, cultural, capital improvements and general administrative services.

The annual budget serves as the foundation for the Clare County's financial planning and control. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been formally adopted. For the general fund, this comparison begins on page 45 as required supplementary information. For other governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented either as required supplementary information (for major funds), starting on page 51, or other supplementary information (for nonmajor funds), starting on page 67.

### **FACTORS AFFECTING FINANCIAL CONDITION**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Clare County operates.

### **Local Economy**

Clare County's economy traces back to its early origins in the 1800's when lumbering was an early economic driver. The Flint & Pere Marquette Railroad began in Clare County in 1870 and furthered the County's population expansion. The lumbermen made the quickest and heaviest impact on our forest resources. Utilizing the Muskegon River, a major river tributary running through northwest Clare County, tens of thousands of logs were transported to market.

After the timber was gone, homesteader/farmers began nurturing the soil back to productivity. During the 1930's large oil fields were discovered and developed with capital supplied by various sorts of businessmen.

Into the 21<sup>st</sup> century, Clare County has become one of Michigan's favorite residential areas reflected by the County's 25% population growth from 1990 to 2000 and ranks in the top ten counties in growth rate in the state. The County is now known for hunting, fishing, snowmobiling, golfing, and other recreational activities.

Clare County is located in the central Michigan region, the geographic center of Michigan's lower peninsula, which is surrounded by the world's largest reserve of fresh water. The area offers a unique lifestyle boasting the warmth and safety of many small communities of distinctive character - each proud of its pristine surroundings, local festivals, specialty shops and area charm. Fortunate to experience the magnificence of all four seasons, the inhabitants of Clare County take pleasure in the many experiences of the great outdoors. In addition, Clare County offers a broad-based environment usually found in much larger counties, with nearby Mid Michigan Community College and neighboring Isabella County's Central Michigan University and the Soaring Eagle Casino and Resort. Clare County is within a 3-hour drive of every major market in Michigan and is linked to one of the largest industrial and consumer markets in the United States.

The City of Clare, the largest city in the County, is known statewide as the "Gateway to the North." Clare is an ideal location for family living, which boasts such amenities as: bountiful hunting, fishing, and wildlife adventures, proximity to some 150 named lakes, exciting ski facilities, pleasant subdivisions, and an excellent school system.

The City of Harrison is the Clare County seat and home to Mid Michigan Community College, and supports an unlimited availability of year-round water related activities. It is also known for its outdoor activities including camping, golfing, skiing, and snowmobiling. It is truly a recreational paradise for both seasonal visitors and residents.

The Village of Farwell, located on the southern border of Clare County, was established in 1870 along the Pere Marquette Railroad line. The village still retains its small town atmosphere, is supported by small businesses and several manufacturing firms, and plays a role in local tourism due to its proximity to lakes and skiing. It is also the site of a tax-free, industrial Renaissance Zone.

The County of Clare is rich with quality educational opportunities. All communities in Clare County provide the choice of excellent public and private schools, area vocational centers, and alternative education programs.

The County's crown jewel is Mid Michigan Community College, a recognized leader in educational and community leadership. The College provides post-secondary education and services to enable students and the community to achieve success in a global society. A key asset to the business community is the Technical Training Center (M-TEC) of Mid Michigan Community College. The focus of training in the M-TEC center is the industrial and construction trades. Industrial training components include pneumatics, hydraulics, instrumentation, electrical controls and pipe fitting. In the construction trades, training is provided in carpentry, electrical, masonry, and plumbing. A key to the instructional delivery in the M-TEC is providing learners with a variety of instructional delivery systems. Units of instruction are developed that cover the skills specifically identified as critical by business and industry.

Clare County supports a 64-bed hospital, Mid Michigan Medical Center - Clare, where services are offered that are reflective of a rural, primary care hospital. Inpatient care includes special units for intensive, progressive, obstetrical and pediatric care, as well as for medical and surgical care. The Medical Center provides 24-hour emergency room coverage and services including radiology, nuclear medicine, Laboratory, Ultrasound, CT scanning, Rehabilitation services, Outpatient surgery including general, gynecological and ophthalmology.

The citizens of Clare County take great pride in their community and are committed to maintaining the area's high standard of economic excellence. With a strong business climate, a central and convenient location with quick access to nearby major markets, significant interaction with Central Michigan University and proximity to Michigan's favorite vacationlands, Clare County is an ideal place to live, to work, and to "grow" a business.

Clare County's tax base has grown steadily in the last few years and is a sign of the strong economy. From 2003 to 2004, the County's taxable value increased from \$768.2 million to \$816.5 million, a 6.29% increase.

However, Clare County does have its challenges. Unemployment in Clare County is historically above the statewide average. In 2003, Clare County's unemployment rate stood at 10.9% while the State was at 7.6%. In 2004, Clare County's unemployment rate improved slightly at 10.8% while the state figure was 7.3%.

As a result of Clare County's designation as an Enterprise Zone Community, the County has taken advantage of regional economic development opportunities and participates in a two-county economic development organization called Middle Michigan Development Corporation that provides quality economic development services to Clare and Isabella County organizations.

### **Long-term Financial Planning**

The Clare County Board of Commissioners recognizes the need for long-term planning by annually holding a series of planning sessions that result in the County's Strategic Plan. The 2003-2004 Plan identified the following priorities:

- Employee Relations & Compensation, which includes pay, benefits, recognition, fair and equal treatment, and communication issues.
- Health Care Costs, which includes cost, co-pay problems, and health improvement to reduce usage.
- Technology, including developing minimum hardware standards for county employees; address public access to Internet, and provision of county services on the web.

-Budget, including reduced costs, communication with the public about what is being done to streamline County government, continue reducing dependence on fund balance.

-Jobs/Economic Development, including continuing to work with other regional agencies to develop ways to attract and maintain small business in the area, developing a revolving loan fund for small business.

### **Cash Management Policies and Practices**

The County maintains depository accounts with four (4) banks and two (2) investment firms. The County holds a minimum amount of cash in checking accounts to meet operational needs. The remaining idle cash is invested by County officials in certificates of deposit and other investments as allowed by Michigan Compiled Law and the County's investment policy. The ending balance of the County's investment portfolio for fiscal year 2004 was approximately \$3.0 million. The overall portfolio provided \$110,431 in investment income.

In compliance with the County's investment policy, the County Treasurer is responsible for its implementation and reports to the County Commission summarizing the investment activity, investment income earned, and the investments on hand at quarter end as required. The reports also compare the investment return with budgetary expectations and suggest improvements that might be made in the investment program.

### **MAJOR INITIATIVES**

#### **Scrap Tire Clean Up**

The County continues to take steps toward cleaning up scrap tire sites in the County. The Kirby Road site in Redding Township was the site of over two (2) million tires that became a health hazard insofar as mosquito and rodent infestation. This fifty-acre site has been the subject of several Michigan Department of Environmental Quality (MDEQ) scrap tire cleanup grant awards that totaled \$1 million through 2004. In the summer of 2004, the most recent grant cleared the site of tires above the ground.

#### **Technology**

Recent progress has been made to expand Internet access and email/calendaring capabilities to its employees. The County continues to inventory its technology needs in order to plan for replacement subject to funding availability.

#### **Central Dispatch/E9-1-1 Improvements**

This project is involved in identifying the need to improve the facility space needs and financing of Clare County's emergency dispatching services currently under the County Sheriff's Department. An outside consultant was hired to analyze the options available to the County of merging with one or more surrounding counties or to maintain as a single county operation. The Study recommended a standalone operation. Subsequently, the County successfully obtained voter approval at the November, 2004 election for a 0.35 mill levy over five years to fund a building addition to the existing Sheriffs Department and fund a portion of the operational costs.

#### **Dog Census Project**

A need to implement a dog census project in 2004 saw tremendous results. Responsible pet ownership demands that dogs be given rabies shots and be licensed with the County. The County Animal Control Department with County Board approval established a temporary full time License Enforcement Officer. With the cooperation of District Court, owners of unlicensed dogs were given three weeks to obtain the dog license or face a Court fine of \$70. The results showed that dog license revenue increased from \$18,082 in 2003 to \$68,982 in 2004, an increase of \$50,900 or 281%.

#### **Employee Health Insurance Cost Reductions**

From 2001 to 2004, employee health insurance premiums have skyrocketed an average of 29% for family coverage. In order to reduce the costs impact, Clare County bid out its employee health insurance package in 2004. While it continued with the current carrier, the County decided to change to a self-insured product as one means of containing employee health care costs. The County continues to review all aspects of employee health insurance in order to realize cost containment.

## OTHER INFORMATION

### **Independent Audit**

The County is required by state statute to undertake an annual audit of the books of financial statements of the County by independent certified public accountants selected by the County Commission. This requirement has been complied with, and the independent auditor's report has been included in this report.

### **Awards and Acknowledgments**

Clare County is submitting for the first time its Comprehensive Annual Financial Report (CAFR) to the Government Finance Officers Association of the United States and Canada (GFOA) Certificate of Achievement for Excellence in Financial Reporting award program for the fiscal year ended September 30, 2004. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

It is management's contention that the current comprehensive annual financial report meets the Certificate of Achievement program's requirements and therefore it is has been submitted to the GFOA to determine its eligibility.

The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire staff of the Treasurer's Office and the Accounts Payable/Payroll Division of the Clerk/Register's Office. Finally, special thanks needs to be given to Tracy Byard, Administrative Assistant in the County Administrator's Office for her true dedication and commitment to Clare County. I also wish to express our sincere appreciation to County Department Heads, Elected Officials and the Judiciary throughout the organization, especially those who were instrumental in the successful completion of this report.

I would like to thank the members of the County Commission for their interest and support in planning and conducting the financial operation of the County in a responsible and progressive manner.

Respectfully submitted,

Randolph D. Terronez  
County Administrator

Clare County, Michigan  
Comprehensive Annual Financial Report  
Year Ended September 30, 2004

LIST OF COUNTY OFFICIALS

COUNTY COMMISSION

Karen Lipovsky

Jim Gelios

Jordon Lockmiller

Lauren Jones

Karen Keesecker

Forrest Meek

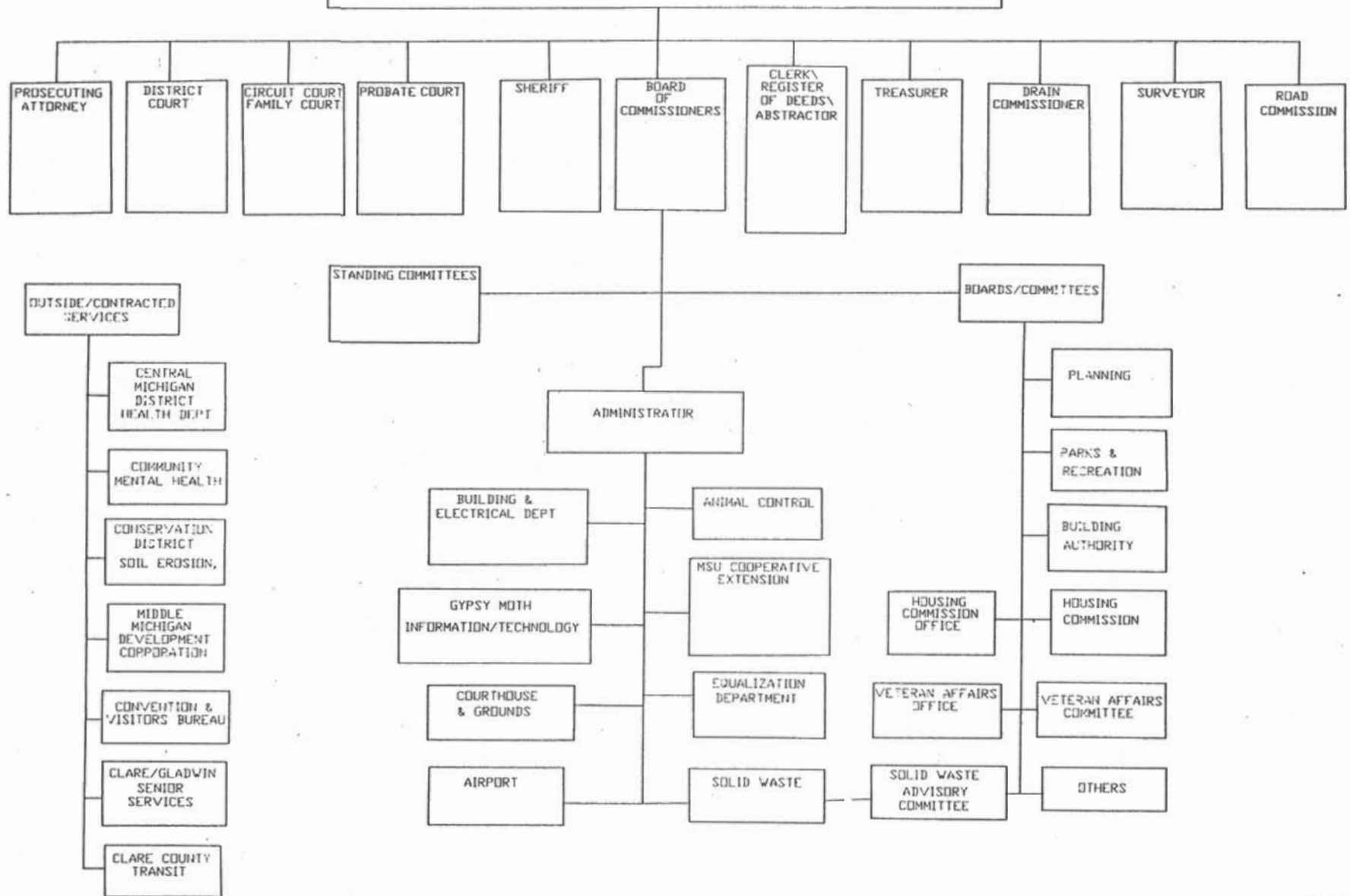
Julie Murphy

COUNTY ADMINISTRATOR  
Randy Terronez

COUNTY TREASURER  
Winifred Johnson

COUNTY CLERK  
Carol McAulay

# CITIZENS OF CLARE COUNTY



## **BASIC FINANCIAL STATEMENTS**

**REQUIRED SUPPLEMENTARY INFORMATION**

## **OTHER SUPPLEMENTARY INFORMATION**

**STATISTICAL SECTION (UNAUDITED)**

## **FINANCIAL SECTION**

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA

Karen A. Roka, CPA  
James A. Huguelet, CPA  
Alan D. Panter, CPA  
William I. Tucker IV, CPA  
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

Member:  
American Institute of  
Certified  
Public Accountants  
and  
Michigan Association of  
Certified Public  
Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
of Clare County  
Harrison, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Clare County, Michigan as of and for the year ended September 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Clare County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Clare County Road Commission, which represents 88% and 98%, respectively of the total assets and revenues of the component units and the Public Transit Corporation, which represents 28% and 76%, respectively of the total assets and revenues of the business-type funds. Those financial statements were audited by other auditors whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for the Road Commission and Public Transit Corporation, is based solely on the report of the other auditors. The financial statements of Clare County for the year ended September 30, 2003 were audited by other auditors whose report dated February 12, 2004, expressed an unqualified opinion on those statements.

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, based on our audit and the audit of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Clare County, Michigan as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2005 on our consideration of Clare County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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 Clare County's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Except for the statistical section, other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical section is unaudited and we express no opinion on it.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

March 7, 2005

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Clare County was organized in 1840 and covers an area of 576 square miles divided into 16 townships, 1 village, and 2 cities. The County seat is located in the City of Harrison. The County operates under an elected county Board of Commissioners and provides services to its more than 31,000 residents in many areas including law enforcement, administration of justice, community enrichment and development, and human services.

The financial statements of the County have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to County governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, The Financial Reporting Entity (as amended by GASB Statement 39); and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements present the financial activities of the Clare County (primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the financial statements to emphasize that they are legally separate from the primary government.

2. Blended Component Units

Building Authority

The Clare County Building Authority is governed by a five (5) member Board appointed by the County Board of Commissioners. Although it is legally separate from the County, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the County's public buildings.

Public Transit Corporation

The Clare County Transit Corporation was incorporated on September 1, 1981 in the State of Michigan, under the provisions of Public Act 327 of 1931, as amended, and Public Act 284 of 1972, as amended. The Transit Corporation is not legally separate, but is administered by an eight (8) member Board elected by a majority of the seated Board members present and voting. The Transit Corporation Board may not issue debt and the tax levy is subject to County Board of Commissioners' approval. The Transit Corporation taxes are levied under the taxing authority of the County, as approved by the County electors, and is included as part of the County's total tax levy and are reported in the Public Transit Corporation Fund. A copy of the Corporation's audited financial statements can be obtained at their administrative offices.

Clare County Housing Commission

The Clare County Housing Commission was created on March 17, 1975, in the State of Michigan, under the provisions of Public Act 18 of the Extra Session of 1933, as amended. The Housing Commission is administered by a five (5) member Board appointed by the Clare County Board of Commissioners. Although it is legally separate from the County, the Housing Commission is reported as if it were part of the primary government because its sole purpose is to rehabilitate and make safe inhabited dwellings existing in the County of Clare. Clare County Board of Commissioners approves all grants received by the Housing Commission.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

2. Blended Component Units - concluded

Enterprise Community

The Clare County Enterprise Community is governed by an eighteen (18) member board. Although it is legally separate from the County, it is reported as if it were part of the primary government because its sole purpose is to improve the quality of life of its citizens and promote economic growth.

3. Discretely Presented Component Units

These component units are reported in a separate column to emphasize that, while legally separate, Clare County remains financially accountable for these entities or the nature and significance of the relationship between these entities and the County is such that exclusion of these entities would render the financial statements misleading or incomplete.

Clare County Road Commission

The Clare County Road Commission, which is established pursuant to the County Road Law (Michigan Compiled Law (MCL) 224.1), is governed by an elected three (3) member Board of County Road Commissioners. The Road Commission may not issue debt or levy a tax without the approval of the County Board of Commissioners. If approval is granted, the Road Commission's taxes are levied under the taxing authority of the County, as approved by the County electors, and would be included as part of the County's total tax levy as well as reported in the County Road Fund. A copy of the Commission's audited financial statements can be obtained at their administrative offices.

Clare County Economic Development Corporation

The Clare County Economic Development Corporation (EDC), which was established pursuant to the provisions of Public Act 338 of 1974, as amended, is governed by a nine (9) member Board of Directors appointed by the Clare County Board of Commissioners. The EDC may not issue debt without the County's approval. Financial statements for EDC are presented as part of Other Supplementary Information and are not audited separately.

Clare County Drainage Districts

Pursuant to the Drain Code of 1953, the Drain Commissioner has the responsibility to administer the State Drain Code. The Drain Commissioner is responsible for planning, developing, and maintaining surface water drainage systems within the County. The Drain Commissioner may issue debt or levy a tax as authorized by the Drain Code without the approval of the County Board of Commissioners. The combining financial statements for the Drainage Districts are presented as part of Other Supplementary Information and are not audited separately.

Clare County Department of Public Works

Pursuant to MCL 123.732, the County of Clare entered into a program of water supply and sanitary sewer facility construction. The Department of Public Works is under the general control of the County Board of Commissioners and under the immediate control of a Board of Public Works, which includes the County Drain Commissioner. The Board of Public Works is considered an agency of the County. The Board manages water supply and sanitary sewer system construction projects that are bonded by the County of Clare. Bonds issued are authorized by an ordinance or a resolution approved by the Board of Public Works and adopted by the Clare County Board of Commissioners. The combining financial statements for the Board of Public Works are presented as part of Other Supplementary Information and are not audited separately.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

4. Jointly Governed Organizations

Central Michigan District Health Department

Clare, Gladwin, Arenac, Isabella, Osceola and Roscommon Counties participate jointly in the operation of the Central Michigan District Health Department. All of the financial operations of the District Health Department are recorded in the records of Isabella County.

The funding formula approved by the member counties is based pro-rata on each unit's population and equalized valuation to the District total population and valuation. Member counties' percentages of the net operating budget for the year of 2004 were:

Clare	16.85%	Isabella	28.50%
Gladwin	14.37%	Osceola	12.44%
Arenac	10.54%	Roscommon	17.30%

Clare County's appropriation to the District Health Department for the year ended September 30, 2004 was \$204,094, which included \$13,267 cigarette tax. A copy of the Department's audited financial statements can be obtained at their administrative offices.

Central Michigan Community Mental Health Services

The Central Michigan Community Mental Health Service Board consists of the Counties of Clare, Gladwin, Isabella, Mecosta, Midland and Osceola. Financial records for the board are recorded and maintained by Isabella County. The funding formula is based on the ratio of recorded and maintained by Isabella County. The funding formula is based on the ratio of population of each County to the total district's population for the net cost of administration and district programs and 100 percent of the net costs of the individual County programs. For the fiscal year ended September 30, 2004, the actual County contribution percentages were:

Clare	11.82%	Mecosta	14.19%
Gladwin	7.78%	Midland	38.89%
Isabella	18.39%	Osceola	8.93%

Clare County's appropriation to Central Michigan Community Mental Health Services for the year ended September 30, 2004 was \$139,000. A copy of the Department's audited financial statements can be obtained at their administrative offices.

5. Related Organization

Clare-Gladwin Services for the Aging (CGSA)

Pursuant to MCL 400.571, Clare County entered into an agreement with the Housing Commission of the City of Gladwin to provide services to persons age 60 and over. The Housing Commission is a component unit of the City of Gladwin. Services are provided through commission programs administered by the Clare-Gladwin Services for the Aging (CGSA). Clare County levies the millage and provides appropriations to the CGSA.

Budgets are approved by the County and the Housing Commission. The amount provided to CGSA by Clare County for the year ended September 30, 2004 was \$411,628.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

5. Related Organization - concluded

Northern Michigan Substance Abuse Services, Inc. (NMSAS)

Clare County, in conjunction with thirty-one (31) other counties, has entered into an agreement which created the Northern Michigan Substance Abuse Services, Inc. This organization's board is composed of one member appointed by the board of commissioners from each of the participating counties. The County's financial responsibility is to pass through 50% of the Convention and Liquor Tax revenues received to the NMSAS. For the year ended September 30, 2004, the County passed through \$54,992.

6. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the County's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

The major funds of the County are:

- a. The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- b. The Gypsy Moth Fund accounts for County millage revenue that is reserved for control of the insect population.
- c. The Housing Commission Fund accounts for grant revenue and contributions reserved for the improvement of housing within the County.
- d. The Delinquent Tax Revolving Fund accounts for money advanced by the County to other local taxing units and various county funds to pay their delinquent real property taxes. Revenues are generated by the collection of the delinquent real property taxes, penalties, and interest.
- e. The Transit Corporation Fund accounts for resources used to provide transportation services for the people of Clare County, particularly the elderly and handicapped, coordinated through a central dispatch center using a combination of demand-response and reserve trips.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

7. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for fiduciary funds since assets equal liabilities.

8. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental and similar trust funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary and similar trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

9. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets shown as required and other supplementary information were prepared on the same modified accrual basis used to reflect actual results.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

9. Budgets and Budgetary Accounting - concluded

Budgets are adopted by the County Board of Commissioners for the General and Special Revenue Funds, except for the County Road Fund budget (special revenue--component unit), which is adopted and administered by the Board of County Road Commissioners. The budgetary basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget document presents information by fund, function, department and line items. The budget is adopted at the department and total fund level for the General Fund and Special Revenue Funds, respectively and control is exercised at the line item level for all budgeted funds. The County Board of Commissioners monitors and amends the budgets as necessary. The County Administrator is authorized to transfer amounts between accounts.

Budgets are adopted on a basis consistent with the modified accrual basis used to reflect actual results in the Fund financial statements. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The County employs the following procedures in establishing budgets:

- a. Prior to July 1, the County departments, in conjunction with the Administrator's office, prepare and submit their proposed operating budgets to the Budget and Finance Committee for the fiscal year commencing the following October 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is held to obtain taxpayers' comments.
- c. Prior to September 30, the budgets are legally enacted through passage of an annual budget resolution.
- d. The County does not employ encumbrance accounting as an extension of formula budgetary integration in the governmental funds. All unexpended appropriations lapse at year-end.
- e. Applicable budgeted amounts are reported as originally adopted or as amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations that were adopted.
- f. 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 general appropriations act.

10. Cash and Cash Equivalents

The County pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as part of the County's investments. Cash equivalents consist of mutual funds.

11. Investments

Investments consist of certificates of deposit and U.S. Government Securities with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

12. Receivables

Receivables consist of amounts due from governmental units for various financial assistance programs and accounts receivable related to charges for services and also notes and leases receivable made in connection with Housing Commission programs.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

13. Inventories

Inventories consisting of equipment parts and supplies of \$170,259 and road materials of \$252,976 are stated at cost based on the first in - first out method. Inventory items are charged to equipment repairs and operations, and to road construction and maintenance as used.

14. Prepays

Prepays in the proprietary funds consist of insurance premiums which are expected to be written off within the next fiscal year.

15. Compensated Absences

County employees are granted vacation and sick leave in varying amounts according to their personnel contracts. In the event of termination, individual employees have vested rights to receive payment for unused vacation and sick leave.

Accumulated vacation and sick pay amounts that are vested have been recorded in the government-wide financial statements.

16. Deferred Revenue

Deferred revenue consists of amounts related to long-term receivables recorded at the fund level that are not available to finance current period expenditures and are therefore deferred and also amounts received for various grant programs that has not yet been earned.

17. Interfund Transactions

During the course of normal operations, the County has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

18. Capital Assets

**PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)**

Capital assets include land, buildings, equipment, vehicles, and drain infrastructure and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and component unit columns. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year.

Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

18. Capital Assets - concluded

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION) - CONCLUDED

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	5 - 30 years
Buildings and improvements	12 - 40 years
Equipment	3 - 10 years
Vehicles	3 - 7 years
Drain infrastructure	50 years

ROAD COMMISSION - COMPONENT UNIT

Capital assets, which include property, equipment, and infrastructure assets (i.e., roads, bridges, and similar items), are reported in the government-wide financial statements (statement of net assets and statement of changes in net assets). Infrastructure assets are being capitalized and depreciated beginning fiscal year 2003 as indicated on the government-wide statements. Capital assets are defined by the Road Commission as assets with an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental activities column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund of the Road Commission.

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 Clare 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. The Road Commission has retroactively capitalized the major infrastructure assets as of September 30, 2003, as permitted by GASB 34.

Depreciation is recorded over the estimated useful lives (ranging from four to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

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

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONCLUDED**

19. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

20. Internal Service Fund

The County uses an internal service fund to account for revenues collected from user departments for the payment of costs incurred to administer a self-funded health insurance program including actual claims paid for active and eligible retired employees and their families.

21. Federal Programs

Federal Programs are accounted for in the funds to which the programs pertain. The County has not integrated its Single Audit Reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

22. Comparative Data

Comparative data has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

The County utilizes various pooled cash accounts and investments for approximately 35 funds. The County's pooled cash and investments consist of a common checking account, savings, certificates of deposit, and mutual funds.

The County's pooled cash and investments are utilized by the General Fund, Special Revenue Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds, Trust and Agency Funds, and Component Unit Funds. Each fund's portion of these pooled accounts is included in the cash and cash equivalents caption in the applicable balance sheet/statement of net assets.

The other funds of the County utilize separate savings and interest bearing checking accounts. In addition, certificates of deposit and mutual funds are separately held by several of the County's funds.

In accordance with Michigan Compiled Laws, the County is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration (NCUA), but only if the bank, savings and loan association, or credit union

is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.

## NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC), FSLIC, and NCUA regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits, and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

As of September 30, 2004, the carrying amounts and bank balance for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
<b>PRIMARY GOVERNMENT</b>		
Checking	\$ 1,373,078	\$ 2,113,647
Savings	1,049,127	1,049,127
Certificates of deposit	<u>2,419,146</u>	<u>2,419,146</u>
Total primary government	4,841,351	5,581,920
<b>FIDUCIARY FUNDS</b>		
Checking	1,595,453	1,615,421
Savings	1,875	1,875
Certificates of deposit	<u>20,501</u>	<u>20,501</u>
Total fiduciary funds	1,617,829	1,637,797
<b>COMPONENT UNITS</b>		
Checking	188,085	188,100
Savings	<u>479,772</u>	<u>480,333</u>
Total component units	<u>667,857</u>	<u>668,433</u>
<b>TOTAL REPORTING ENTITY</b>	<u>\$ 7,127,037</u>	<u>\$ 7,888,150</u>

Deposits of the County are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the County. As of September 30, 2004, the primary government, component units, and fiduciary fund accounts were insured by the FDIC, FSLIC or NCUA for \$837,328 and the amount of \$7,050,822 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the County held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONCLUDED**

As of September 30, 2004, the market values, which are the carrying values for each investment, are as follows:

<u>INVESTMENT TYPE</u>	<u>Market Value</u>
Uncategorized pooled investment funds - primary government	\$ 4,482,169
Uncategorized pooled investment funds - fiduciary funds	23,000
Uncategorized pooled investment funds - component units	<u>366,040</u>
	<u>\$ 4,871,209</u>

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the combined balance sheet, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of September 30, 2004:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 6,652,198	\$ 1,620,328	\$ 687,107	\$ 8,959,633
Investments	<u>2,677,752</u>	<u>20,501</u>	<u>347,040</u>	<u>3,045,293</u>
	<u>\$ 9,329,950</u>	<u>\$ 1,640,829</u>	<u>\$ 1,034,147</u>	<u>\$12,004,926</u>

The primary government and component unit cash and cash equivalents captions on the financial statements include \$6,430 and \$250 in imprest cash, respectively.

**NOTE C: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business type funds, and component units have been eliminated.

Transfers to General Fund from:	
Gypsy Moth Fund	\$ 21,210
Revolving Tax Fund	650,000
Nonmajor governmental funds	<u>11,170</u>
Total transfers to General Fund	<u>\$ 682,380</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 1,255,807
Nonmajor governmental funds	<u>20,000</u>
	<u>\$ 1,275,807</u>

Clare County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE D: ADVANCES RECEIVABLE AND PAYABLE**

The following schedule details advances receivable and payable between the primary government and component units at September 30, 2004:

Advances from General Fund to:		
Nonmajor governmental funds	\$	232,613
Internal service funds		250,000
Component units funds		<u>103,185</u>
	\$	<u>585,798</u>

**NOTE E: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2004 was as follows:

**Primary Government**

	Restated Balance <u>Oct. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Sept. 30, 2004</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 108,325	\$ -	\$ -	\$ 108,325
Capital assets, being depreciated:				
Buildings and improvements	5,646,893	-	-	5,646,893
Vehicles	996,885	72,257	-	1,069,142
Furniture and other assets	<u>844,051</u>	<u>31,040</u>	<u>( 10,000 )</u>	<u>865,091</u>
Total capital assets being depreciated	7,487,829	103,297	( 10,000 )	7,581,126
Less accumulated depreciation for:				
Buildings and improvements	( 2,367,759 )	( 156,183 )	-	( 2,523,942 )
Vehicles	( 670,644 )	( 120,633 )	-	( 791,277 )
Furniture and other assets	<u>( 594,048 )</u>	<u>( 93,480 )</u>	<u>10,000</u>	<u>( 677,528 )</u>
Total accumulated depreciation	<u>( 3,632,451 )</u>	<u>( 370,296 )</u>	<u>10,000</u>	<u>( 3,992,747 )</u>
Total capital assets being depreciated, net	<u>3,855,378</u>	<u>( 266,999 )</u>	<u>-0-</u>	<u>3,588,379</u>
Governmental activities capital assets, net	<u>\$ 3,963,703</u>	<u>\$( 266,999 )</u>	<u>\$ -0-</u>	<u>\$ 3,696,704</u>

Clare County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE E: CAPITAL ASSETS - CONTINUED**

**Primary Government - concluded**

Transit Corporation - Blended Component Unit

Major classes of property and equipment consist of the following:

	<u>Purchased with Corporation Funds</u>	<u>Purchased with Capital Grants</u>	<u>Total</u>
Capital assets being depreciated:			
Operating facility	\$ 239,482	\$ 493,074	\$ 732,556
Vehicles	121,942	1,408,814	1,530,756
Shop equipment	10,786	64,961	75,747
Office furniture and equipment	<u>27,739</u>	<u>54,726</u>	<u>82,465</u>
	399,949	2,021,575	2,421,524
Less: accumulated depreciation	<u>( 105,911 )</u>	<u>( 1,280,077 )</u>	<u>( 1,385,988 )</u>
Net property and equipment	<u>\$ 294,038</u>	<u>\$ 741,498</u>	<u>\$ 1,035,536</u>

The depreciation expense for the year was \$260,268. The increases and decreases of the transit's capital assets are not available.

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

Governmental activities	
General government	\$ 125,374
Public safety	<u>244,922</u>
Total Governmental Activities	<u>\$ 370,296</u>

**Discretely Presented Component Units**

	<u>Balance Oct. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Sept. 30, 2004</u>
Component Unit - Drainage Districts				
Drains	\$ 996,582	\$ -	\$ -	\$ 996,582
Lake levels	<u>168,415</u>	<u>-</u>	<u>-</u>	<u>168,415</u>
Subtotal	1,164,997	-0-	-0-	1,164,997
Less accumulated depreciation for:				
Drains	( 262,340 )	( 16,083 )	-	( 278,423 )
Lake levels	<u>( 39,718 )</u>	<u>( 3,408 )</u>	<u>-</u>	<u>( 43,126 )</u>
Subtotal	<u>( 302,058 )</u>	<u>( 19,491 )</u>	<u>-0-</u>	<u>( 321,549 )</u>
Capital assets, net	<u>\$ 862,939</u>	<u>\$ ( 19,491 )</u>	<u>\$ -0-</u>	<u>\$ 843,448</u>

Clare County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE E: CAPITAL ASSETS - CONCLUDED**

**Discretely Presented Component Units - concluded**

	Balance <u>Oct. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Sept. 30, 2004</u>
Component Unit - Road Commission				
Capital assets not being depreciated				
Land and improvements	\$ 175,220	\$ -	\$ -	\$ 175,220
Capital assets being depreciated				
Buildings	986,476	-	-	986,476
Road Equipment	4,962,458	739,041	470,518	5,230,981
Shop Equipment	116,024	5,493	550	120,967
Office Equipment	99,244	21,033	-	120,277
Engineer's Equipment	24,627	-	-	24,627
Yard and Storage Equipment	74,487	4,085	-	78,572
Infrastructure - Bridges	5,563,031	41,804	-	5,604,835
Infrastructure - Roads	<u>27,514,815</u>	<u>2,636,016</u>	<u>-</u>	<u>30,150,831</u>
Total	39,341,162	3,447,472	471,068	42,317,566
Less accumulated depreciation				
Buildings	593,955	33,930	-	627,885
Road Equipment	4,112,844	410,171	438,430	4,084,585
Shop Equipment	84,450	5,994	550	89,894
Office Equipment	78,482	7,417	-	85,899
Engineer's Equipment	21,516	760	-	22,276
Yard and Storage Equipment	47,872	3,416	-	51,288
Infrastructure - Bridges	1,331,190	133,485	-	1,464,675
Infrastructure - Roads	<u>9,468,590</u>	<u>1,361,428</u>	<u>-</u>	<u>10,830,018</u>
Total	<u>15,738,899</u>	<u>1,956,601</u>	<u>438,980</u>	<u>17,256,520</u>
Net capital assets being depreciated	<u>23,602,263</u>	<u>1,409,871</u>	<u>32,088</u>	<u>25,061,046</u>
Total Net Capital Assets	<u>\$ 23,777,483</u>	<u>\$ 1,409,871</u>	<u>\$ 32,088</u>	<u>\$ 25,236,266</u>

**NOTE F: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portions) of the County for the year ended September 30, 2004:

PRIMARY GOVERNMENT

	Balance <u>Oct. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Sept. 30, 2004</u>	Amounts Due Within <u>One Year</u>
Primary Government					
Municipal Purchase Notes	\$ 2,050,000	\$ -	\$( 370,000 )	\$ 1,680,000	\$ 390,000
Building Authority Refunding Bonds	1,215,000	-	( 55,000 )	1,160,000	55,000
Vehicle lease	18,339	-	( 18,339 )	-0-	-
Accumulated compensated absences	<u>275,761</u>	<u>-</u>	<u>( 71,538 )</u>	<u>204,223</u>	<u>16,114</u>
TOTAL PRIMARY GOVERNEMENT	<u>\$ 3,559,100</u>	<u>\$ -0-</u>	<u>\$( 514,877 )</u>	<u>\$ 3,044,223</u>	<u>\$ 461,114</u>

Clare County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE F: LONG-TERM DEBT - CONTINUED**

COMPONENT UNITS

	Balance <u>Oct. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Sept. 30, 2004</u>	Amounts Due Within <u>One Year</u>
Road Commission					
General Obligation Bonds	\$ 1,820,000	\$ -	\$( 390,000 )	\$ 1,430,000	\$ 390,000
Installment purchase agreement	122,310	-	( 11,438 )	110,872	12,239
Accumulated sick and vacation	<u>136,497</u>	<u>27,690</u>	<u>-</u>	<u>164,187</u>	<u>-</u>
	2,078,807	27,690	( 401,438 )	1,705,059	402,239
Board of Public Works					
Sewer system #4	515,000	-	( 25,000 )	490,000	25,000
Water supply system #1	465,000	-	( 20,000 )	445,000	20,000
Sewage disposal system #3 refunding	<u>1,595,000</u>	<u>-</u>	<u>( 250,000 )</u>	<u>1,345,000</u>	<u>255,000</u>
	2,575,000	-0-	( 295,000 )	2,280,000	300,000
Drainage Districts					
Installment loan	39,722	-	( 19,861 )	19,861	19,861
Note payable - Walker	4,381	-	( 1,461 )	2,921	1,460
Note payable - Bertha Lake Drain	188,571	-	( 31,429 )	157,142	31,429
Note payable - Ross Drain	<u>54,000</u>	<u>-</u>	<u>( 6,000 )</u>	<u>48,000</u>	<u>6,000</u>
	<u>286,674</u>	<u>-0-</u>	<u>( 58,751 )</u>	<u>227,924</u>	<u>58,750</u>
<b>TOTAL COMPONENT UNITS</b>	<u>4,940,481</u>	<u>27,690</u>	<u>( 755,189 )</u>	<u>4,212,983</u>	<u>760,989</u>
<b>TOTAL REPORTING ENTITY</b>	<u>\$ 8,499,581</u>	<u>\$ 27,690</u>	<u>\$( 1,271,066 )</u>	<u>\$ 7,257,206</u>	<u>\$ 1,222,103</u>

**PRIMARY GOVERNMENT**

**General Long-Term Debt Bonds (Payable from Debt Service Funds)**

Bonds payable at September 30, 2004, is as follows:

\$2,965,000 1997 Municipal Purchase Notes dated October 1, 1997, due in annual principal installments ranging from \$390,000 to \$450,000 through July 1, 2008, with interest ranging from 5.00 to 5.10 percent, payable semi-annually.	\$ 1,680,000
\$1,250,000 1998 Building Authority Refunding Bonds dated April 1, 1998, due in annual principal installments ranging from \$55,000 to \$110,000 through February 1, 2019, with interest ranging from 4.35 to 5.05 percent, payable semi-annually.	<u>1,160,000</u>
	<u>\$ 2,840,000</u>

**Compensated Absences**

In accordance with County personnel policies and/or contracts negotiated with various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. The dollar amount of these vested rights, including related payroll taxes, amounted to \$204,223 for vacation and sick at September 30, 2004. Of this amount, \$16,114 has been recorded as a current liability and \$188,109 has been recorded as a noncurrent liability.

The accrued liability for compensated absences of the County Transit Corporation employees is recorded in the financial statements of the Transit Fund.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE F: LONG-TERM DEBT - CONTINUED**

COMPONENT UNIT - ROAD COMMISSION

General Obligation Bonds

The general obligation bonds payable is made up of bonds issued on July 24, 1996, June 1, 1998, September 16, 1999, October 4, 2000, and April 1, 2002 under Act 143 for the purpose of defraying the costs of several road projects. The bonds were issued in denominations of \$5,000 with rates varying from 4.1 to 7.625 percent. The bonds mature in \$50,000 increments annually over a 10 year period.

The installment notes payable was entered into on July 10, 2002, for the purchase of land. Principal payments of \$20,000 a year are being made with an interest rate of 7 percent until it is paid off.

COMPONENT UNIT - DEPARTMENT OF PUBLIC WORKS

Water Supply and Sewage Disposal System Bonds

\$630,000 Sewage Disposal System #4 Bonds dated November 1, 1996, due in annual principal installments ranging from \$20,000 to \$35,000 through May 1, 2022, with interest ranging from 4.90 to 5.85 percent, payable semi-annually.	\$ 490,000
\$575,000 Water Supply System #1 Bonds dated November 1, 1996, due in annual principal installments ranging from \$15,000 to \$35,000 through May 1, 2022, with interest ranging from 4.90 to 5.85 percent, payable semi-annually.	445,000
\$1,810,000 Sewage Disposal System #3 Refunding Bonds dated March 28, 2002, due in annual principal installments ranging from \$245,000 to \$320,000 through November 1, 2008, with interest ranging from 3.30 to 4.125 percent, payable semi-annually.	<u>1,345,000</u>
	<u>\$ 2,280,000</u>

COMPONENT UNIT - DRAINS

Long-Term Debt Note Payable Agreements

\$139,028 Farwell Drain Installment Note dated October 9, 1998, due in annual installments of \$19,861 through May 1, 2005, with interest of 4.74 percent, payable annually.	\$ 19,861
\$10,200 Walker Intercounty Drain Note dated June 15, 2000, due in annual installments ranging from \$1,521 to \$1,585 through June 15, 2006, with interest of 4.30 percent, payable annually.	2,921
\$220,000 Bertha Lake Drain Note dated November 9, 2001, due in annual installments of \$31,429 through May 1, 2009, with interest of 4.95 percent, payable annually.	157,142
\$60,000 Ross Drain Note dated September 18, 2002, due in annual installments of \$6,000 through July 1, 2012, with interest of 5.10 percent, payable annually.	<u>48,000</u>
	<u>\$ 227,924</u>

Clare County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE F: LONG-TERM DEBT - CONCLUDED**

The annual requirements to pay the debt principal and interest outstanding for the above Bonds and Notes are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Direct County Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 445,000	\$ 140,016
2006	470,000	119,010
2007	485,000	94,543
2008	510,000	70,010
2009	65,000	44,216
2010-2014	375,000	171,546
2015-2019	<u>490,000</u>	<u>64,640</u>
	<u>\$ 2,840,000</u>	<u>\$ 703,981</u>

<u>Year Ending Sept. 30,</u>	<u>Component Units</u>					
	<u>Road Commission Bonds Payable</u>		<u>Board of Public Works Water and Sewer Bonds</u>		<u>Drainage Districts Drain Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 402,239	\$ 62,811	\$ 300,000	\$ 95,739	\$ 58,750	\$ 11,293
2006	403,096	48,214	290,000	85,645	38,889	8,428
2007	354,012	33,108	300,000	74,388	37,428	6,503
2008	194,993	20,242	315,000	61,573	37,429	4,654
2009	106,043	10,492	365,000	47,195	37,428	2,780
2010-2014	80,489	6,467	245,000	165,719	18,000	1,837
2015-2019	-	-	275,000	95,033	-	-
2020-2022	-	-	190,000	16,886	-	-
	<u>\$ 1,540,872</u>	<u>\$ 181,334</u>	<u>\$ 2,280,000</u>	<u>\$ 642,178</u>	<u>\$ 227,924</u>	<u>\$ 35,495</u>

On April 1, 1998, the County defeased a portion of the 1994 General Obligation Building Authority Bonds, which are due and payable February 1, 1999 through February 1, 2019. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government securities sufficient to meet the applicable principal and interest obligations. The County issued General Obligation Building Authority Refunding Bonds in the amount of \$1,250,000 to provide resources to fund the escrow amounts and pay the costs of refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the County's financial statements. At September 30, 2004, bonds due and payable February 1, 2005 through February 1, 2019 for the 1994 G.O. Building Authority Bonds in the amount of \$995,000 are considered defeased.

On March 28, 2002, the County defeased a portion of the 1988 Sewage Disposal System No.3 Bonds, which are due and payable November 1, 2002 through November 1, 2008. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government securities sufficient to meet the applicable principal and interest obligations. The County issued Sewage Disposal System No.3 Refunding Bonds in the amount of \$1,810,000 to provide resources to fund the escrow amounts and pay the costs of refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the County's financial statements. At September 30, 2004, bonds due and payable November 1, 2004 through November 1, 2008 for the 1988 Sewage Disposal System No.3 Bonds in the amount of \$1,400,000 are considered defeased.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE G: EMPLOYEE RETIREMENT SYSTEM**

PRIMARY GOVERNMENT

The County participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System 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 1134 Municipal Way, Lansing, Michigan 48917. All full-time County employees are covered by the retirement system with exception of the Road Commission employees. The Road Commission employees are covered under a separate retirement plan.

The benefits and conditions outlined below are for general information only. Public Act 427 of 1984, as amended, covers the benefits and conditions of the Municipal Retirement systems.

Normal Retirement:

Age 50 with 25 or more years of credited service  
Age 55 with 15 or more years of credited service  
Age 60 with 10 or more years of credited service  
Mandatory Retirement: None

Deferred Retirement:

The termination of membership before age 60, other than by retirement or death, after 10 years of credited service is considered a deferred retirement. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Benefit allowances are computed based on the applicable criteria as detailed within the plan. Death and disability benefits are also provided.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the County and by negotiation with the County's collective bargaining units. The plan requires contribution from the employees and the amount is determined by each of the County's collective bargaining units.

Annual Pension Cost

For the year ended September 30, 2004 the County's annual pension cost of \$116,456 for the plan was equal to the County's required contribution. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2002, using the entry actual age cost method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

PRIMARY GOVERNMENT - CONCLUDED

Three (3) year trend information

	Year Ended December 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$ 9,250,068	\$ 9,408,781	\$ 9,918,912
Actuarial accrued liability (AAL) (entry age)	8,481,038	8,907,231	9,726,118
Unfunded (overfunded) AAL	( 769,030 )	( 501,550 )	( 192,794 )
Funded ratio	109%	106%	102%
Covered payroll	3,469,339	3,549,933	3,611,478
UAAL as a percentage of covered payroll	0%	0%	0%

	Year Ended September 30,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual pension cost	\$ 77,769	\$ 79,452	\$ 116,456
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

Blended Component Unit

The Transit Corporation provides the following pension plans for its employees:

Profit Sharing Plan and Trust 401(k)

The Transit Corporation provides benefits to all union employees through a defined contribution plan named the Clare County Transit Corporation 401(k) Profit Sharing Plan and Trust, effective April 1, 1999. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. At September 30, 2004, there were six plan members. Employees may at their option, defer up to 10% of their gross income. The Transit Corporation will match the employee's contribution at the rate of ¼ of the employee's contribution, up to a maximum of 1% of the employee's total compensation. In accordance with these provisions, the Transit Corporation contributed \$1,289 during the fiscal year and employees contributed \$5,617. Plan provisions and contributions requirements are established and may be amended by the Clare County Transit Corporation Board.

SIMPLE Section 408(p)

The Transit Corporation provides pension benefits to all nonunion employees through a defined contribution plan named Paine Webber Incorporated Savings Incentive Match Plan (the "SIMPLE"), effective February 18, 1999. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. At September 30, 2004, there were five plan members. The Transit Corporation contributes 3% of employees' gross earnings and employees may contribute up to \$2,000 per calendar year. In accordance with these provisions, the Transit Corporation contributed \$4,446 during the current fiscal year and employees contributed \$4,766. Plan provisions and contribution requirements are established and may be amended by the Clare County Transit Corporation Board of Directors.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

COMPONENT UNIT - ROAD COMMISSION

Plan Description

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

The Municipal Employees Retirement System (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a nonprofit 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 taxpayers 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, which 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 49817.

All full-time Road Commission employees are eligible to participate in the system. Benefits vest after ten years of service. Employees who retire at or after age 55 with 30 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.25 percent of the member's five year final average compensation. The system also provides death and disability benefits which are established by State Statute.

Participating Road Commission employees are required to contribute 5.0 percent of their annual salary to the system. The Road Commission is required to contribute the remaining amounts necessary to fund the Michigan Municipal Employee Retirement System using the actuarial basis specified by statute.

Actuarial Accrued Liability

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0 percent, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0 percent to 4.2 percent per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5 percent annually after retirement.

All entries are based on the actuarial methods and assumption that were used in the December 31, 2003 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

Clare County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

COMPONENT UNIT - ROAD COMMISSION - CONTINUED

GASB Statement No. 25 Information (as of 12/31/03)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 4,273,107
Terminated employees not yet receiving benefits	-
Current Employees:	
Accumulated employee contributions including allocated investment income	880,731
Employer financed	<u>2,382,632</u>
Total actuarial accrued liability	7,536,470
Net assets available for benefits, at actuarial value (Market value is \$6,866,074)	<u>7,519,456</u>
Unfunded (overfunded) actuarial accrued liability	<u>\$ 17,014</u>

GASB Statement No. 27 Information (as of 12/31/03)

Fiscal Year Beginning January 1, 2005

Annual required contributions	\$ 52,644
Amortization factor used - Underfunded liabilities (30 years)	0.053632
Amortization factor used - Overfunded liabilities (10 years)	0.119963

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, 2003 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 30 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>
2001	\$ 14,784	100 %	\$ -0-
2002	45,864	100	-0-
2003	52,644	100	-0-

## NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONCLUDED**

## COMPONENT UNIT - ROAD COMMISSION - CONCLUDED

Aggregate Accrued Liabilities - Comparative Schedule

<u>Actuarial Valuation Date</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 Percent of Covered Payroll</u>
12/31/01	\$ 7,278,942	\$ 5,891,688	\$( 1,387,254 )	124 %	\$ 1,296,815	- %
12/31/02	7,340,240	6,961,821	( 378,419 )	105	1,283,058	-
12/31/03	7,519,456	7,536,470	17,014	100	1,234,382	1

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 1993, 1997 and 2000 valuations. The funding method was changed to entry age normal for the 1993 valuation. Adoption of Benefit P-S 50%, B-4 80% maximum reflected in 2002 valuation.

**NOTE H: POST-EMPLOYMENT HEALTH CARE BENEFITS**Primary Government

The County provides certain post-employment health and dental care benefits per contractual agreement. The health care benefits may be continued after retirement or termination by the individual paying the premiums, in advance, to the County Clerk's office. The net cost for retirees incurred for the year ended September 30, 2004 was \$145,477. During 2004, there were 29 individuals covered under this agreement.

Component Unit - Road Commission

In addition to the pension benefits described in Note G, the Road Commission provides post-employment health care benefits to all employees who retire from the Road Commission on or after attaining age 60 with ten (10) or more years of service; or, those who retire under a valid disability claim who have reached age 60. The health care benefits consist of the Road Commission paying the monthly health insurance until the recipient reaches the age of 65. The costs of retirees' health care benefits are recognized as expenditures as claims are paid. For the fiscal year ended September 30, 2004, those costs totaled \$65,453.

Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2007.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE I: RISK MANAGEMENT**

Primary Government, except for Transit Corporation

The County is a voluntary member of the Michigan Municipal Risk Management Authority (the Authority), which is organized under Public Act 138 of 1982, as amended as a governmental group self-insurance pool. Public Act 138 authorizes local units of government to exercise jointly any power, privilege, or authority which each might exercise separately.

The administration of the Authority is directed by a nine (9) member Board of Directors composed of municipal representatives from the membership elected by the membership. The Board establishes the general policy of the Authority, creates and publishes rules to be followed by the Manager and Board, and is empowered with the Authority to impose sanctions or terminate membership. The County, by resolution of the County Board of Commissioners, has designated a representative to the Authority to be responsible for the execution of all loss control measures, to ensure the payment of all annual and supplementary or other payment requirements, to ensure the filing of all required reports, and to act as a liaison between the County and the Authority.

The Authority provides risk management, underwriting, reinsurance, and claim services with member contributions allocated to meet these obligations. The Authority administers a risk management fund providing Clare County with loss protection for general and auto liability, motor vehicle physical damage, and property damage. Under most circumstances the County's maximum loss per occurrence is limited as follows:

<u>COVERAGE</u>	<u>SELF-INSURED RETENTION (SIR)</u> (Excess of Deductibles)
Liability	\$100,000
Vehicle physical damage \$1,000 County deductible	\$10,000 per occurrence
Property and crime Deductible per occurrence	\$1,000 10% of the next \$100,000

The Authority has established a Retained Risk Program to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that losses are incurred in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess. The Authority may authorize dividends to individual members in the event that the members and individual fund balance is determined to be sufficient to do so.

Liability insurance claims are expenses as incurred. The liability is determined by the Michigan Municipal Risk Management Authority management based on an actuarial study performed using historical data and available insurance industry statistics. The liability includes a reserve for reported claims, and reported legal expenses as well as incurred but not reported claims.

The Authority has reserved fund balance to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that Clare County incurs a loss in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess.

In addition, the Authority has accumulated resources to create and fund an internal Stop Loss Fund. The Stop Loss Fund was initiated to eliminate the need to purchase aggregate reinsurance for aggregate losses paid in excess of \$154,000, net of reinsurance recoveries for any one member in any one year. Aggregate paid losses in excess of \$154,000 net of reinsurance recoveries are paid entirely from the Internal Stop Loss Fund. If at any time the Stop Loss Fund is insufficient to fund Clare County's losses, the remaining liability shall become the responsibility of the Authority as a whole.

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE I: RISK MANAGEMENT - CONTINUED**

Primary Government, except for Transit Corporation - concluded

At September 30, 2004, the County had reserves for reported claims of \$38,815 on deposit with the Authority.

The County also participates in a pool, the Michigan Counties' Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The County has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

Clare County is self insured for health insurance through Blue Cross/Blue Shield of Michigan (BCBSM). Under the terms of the agreement between the County and BCBSM, the County is responsible for the first \$50,000 of health care costs of each employee contract. Claims in excess of \$50,000 are covered by Stop Loss coverage purchased through BCBSM. Clare County also purchases Aggregate Stop Loss through BCBSM on the total amount of claims with an attachment point of \$9,741 per contract. The County averages 135 employee contracts throughout the year. Aggregate Stop Loss coverage would be provided to the County when the total amount of claim costs exceeds \$1,324,776 (135 X \$9,741).

Transit Corporation

The Transit Corporation is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Transit Corporation purchases commercial insurance for business auto repairs, commercial general liability, commercial inland marine (radio and TV), commercial property (building and contents), computerized business equipment, workers compensation and medical benefit claims. The Transit Corporation participates in the Michigan Transit Pool for claims relating to auto and general liability. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past four (4) fiscal years.

The Michigan Transit Insurance Pool (Pool) was created pursuant to the provisions of MCL 124.1 et seq. and was incorporated under the Michigan Nonprofit Corporation Act, being MCL Sections 450.2101 et seq., as the Michigan Transit Pool, Inc. The Pool is to provide administrative loss protection programs for the members, to pool losses and claims, to jointly purchase commercial services, including claims adjusting, data processing, risk management consulting, loss prevention, legal and related services. The Pool is a separate legal and administrative entity. Settled claims for the Pool have not exceeded the amounts of insurance coverage in any of the past four (4) years.

Road Commission (Component Unit)

Clare 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 authorized 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 programs 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 Clare County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors and omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that it will be self sustaining through member premiums determined necessary by the Pool Board.

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

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE I: RISK MANAGEMENT - CONCLUDED**

Road Commission (Component Unit) - concluded

During the year ended September 30, 2004 and the previous two (2) years, there were no settlements which exceeded the respective insurance coverage. In addition, there has been no reduction in insurance coverage from the prior year.

**NOTE J: CONTINGENT LIABILITIES**

The County participates in a number of Federal and State assisted grant programs which are subject to compliance audits. The Single Audit of the Federal Programs and the periodic program compliance audits of many of the State programs have not yet been completed or final resolution has not been received. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

There are various legal actions pending against the County. Due to the inconclusive nature of many of the actions, it is not possible for Legal Counsel to determine the probable outcome or a reasonable estimate of the County's potential liability, if any. Those actions for which a reasonable estimate can be determined of the County's potential liability and that would not be covered by insurance and reserves, if any, are considered by County Management and Legal Counsel to be immaterial.

**NOTE K: PREPAID INSURANCE**

Clare County Transit Corporation purchases insurance coverage through the Michigan Transit Pool Association (MPTA). The Transit Corporation's required retention has been increased to \$25,000 per occurrence in recent years. To mitigate risks and provide premium stabilization, the Transit Corporation has deposited an additional amount of \$125,069 with the pool, which is recorded as prepaid insurance as of September 30, 2004.

**NOTE L: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

PRIMARY GOVERNMENT

In the budgeting comparison schedules and other supplementary information section, the County's budgeted expenditures in the General Fund and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the County have been adopted at the department and total fund level for the General Fund and for the Special Revenue Funds, respectively.

During the year ended September 30, 2004, the County incurred expenditures in the General Fund and four (4) Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Prosecutor	\$ 314,982	\$ 315,015	\$ 33
Survey and remonumentation	48,240	48,357	117
Public safety			
School safety	-	275	275
Jail	1,980,650	1,982,852	2,202
Emergency planning	650	62,822	62,172

Clare County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE L: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONCLUDED**

PRIMARY GOVERNMENT - CONCLUDED

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
Special Revenue Funds			
Housing Commission	\$ 541,500	\$ 570,203	\$ 28,703
Law Library	3,500	3,880	380
Council on Aging	377,970	411,895	33,925
Social Welfare	241,000	243,374	2,374

COMPONENT UNIT - ROAD COMMISSION

Public Act 621 of 1978, section 18 (I), 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 twelve months ended September 30, 2004 the County Road Commission incurred expenditures in certain areas which were in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
Primary Road			
Heavy maintenance	\$ 1,525,000	\$ 2,032,209	\$( 507,209 )
Local Road			
Maintenance	1,210,000	1,691,665	( 481,665 )
State Trunkline			
Maintenance	720,000	751,660	( 31,660 )
Nonmaintenance	-	53,446	( 53,446 )
Long-Term Debt	400,000	401,438	( 1,438 )

The Road Commission does not use encumbrances for budgetary purposes. During the twelve months ended September 30, 2004, the Road Commissioners made one amendment to the General Operating Fund Budget.

**NOTE M: FUND BALANCE RESERVES AND DESIGNATIONS**

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance or net assets which the County has set aside for specific purposes. These reserves and designations are recorded at the fund level to indicate management plans for these funds.

The following are the various fund balance reserves as of September 30, 2004:

PRIMARY GOVERNMENT

General Fund	
Reserved for advances to other funds and component units	
Friend of the Court Fund	\$ 22,613
Scrap Tire Grant Fund	210,000
Health Insurance Fund	250,000
Component unit funds - Drainage Districts	<u>103,185</u>
	585,798
Reserved for family counseling	<u>22,952</u>
	<u>\$ 608,750</u>

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE M: FUND BALANCE RESERVES AND DESIGNATIONS - CONCLUDED**

PRIMARY GOVERNMENT - CONCLUDED

Nonmajor governmental funds	
Reserved for debt service	\$ 1,363
Reserved for capital projects	
Public Building and Improvement Fund	101,631
Animal Shelter Improvement Fund	<u>375,724</u>
	<u>477,355</u>
	<u>\$ 1,087,468</u>

COMPONENT UNITS

Board of Public Works	
Reserved for debt service	<u>\$ 722</u>

The following is the various fund balance designations as of September 30, 2004:

COMPONENT UNITS

Drainage Districts	
Designated for capital projects	<u>\$ 86,384</u>

**NOTE N: PROPERTY TAXES AND TAXES RECEIVABLE**

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

The County's 2003 ad valorem tax was levied and collectible on December 31, 2003. It is the County's policy to recognize revenues from the tax levy in the year when the proceeds of the levy are budgeted and made available for the financing of County operations. As a result, the County's 2003 tax levy has been recognized as revenue in the current fiscal year. The 2003 taxable value of Clare County amounted to \$768,198,996 on which ad valorem taxes levied for County general operating purposes consisted of 4.8339 mills. For the year ended September 30, 2004, the County levied 0.4629 mills for the Council on Aging, 0.2411 mills for the Animal Control Shelter, and .2500 for the Gypsy Moth Fund. The Clare County Transit Corporation levied 0.2636 mills for transportation services.

By resolution of the Board of Commissioners and agreement with various taxing authorities, the County purchased at face value the real property taxes receivable returned delinquent on March 1, 2004. Subsequent collections of delinquent taxes receivable, plus interest thereon and investment earnings, are used to repay the funds distributed by the Revolving Tax Fund. This activity is accounted for in the Revolving Tax (Enterprise) Fund.

Clare County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE O: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of September 30, 2004:

PRIMARY GOVERNMENT

Governmental Activities

Restricted for

Other purposes

Drug law enforcement	\$ 10,089
Local corrections officers	4,662
Friend of the Court medical grant	15,079
Friend of the Court	39,006
Public building and improvements	101,631
911 service	103,248
Law library	1,985
Scrap tire grant	210,000
Council on Aging	177,947
Social welfare	22,561
Child Care probate	96,382
Child Care F.I.A.	26,458
Animal shelter	375,724
Gypsy moth	1,145,392
Housing Commission	<u>692,372</u>

\$ 3,022,536

COMPONENT UNITS

Restricted for

Other purposes

County roads

\$ 1,744,676

**NOTE P: PRIOR PERIOD ADJUSTMENTS**

The following prior period adjustments were made during the year, which were the result of corrections of accounting errors. These adjustments were reported as changes to beginning net assets. The effect on operations and other affected balances for the current and prior year are as follows:

	<u>September 30,</u> <u>2003</u>	<u>2004</u>	
PRIMARY GOVERNMENT			
Governmental activities			
Capital assets, net	\$( 150,315 )	\$ -	Correct overstated capital
Change in net assets	( 150,315 )	-	assets, net due to the
Net assets - beginning	-	( 150,315 )	County's adoption of a
			new policy
Accrued interest payable	( 37,995 )	-	Correct understated
Change in net assets	( 37,995 )	-	accrued interest payable
Net assets - beginning	-	( 37,995 )	

Clare County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

**NOTE P: PRIOR PERIOD ADJUSTMENTS - CONCLUDED**

	September 30,		
	<u>2003</u>	<u>2004</u>	
COMPONENT UNITS			
Accrued interest payable	\$( 53,353 )	\$ -	Correct understated
Change in net assets	( 53,353 )	-	accrued interest payable
Net assets - beginning	-	( 53,353 )	
Lease receivable	47,923	-	Correct understated
Change in net assets	47,923	-	lease receivable
Net assets - beginning	-	47,923	

**NOTE Q: FEDERAL FINANCIAL ASSISTANCE**

COMPONENT UNIT - ROAD COMMISSION

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.

The federal aid secondary revenue of \$790,508 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects where work was performed by independent contractors paid for and administered by the Michigan Department of Transportation.

Principals

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Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
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ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

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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

To the Board of Commissioners  
Clare County  
Harrison, Michigan

We have audited the financial statements of Clare County as of and for the year ended September 30, 2004, and have issued our report thereon dated March 7, 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 Clare County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Clare County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We noted the following reportable conditions:

2004-1 BANK RECONCILIATIONS

Condition: During the course of our audit, it was noted that the County had not reconciled the pooled cash bank account to the general ledger in a timely manner as of October 4, 2004. The reconciling of these amounts to the general ledger was not performed until March of 2005. It was noted that various general ledger posting errors and unrecorded transactions had not been properly accounted for until the reconciliation was complete.

Criteria: Reconciliation of all bank accounts in a timely manner is one of the most important procedures for maintaining a sound internal control structure over all cash activities. The failure to reconcile cash also results in the inability to monitor cash flows to assure adequate funds are on hand to meet cash needs. Timely bank reconciliations are a critical accounting function.

Effect: As a result of not reconciling the County's pooled cash bank account in a timely manner, reconciling items were not identified and resolved until March 2005.

#### 2004-1 BANK RECONCILIATIONS - CONTINUED

Recommendation: We recommend the County assure all bank reconciliations be performed and approved by the appropriate individuals on a timely basis and any adjustments to the general ledger or at the bank be handled immediately. This process will not only assure accurate cash balances but will be useful for the County to monitor cash flow.

Corrective Action Response: Management of the County is currently reviewing procedures related to timely bank reconciliations and will implement necessary changes in order to comply with the cited requirements.

#### 2004-2 BANK ACCOUNTS NOT RECORDED

Condition: During the course of our audit, we noted two (2) bank accounts that are not recorded in the County's general ledger. One (1) account is a Trust and Agency account for the Friend of the Court and the other account is an Inmate/Commissary account maintained at the jail. The balances in these accounts were not considered to be material to the financial statements.

Criteria: The recording of all cash accounts is necessary to demonstrate stewardship over all of the activities that have been entrusted to the County.

Effect: The County has failed to identify all of the bank accounts that they have custody over. As a result, the County has not maintained adequate internal control over cash activities.

Recommendation: We recommend that the County take steps to ensure that all bank accounts are properly identified and recorded in the County's general ledger.

Corrective Action Response: Management of the County is currently reviewing procedures related to identification of all bank accounts and will implement necessary changes in order to comply with the cited requirements.

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 or 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2004-1 and 2004-2 to be material weaknesses. Additionally, we noted other matters involving the internal control over financial reporting, which we have reported to management of Clare County, Michigan in a separate letter dated March 7, 2005.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clare County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the administration and Board of Commissioners of Clare County, the pass-through grantors, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

March 7, 2005