

**Alger County Road Commission
Component Unit Financial Statements
For the Year Ended December 31, 2007**

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INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Alger County Road Commission
E 9264 M-28
Munising, MI 49862

We have audited the accompanying financial statements of the governmental activities and each major fund of the Alger County Road Commission, component unit of the County of Alger, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Alger County Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Alger County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Alger County Road Commission as of December 31, 2007, and the respective changes in financial position 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 June 1, 2008, on our consideration of the Alger County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 10 and 29 through 31, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of County Road Commissioners
Alger County Road Commission
Munising, MI 49862

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

Anderson, Tackman & Company, PLLC
Certified Public Accountants

June 1, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Using this Annual Report

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

Overview of the Financial Statements

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to ensure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Reporting the Road Commission's Major Funds

The Road Commission currently has two funds, the general operations fund and a debt service fund. All of the Road Commission's activities are accounted for in the general operations fund, except for the bond payments which are accounted for in the debt service fund. The general operations fund and debt service fund are governmental type funds. Our analysis of the Road Commission's major fund begins on page 13. The fund financial statements begin on page 15 and provide detailed information about the major fund.

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

The Road Commission as a Whole

The Road Commission's net assets increased approximately 25%, or \$1,658,149 from \$6,549,101 to \$8,207,250 for the year ended December 31, 2007. The net assets and change in net assets are summarized below.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements increased by \$118,290. Restricted net assets, those restricted mainly for debt service purposes, increased \$7,988. The investment in capital assets (net of related debt) increased by \$1,543,664.

The net income of \$1,658,149 was due to the following:

Net change in fund balance – total governmental funds	\$	126,278
Net change in capital assets		1,313,049
Proceeds from new debt – reclass to liability		-
Repayment of debt principal – reclass to liability		230,616
Change in compensated absences		(11,794)
TOTAL	\$	<u>1,658,149</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Net assets as of December 31, 2006 and 2007 follow:

	2006	2007	Variance Increase (Decrease)
Current and Other Assets	\$ 1,923,677	\$ 2,063,205	\$ 139,528
Capital Assets	8,819,461	10,132,509	1,313,048
Total Assets	<u>10,743,138</u>	<u>12,195,714</u>	<u>1,452,576</u>
Long-Term Debt Outstanding	3,883,598	3,660,598	(223,000)
Other Liabilities	310,439	327,866	17,427
Total Liabilities	<u>4,194,037</u>	<u>3,988,464</u>	<u>(205,573)</u>
 Net Assets			
Invested in Capital Assets			
Net of Debt	5,574,012	7,117,676	1,543,664
Restricted – Debt Service	144,137	152,125	7,988
Restricted – Operations	830,952	937,449	106,497
Total Net Assets	<u>\$ 6,549,101</u>	<u>\$ 8,207,250</u>	<u>\$ 1,658,149</u>

Changes in Net Assets

A summary of changes in net assets for the years ended December 31, 2006 and 2007 follows:

	Governmental Activities 2006	Governmental Activities 2007	Increase (Decrease)
Program Revenue			
License and Permits	\$ 2,803	\$ 3,325	\$ 522
Federal Grants	1,932,663	1,049,203	(883,460)
State Grants	1,237,229	700,755	(536,474)
Michigan Transportation Funds	2,129,486	2,120,302	(9,184)
Contributions From Local Units	143,819	24,200	(119,619)
Charges for Services	1,175,538	1,582,301	406,763
Investment Earnings	42,377	43,577	1,200
Reimbursements	33,310	39,388	6,078
General Revenue			
Insurance Recoveries	-	-	-
Gain on Equipment Disposal	19,102	2,750	(16,352)
Sale of Land and Buildings	-	-	-
Total Revenue	<u>6,716,327</u>	<u>5,565,801</u>	<u>(1,150,526)</u>
 Expenses			
Primary Road—Routine and Preventive Maintenance	732,045	807,846	75,801
Local Road—Routine and Preventive Maintenance	891,066	966,386	75,320
State Trunkline Maintenance	954,335	1,449,184	494,849
Net Equipment Expense	445,602	68,246	(377,356)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

	Governmental Activities 2006	Governmental Activities 2007	Increase (Decrease)
Net Administrative Expense	\$ 256,651	\$ 167,251	\$ (89,400)
Non-Road Project	-	-	-
Infrastructure Depreciation	90,455	271,250	180,795
Compensated Absences	(8,368)	11,794	20,162
Interest Expense	160,474	165,695	5,221
Total Expenses	<u>3,522,260</u>	<u>3,907,652</u>	<u>(385,392)</u>
Change in Net Assets	<u>\$ 3,194,067</u>	<u>1,658,149</u>	<u>(1,535,918)</u>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2007, the fund balance of the General Operations Fund increased \$126,278 as compared to a decrease of \$241,816 in the fund balance for the year ended December 31, 2006. Total operating revenues were \$5,565,801, a decrease of \$1,150,526 as compared to last year. This change in revenues resulted primarily from funds received in connection with the H-58 reconstruction project.

Total expenditures were \$5,439,523, a decrease of \$1,720,620 as compared to last year. This change in expenditures resulted primarily from expenses related to the H-58 reconstruction project.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The original revenue and expenditure budget for 2007 was higher than the actual receipts by \$4,956,421.

Of this amount \$4,643,077 was the difference in federal funds budgeted compared to actual receipts. This change was due to the H-58 project being postponed. This project has been postponed due to technical inaccuracies in the application process.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2007, the Road Commission had \$10,132,509 invested in capital assets, compared to the prior year, as follows:

	2006	2007	Total Percentage Change
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 49,332	\$ 49,332	-%
Land/Right-of-Way	-	-	-
Construction in Progress	-	-	-
Subtotal	<u>49,332</u>	<u>49,332</u>	<u>-</u>
Capital Assets Being Depreciated			
Delectable Assets	-	-	-
Buildings	3,729,482	3,729,482	-
Equipment	5,061,486	5,036,029	1
Yard and Storage	-	-	-
Infrastructure	5,360,698	7,159,777	34
Subtotal	<u>14,151,666</u>	<u>15,925,288</u>	<u>13</u>
Total Capital Assets	<u>14,200,998</u>	<u>15,974,620</u>	<u>12</u>
Total Accumulated Depreciation	<u>(5,381,537)</u>	<u>(5,842,111)</u>	<u>9</u>
Total Net Capital Assets	<u>\$ 8,819,461</u>	<u>\$ 10,132,509</u>	<u>15</u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$7,159,777, an addition of \$1,799,079. The infrastructure recorded, during 2007, will be depreciated in the following year. The infrastructure is financed through federal, state and local contributions.

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

Road Preservation/Structural Improvements	\$ 1,799,079
Road Equipment	91,788
Other Equipment	2,995
Total Additions	<u>\$ 1,893,861</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Un-audited) (Continued)

Debt

At the year end, the Road Commission had \$3,014,833 in bonds and installment purchase agreements versus \$3,245,449 last year, a decrease of 7% as shown below:

	<u>2006</u>	<u>2007</u>	<u>Variance</u>	<u>Total Percentage Change 2007/2006</u>
Bonds Payable	\$ 2,650,000	\$ 2,595,000	\$ (55,000)	(2)%
Installment Purchase Agreements	595,449	419,833	(175,616)	(29.)%
Total	<u>\$ 3,245,449</u>	<u>\$ 3,014,833</u>	<u>\$ (230,616)</u>	<u>(7.)%</u>

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note I to the financial statements.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2008 budget. One of the factors is the economy. The Road Commission derives approximately 45% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive the same amount of Michigan Transportation Fund revenues in 2008. The Road Commission received approximately 2% of its revenues from township contributions during 2007, this amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. During 2008, we expect to receive at least \$3,100,000 in federal, state, and township aid for road projects, some of which was deferred from 2007. Some of these projects were released late in the year after the construction season.

The above items were considered when adopting the budget for 2008.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Alger County Road Commission's administrative offices at E9264 N-28, Munising, Michigan 49862.

Alger County Road Commission

Statement of Net Assets

December 31, 2007

ASSETS	
Cash	\$ 1,250,086
Accounts Receivable	
Michigan Transportation Funds	283,582
Trunkline Maintenance	197,486
State Highway - Other	110,063
Due on County Road Agreements	-
Sundry Accounts	151
Inventories:	
Road Materials	174,029
Equipment Parts and Materials	29,400
Prepaid Expense	18,408
Capital Assets - Net of Accumulated Depreciation	<u>10,132,509</u>
Total Assets	<u><u>\$ 12,195,714</u></u>

LIABILITIES AND FUND EQUITY

Current Liabilities:	
Accounts Payable	\$ 226,779
Due to State of Michigan	30,000
Accrued Payroll Liabilities	71,087
Non-Current Liabilities:	
Advances	245,558
Deferred Revenue - Forest Road (E) Funds	155,490
Bonds and Notes Payable - Due Within One Year	235,978
Bonds and Notes Payable - Due in More Than One Year	2,778,855
Vested Employees Benefits Payable	<u>244,717</u>
Total Liabilities	<u><u>3,988,464</u></u>

NET ASSETS

Investment in Capital Assets - Net of Related Debt	7,117,676
Restricted for Debt Service	152,125
Restricted for County Roads	<u>937,449</u>
Total Net Assets	<u><u>\$ 8,207,250</u></u>

See accompanying notes to the financial statements.

Alger County Road Commission

Statement of Activities

For the Year Ended December 31, 2007

Program Expenses:	
Primary Road Routine and Preventive Maintenance	\$ 807,846
Local Road Routine and Preventive Maintenance	966,386
State Trunkline Maintenance	1,449,184
Net Equipment Expense	68,246
Net Administrative	167,251
Non-Road Projects	-
Infrastructure Depreciation	271,250
Compensated Absences	11,794
Interest Expense	<u>165,695</u>
Total Program Expenses	<u>3,907,652</u>
Program Revenue:	
Charges for Services:	
License and Permits	3,325
Charges for Services	1,582,301
Reimbursements	39,388
Operating Grants and Contributions:	
Michigan Transportation Funds	2,120,302
Investment Earnings	43,577
Capital Grants and Contributions:	
Federal Grants	1,049,203
State Grants	700,755
Contributions from Local Units	<u>24,200</u>
Total Program Revenues	<u>5,563,051</u>
Net Program Revenue	<u>1,655,399</u>
General Revenue:	
Gain (loss) on Equipment Disposal	<u>2,750</u>
Total General Revenues	<u>2,750</u>
Change in Net Assets	1,658,149
Net Assets:	
Beginning of Year	<u>6,549,101</u>
End of Year	<u>\$ 8,207,250</u>

See accompanying notes to the financial statements.

Alger County Road Commission

Balance Sheet

December 31, 2007

	General Fund	Debt Service Fund	Total
ASSETS			
Cash	\$ 1,097,961	\$ 152,125	\$ 1,250,086
Accounts Receivable:			
Michigan Transportation Funds	283,582	-	283,582
Trunkline Maintenance	197,486	-	197,486
State - Other	110,063	-	110,063
Due on County Road Agreements	-	-	-
Sundry Accounts	151	-	151
Inventories:			
Road Materials	174,029	-	174,029
Equipment Parts and Materials	29,400	-	29,400
Prepaid Expense	18,408	-	18,408
TOTAL ASSETS	<u>\$ 1,911,080</u>	<u>\$ 152,125</u>	<u>\$ 2,063,205</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts Payable	\$ 226,779	\$ -	\$ 226,779
Due to State of Michigan	30,000	-	30,000
Accrued Payroll Liabilities	71,087	-	71,087
Advances	245,558	-	245,558
Deferred Revenue - Forest Road (E) Funds	155,490	-	155,490
Total Liabilities	<u>728,914</u>	<u>-</u>	<u>728,914</u>
Fund Equity:			
Reserved for Debt Service	-	152,125	152,125
Unreserved and Undesignated	1,182,166	-	1,182,166
Total Fund Equity	<u>1,182,166</u>	<u>152,125</u>	<u>1,334,291</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,911,080</u>	<u>\$ 152,125</u>	<u>\$ 2,063,205</u>

See accompanying notes to the financial statements.

Alger County Road Commission

Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets

December 31, 2007

Total Fund Balances for Governmental Funds \$ 1,334,291

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 10,132,509

Long-term liabilities are not due and payable in the current period and are
not reported in the funds. Long-term liabilities at year-end consist of:

Bond & Notes Payable - Current

(235,978)

Bond & Notes Payable - Non-Current

(2,778,855)

Compensated Absences

(244,717)

(3,259,550)

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 8,207,250

See accompanying notes to the financial statements.

Alger County Road Commission

Statement of Revenue, Expenditures, and Changes in Fund Balance

For the Year Ended December 31, 2007

	General Operating Fund	Debt Service Fund	Total
Revenues:			
License and Permits	\$ 3,325	\$ -	\$ 3,325
Federal Sources	1,049,203	-	1,049,203
State Sources	2,821,057	-	2,821,057
Contributions from Local Units	24,200	-	24,200
Charges for Services	1,582,301	-	1,582,301
Interest and Rents	37,039	6,538	43,577
Other Revenue	42,138	-	42,138
	<u>5,559,263</u>	<u>6,538</u>	<u>5,565,801</u>
Total Revenues			
Expenditures:			
Public Works	5,257,991	-	5,257,991
Capital Outlay (net)	(214,779)	-	(214,779)
Debt Service	205,761	190,550	396,311
	<u>5,248,973</u>	<u>190,550</u>	<u>5,439,523</u>
Total Expenditures			
Excess of Revenues Over (Under) Expenditures	<u>310,290</u>	<u>(184,012)</u>	<u>126,278</u>
Other Financing Sources (Uses):			
Note Proceeds	-	-	-
Transfers In (Out)	(192,000)	192,000	-
	<u>(192,000)</u>	<u>192,000</u>	<u>-</u>
Total Other Financing Sources (Uses)			
Excess (Deficit) of Revenues and Other Financing Sources Over (Under) Expenditures	118,290	7,988	126,278
Fund Balance - January 1, 2007	<u>1,063,876</u>	<u>144,137</u>	<u>1,208,013</u>
Fund Balance - December 31, 2007	<u>\$ 1,182,166</u>	<u>\$ 152,125</u>	<u>\$ 1,334,291</u>

See accompanying notes to the financial statements.

Alger County Road Commission

Reconciliation of the Statement of Revenues, Expenses, and Changes In
Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended December 31, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 126,278

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

Governmental funds report capital outlays and infrastructure as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense - building and equipment	(309,561)	
Depreciation expense - infrastructure	(271,250)	
Capital outlays - building and equipment	94,782	
Capital outlays - infrastructure - primary	1,601,285	
Capital outlays - infrastructure - local	197,793	
Gain (loss) on disposal	-	1,313,049

Repayment of bond/note principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net assets. 230,616

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (11,794)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 1,658,149

See accompanying notes to the financial statements.

Alger County Road Commission
Notes to Financial Statements
December 31, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

(1) **Reporting Entity**

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

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

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Debt Service Fund is used to control the activity regarding their bond payments. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund and Debt Service Fund.

(2) **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Alger County Road Commission. There are two funds reported in the government-wide financial statements.

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

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

(3) Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

(4) Assets, Liabilities, and Net Assets or Equity

Cash, Cash Equivalents and Investments

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Inventories

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

Prepaid Expenses

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

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Alger County Road Commission as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. GASB 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, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before December 31, 2007 as permitted by GASB 34.

Depreciation

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

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

Long-Term Obligations

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

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted

Accounting Principles requires management to make estimates and assumptions that affect

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Compensated Absences (Vacation and Sick Leave)

It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public hearing. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

NOTE C – CASH DEPOSITS AND INVESTMENTS:

The cash and investments are classified in the following categories:

The cash and investments are classified into the following categories:

Petty Cash	\$	150
Cash – Held with Road Commission – Bank Deposits		1,249,936
Total Cash	\$	<u>1,250,086</u>

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

NOTE C – CASH DEPOSITS AND INVESTMENTS (Continued):

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 20 of 1943.

Interest Rate Risk

The Road Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to Fair Value losses arising from increasing interest rates.

Credit Risk

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

Custodial Investment Credit Risk

Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Road Commission invests with the County of Alger and would receive its proportional share of holdings.

Custodial Deposit Credit Risk

Custodial deposit credit risk is the risk that in the event of a bank failure, the Road Commission deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. The carrying amounts of the Road Commission's deposits with financial institutions were \$1,250,086 and the bank balance was \$1,267,961. The bank balance is categorized as follows:

Amount insured by FDIC	\$ 100,000
Amount uninsured and uncollateralized	<u>1,167,961</u>
	<u>\$ 1,267,961</u>

NOTE D – DEFERRED COMPENSATION PLAN:

The Alger County Road Commission offers all its employees a deferred compensation plan created accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust, (custodial account or annuity contract) as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer (Alger County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement

No. 32, plan balances and activities are not reflected in the Alger County Road Commission's financial statements.

NOTE E – CAPITAL ASSETS:

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

	Beginning Balances 1/1/06	Additions	Deletions	Ending Balances 12/31/06
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 49,332	\$ -	\$ -	\$ 49,332
Land/Right-of-Way	-	-	-	-
Construction in Progress	-	-	-	-
Subtotal	<u>49,332</u>	<u>-</u>	<u>-</u>	<u>49,332</u>
Capital Assets Being Depreciated:				
Delectable Assets	-	-	-	-
Buildings	3,729,482	-	-	3,729,482
Road Equipment	4,850,994	91,788	120,238	4,822,544
Shop Equipment	93,341	-	-	93,341
Office Equipment	101,160	2,995	-	104,155
Engineers' Equipment	15,991	-	-	15,991
Yard and Storage	-	-	-	-
Vehicles	-	-	-	-
Infrastructure—Bridges	-	-	-	-
Infrastructure—Roads	5,360,698	1,799,079	-	7,159,777
Subtotal	<u>14,151,666</u>	<u>1,893,862</u>	<u>120,238</u>	<u>15,925,290</u>
Less Accumulated Depreciation:				
Delectable Assets	-	-	-	-
Buildings	(806,560)	(73,021)	-	(879,581)
Road Equipment	(4,304,643)	(222,972)	(120,238)	(4,407,377)
Shop Equipment	(78,100)	(5,930)	-	(84,030)
Office Equipment	(68,765)	(7,086)	-	(75,851)
Engineers' Equipment	(12,961)	(553)	-	(13,514)
Yard and Storage	-	-	-	-
Vehicles	-	-	-	-
Infrastructure—Bridges	-	-	-	-
Infrastructure—Roads	(110,508)	(271,250)	-	(381,758)
Subtotal	<u>(5,381,537)</u>	<u>(580,812)</u>	<u>(120,238)</u>	<u>(5,842,111)</u>
Net Capital Assets Being Depreciated	<u>8,770,129</u>	<u>1,313,050</u>	<u>-</u>	<u>10,083,179</u>
Total Net Capital Assets	<u>\$ 8,819,461</u>	<u>\$ 1,313,050</u>	<u>\$ -</u>	<u>\$ 10,132,511</u>

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

Equipment Expense:	
Direct	\$ 222,972
Indirect	78,951
Administrative Expense	7,639
Infrastructure	<u>271,250</u>
Total Depreciation Expense	<u>\$ 580,812</u>

NOTE F – EMPLOYEE RETIREMENT AND BENEFIT:

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

Plan Description – The Alger County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees of the Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: Municipal Employee's Retirement System of Michigan, 1134 Municipal Way, Lansing, MI 48917.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Alger County Road Commission's competitive bargaining units and requires a contribution from the employees of 4.7% of gross wages for the County Road Commission.

Annual Pension Costs – For year ended 2007, Alger County Road Commission's annual pension cost of \$100,620 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal funding method. Significant actuarial assumptions used include: (1) an 8% investment rate of return; (2) projected salary increases of 4.5% per year; and (3) 4.5% per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31 follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Annual Pension Cost (APC)	\$ 93,005	\$ 100,475	\$ 120,018
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	-	-	-
Actuarial Value of Assets	\$ 6,159,964	\$ 6,294,415	\$ 6,550,192
Actuarial Accrued Liability (AAL)	\$ 7,074,410	\$ 7,288,451	\$ 7,361,158
Unfunded AAL (UAAL)	\$ 914,446	\$ 994,036	\$ 810,966
Funded Ratio	87%	86%	89%
Covered Payroll	\$ 1,143,224	\$ 1,131,732	\$ 110,254
UAL as a Percentage of Covered Payroll	80%	88%	73%

NOTE G – FEDERAL GRANTS:

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2007, the Federal aid received and expended by the Road Commission was \$1,201,444 for contracted projects and \$-0- negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are

NOTE G – FEDERAL GRANTS (Continued):

included in MDOT's single audit). Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects which will be included with the County's Single Audit.

NOTE H – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION:

The Road Commission provides post-retirement health care benefits, in accordance with labor contracts and personnel policy, to all employees who retire from the Road Commission. Full premium of medical benefits for the retired employees only, between 60 and 65 years old are paid by the Road Commission. When the retired employee attains the age of 65 years, the employer's contribution shall end under the contracts. Currently, 4 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. During the year, net expenditures of \$23,108 were recognized for post-retirement health care.

NOTE I – GENERAL LONG-TERM DEBT:

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

Loans Payable	Balances January 1, 2007	Additions	Reductions	Balances December 31, 2007	Due Within One Year
Peoples State Bank:					
February 2002 loan	\$ 10,814	\$ -	\$ 10,814	\$ -	\$ -
December 2003 loan #1	57,386	-	28,128	29,258	29,258
December 2003 loan #2	325,250	-	100,048	225,202	108,516
June 2006 loan	202,000	-	36,628	165,372	38,204
Michigan Transportation Fund:					
Notes payable	2,650,000	-	55,000	2,595,000	60,000
Vested Employee Benefits Payable:					
Vacation benefits	90,676	-	(58,805)	149,481	-
Sick leave benefits	142,247	-	(47,010)	95,237	-
TOTAL	\$ 3,478,373	\$ -	\$ 218,823	\$ 3,259,550	\$ 235,978

Loans Payable – Equipment Purchases

The Road Commission borrowed various amounts from local banks to finance the purchase of various items of road equipment, which are pledged as security for the loans. The lenders, terms and annual principal and interest requirements are as follows:

NOTE I – GENERAL LONG-TERM DEBT (Continued):

**Peoples State Bank – December 2003 – Loan #1
Snogo**

**Terms: Purchase price of \$110,670 at 3.94%
interest from December 2006 to December 2008**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
2008	<u>\$ 29,205</u>	<u>\$ 4,414</u>
	<u>\$ 29,205</u>	<u>\$ 4,414</u>

**Peoples State Bank – December 2003 – Loan #2
4 2006 Tandem Trucks**

**Terms: Purchase price of \$522,971 at 3.94%
interest from December 2006 to December 2009**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 108,553	\$ 8,723
2009	<u>112,258</u>	<u>4,448</u>
	<u>\$ 220,811</u>	<u>\$ 13,171</u>

**Peoples State Bank – June 2006 – Loan
2005 Caterpillar Motor Grader**

**Terms: Purchase price of \$202,000 at 4.951%
interest from June 2006 to June 2011**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 38,204	\$ 8,389
2009	40,139	6,454
2010	42,172	4,421
2011	<u>45,124</u>	<u>1,469</u>
	<u>\$ 165,639</u>	<u>\$ 20,733</u>

NOTE I – GENERAL LONG-TERM DEBT (Continued):

During 2001, the Alger County Road Commission entered into Act 143, Michigan transportation Fund Revenue Notes payable for the purpose of constructing a new garage and office facility in Munising in the amount of \$2,900,000 with interest from 5% to 8%.

**Michigan Transportation Fund
Notes Payable – Series 2000**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 60,000	\$ 130,950
2009	60,000	126,150
2010	65,000	122,125
2011	65,000	118,875
2012	70,000	115,500
2013	75,000	111,875
2014	75,000	108,125
2015	80,000	104,250
2016	85,000	100,125
2017	90,000	95,750
2018	95,000	91,125
2019	100,000	86,250
2020	105,000	81,125
2021	110,000	75,750
2022	115,000	71,125
2023	120,000	64,250
2024	125,000	58,125
2025	135,000	51,625
2026	140,000	44,750
2027	150,000	37,500
2028	155,000	29,875
2029	165,000	21,875
2030	175,000	13,375
2031	180,000	4,500
	\$ 2,595,000	\$ 1,864,975

Annual Maturities on the Long-Term Debt are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 235,962	\$ 152,476
2009	212,397	137,052
2010	107,172	126,546
2011	110,124	120,344
2012-2016	385,000	539,875
2017-2021	500,000	430,000
2022-2026	635,000	289,875
2027-2031	825,000	107,125
TOTAL	\$ 3,010,655	\$ 1,903,293

NOTE I – GENERAL LONG-TERM DEBT (Continued):

Vested Employee Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year.

Sick Leave Benefit Policies

Road Commission employment policies provide that each regular employee shall earn sick leave with pay at the rate of 1 day, or 8 hours, for each completed month of employment. Sick leave may be accumulated with a 960 hour maximum accumulation.

Upon retirement, death or discontinuance of employment for any reason, except for dismissal for disciplinary reasons, the employee shall be paid for 480 hours accumulated sick leave at the employee's prevailing rate of pay at the time of the termination of employment.

NOTE J – CONTINGENCIES

The Road Commission has determined that, as a potentially responsible party, it is likely that it has incurred a liability for environmental remediation costs resulting from ground contamination at their old facility. Although, no claim against the Road Commission has yet been asserted, it is expected that such a claim will be brought against the Road Commission in the future.

Grants – The Alger County Road Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Alger County Road Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Alger County Road Commission at December 31, 2007.

Risk Management – The Alger County Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Alger County Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Alger County Road Commission joined together with other Michigan Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Alger County Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 (\$2,000 for errors and omissions) for each insured event. The maximum limit of liability for each occurrence is \$10,500,000. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Alger County Road Commission is unable to provide an estimate of the amounts of additional assessments.

**Required Supplementary
Information**

Alger County Road Commission

Budgetary Comparison Schedule Statement of Revenues
Budget to Actual

For the Year Ended December 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits:				
Permits	\$ -	\$ 3,325	\$ 3,325	\$ -
Total Licenses and Permits	<u>-</u>	<u>3,325</u>	<u>3,325</u>	<u>-</u>
Federal Sources:				
High Priority	5,692,280	446,398	446,398	-
STP Funds	-	429,074	429,074	-
TED Funds	-	173,731	173,731	-
Total Federal Sources	<u>5,692,280</u>	<u>1,049,203</u>	<u>1,049,203</u>	<u>-</u>
State Sources:				
Michigan Transportation Fund				
Engineering	-	10,000	10,000	-
Snow removal	-	283,866	283,866	-
Allocation	3,691,525	1,826,436	1,826,436	-
Total Michigan Transportation Fund	<u>3,691,525</u>	<u>2,120,302</u>	<u>2,120,302</u>	<u>-</u>
Critical Bridge Fund	-	292,203	292,203	-
Total Critical Bridge Fund	<u>-</u>	<u>292,203</u>	<u>292,203</u>	<u>-</u>
Economic Development Fund:				
Target industries (A)	-	115,820	115,820	-
Forest road (E)	-	181,133	181,133	-
Local jobs today	-	111,599	111,599	-
Total Economic Development Fund	<u>-</u>	<u>408,552</u>	<u>408,552</u>	<u>-</u>
Total State Sources	<u>3,691,525</u>	<u>2,821,057</u>	<u>2,821,057</u>	<u>-</u>
Contributions from Local Units:				
Township Contribution	-	23,285	23,285	-
Conservation District	-	915	915	-
Total Contributions from Local Units	<u>-</u>	<u>24,200</u>	<u>24,200</u>	<u>-</u>
Charges for Services:				
Trunkline Maintenance	-	1,287,606	1,287,606	-
Trunkline Non-Maintenance	-	261,012	261,012	-
Salvage Sales	-	962	962	-
Other	1,131,879	32,721	32,721	-
Total Charges for Services	<u>1,131,879</u>	<u>1,582,301</u>	<u>1,582,301</u>	<u>-</u>

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Interest and Rents:				
Interest Earned	\$ -	\$ 37,039	\$ 37,039	\$ -
Total Interest and Rents	<u>-</u>	<u>37,039</u>	<u>37,039</u>	<u>-</u>
Other:				
Land and Bldg. Sales	-	-	-	-
Sundry Refunds	-	39,388	39,388	-
Gain (Loss) Equipment Disposal.	-	2,750	2,750	-
Total Other	<u>-</u>	<u>42,138</u>	<u>42,138</u>	<u>-</u>
Total Operating Revenue	<u>10,515,684</u>	<u>5,559,263</u>	<u>5,559,263</u>	<u>-</u>
Other Financing Sources:				
Note Proceeds	-	-	-	-
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND OTHER FINANCING SOURCES	<u>\$ 10,515,684</u>	<u>\$ 5,559,263</u>	<u>\$ 5,559,263</u>	<u>\$ -</u>

Alger County Road Commission

Budgetary Comparison Schedule Statement of Expenditures
Budget to Actual

For the Year Ended December 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Preservation - Structural Improvements:				
Roads	\$ 6,913,066	\$ 1,344,149	\$ 1,344,149	\$ -
Structures	315,000	454,929	454,929	-
Total Preservation - Structural Improvements	<u>7,228,066</u>	<u>1,799,078</u>	<u>1,799,078</u>	<u>-</u>
Maintenance:				
Roads	1,331,000	1,008,897	1,008,897	-
Winter Maintenance	-	707,007	707,007	-
Traffic Control	-	58,328	58,328	-
Total Maintenance	<u>1,331,000</u>	<u>1,774,232</u>	<u>1,774,232</u>	<u>-</u>
Total Preservation and Maintenance	<u>8,559,066</u>	<u>3,573,310</u>	<u>3,573,310</u>	<u>-</u>
Other:				
Trunkline Maintenance	850,000	1,188,245	1,188,245	-
Trunkline Non-Maintenance	35,000	260,939	260,939	-
Administrative Expense	194,000	167,251	167,251	-
Equipment Expense - Net	(8,500)	68,246	68,246	-
Capital Outlay - Net	(286,000)	(214,779)	(214,779)	-
Debt Principle Payment	240,234	176,270	176,270	-
Interest Expense	165,884	29,491	29,491	-
Distributive Expense	766,000	-	-	-
Total Other	<u>1,956,618</u>	<u>1,675,663</u>	<u>1,675,663</u>	<u>-</u>
Total Expenditures	<u>\$10,515,684</u>	<u>\$5,248,973</u>	<u>\$5,248,973</u>	<u>-</u>
Other Financing Uses:				
Transfers to Debt Service	-	\$192,000	\$192,000	-
Total Other Financing Uses	<u>-</u>	<u>192,000</u>	<u>192,000</u>	<u>-</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 10,515,684</u>	<u>\$ 5,440,973</u>	<u>\$ 5,440,973</u>	<u>\$ -</u>

Additional Supplementary
Information

Alger County Road Commission

Analysis of Equity

For the Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Total Revenues and Other Financing Sources	\$ 2,863,870	\$ 1,032,842	\$ 1,662,551	\$ 5,559,263
Total Expenditures and Other Financing Uses	<u>2,476,337</u>	<u>1,242,535</u>	<u>1,722,101</u>	<u>5,440,973</u>
Excess of Revenues Over (Under) Expenditures	<u>387,533</u>	<u>(209,693)</u>	<u>(59,550)</u>	<u>118,290</u>
Optional Transfers	<u>(380,000)</u>	<u>380,000</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>7,533</u>	<u>170,307</u>	<u>(59,550)</u>	<u>118,290</u>
Fund Balance - January 1, 2007	861,836	-	202,040	1,063,876
Interfund Adjustment	<u>-</u>	<u>(170,307)</u>	<u>170,307</u>	<u>-</u>
Fund Balance - December 31, 2007	<u>\$ 869,369</u>	<u>\$ -</u>	<u>\$ 312,797</u>	<u>\$ 1,182,166</u>

Alger County Road Commission

Analysis of Revenues and Other Financing Sources

For the Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Licenses and Permits:				
Permits	\$ -	\$ -	\$ 3,325	\$ 3,325
Total Licenses and Permits	<u>-</u>	<u>-</u>	<u>3,325</u>	<u>3,325</u>
Federal Sources:				
High Priority	446,398	-	-	446,398
STP Funds	353,896	75,178	-	429,074
TED Funds	173,731	-	-	173,731
Total Federal Sources	<u>974,025</u>	<u>75,178</u>	<u>-</u>	<u>1,049,203</u>
State Sources:				
Michigan Transportation Fund				
Engineering	5,000	5,000	-	10,000
Snow removal	-	283,866	-	283,866
Allocation	1,266,630	559,806	-	1,826,436
Total Michigan Transportation Fund	<u>1,271,630</u>	<u>848,672</u>	<u>-</u>	<u>2,120,302</u>
Critical Bridge Fund	292,203	-	-	292,203
Total Critical Bridge Fund	<u>292,203</u>	<u>-</u>	<u>-</u>	<u>292,203</u>
Economic Development Fund:				
TED Funds (D)	115,820	-	-	115,820
Forest road (E)	96,341	84,792	-	181,133
Local jobs today	111,599	-	-	111,599
Total Economic Development Fund	<u>323,760</u>	<u>84,792</u>	<u>-</u>	<u>408,552</u>
Total State Sources	<u>1,887,593</u>	<u>933,464</u>	<u>-</u>	<u>2,821,057</u>
Contributions from Local Units:				
Township Contribution	-	23,285	-	23,285
Conservation District	-	915	-	915
Total Contributions from Local Units	<u>-</u>	<u>24,200</u>	<u>-</u>	<u>24,200</u>
Charges for Services:				
Trunkline Maintenance	-	-	1,287,606	1,287,606
Trunkline Non-Maintenance	-	-	261,012	261,012
Salvage Sales	-	-	962	962
Other	-	-	32,721	32,721
Total Charges for Services	<u>-</u>	<u>-</u>	<u>1,582,301</u>	<u>1,582,301</u>

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Interest and Rents:				
Interest Earned	-	-	\$ 37,039	\$ 37,039
Total Interest and Rents	-	-	37,039	37,039
Other:				
Land and Bldg. Sales	-	-	-	-
Sundry Refunds	-	-	39,388	39,388
Gain (Loss) Equipment Disposal	2,252	-	498	2,750
Total Other	2,252	-	39,886	42,138
Total Operating Revenue	2,863,870	1,032,842	1,662,551	5,559,263
Other Financing Sources:				
Note Proceeds	-	-	-	-
Total Other Financing Sources	-	-	-	-
TOTAL REVENUE AND OTHER FINANCING SOURCES	<u>\$ 2,863,870</u>	<u>\$ 1,032,842</u>	<u>\$ 1,662,551</u>	<u>\$ 5,559,263</u>

Alger County Road Commission

Analysis of Expenditures and Other Financing Uses

For the Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Preservation - Structural Improvements:				
Roads	\$ 1,267,390	\$ 76,759	\$ -	\$ 1,344,149
Structures	333,895	121,034	-	454,929
Total Preservation - Structural Improvements	<u>1,601,285</u>	<u>197,793</u>	<u>-</u>	<u>1,799,078</u>
Maintenance:				
Roads	485,379	523,518	-	1,008,897
Winter Maintenance	298,727	408,280	-	707,007
Traffic Control	23,740	34,588	-	58,328
Total Maintenance	<u>807,846</u>	<u>966,386</u>	<u>-</u>	<u>1,774,232</u>
Total Preservation and Maintenance	<u>2,409,131</u>	<u>1,164,179</u>	<u>-</u>	<u>3,573,310</u>
Other:				
Trunkline Maintenance	-	-	1,188,245	1,188,245
Trunkline Non-Maintenance	-	-	260,939	260,939
Administrative Expense	112,761	54,490	-	167,251
Equipment Expense - Net	15,949	23,866	28,431	68,246
Capital Outlay - Net	(253,504)	-	38,725	(214,779)
Debt Principle Payment	-	-	176,270	176,270
Interest Expense	-	-	29,491	29,491
Total Other	<u>(124,794)</u>	<u>78,356</u>	<u>1,722,101</u>	<u>1,675,663</u>
Total Expenditures	<u>2,284,337</u>	<u>1,242,535</u>	<u>1,722,101</u>	<u>5,248,973</u>
Other Financing Uses:				
Transfers to Debt Service	192,000	-	-	192,000
Total Other Financing Uses	<u>192,000</u>	<u>-</u>	<u>-</u>	<u>192,000</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 2,476,337</u>	<u>\$ 1,242,535</u>	<u>\$ 1,722,101</u>	<u>\$ 5,440,973</u>

Compliance Section



Partners

John W. Blemberg, CPA

Robert J. Downs, CPA, CVA

Daniel E. Bianchi, CPA

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

Board of County Road Commissioners
Alger County Road Commission
E 9264 M-28
Munising, MI 49862

We have audited the financial statements of the governmental activities and each major fund, of the Alger County Road Commission, a component unit of Alger County, Michigan as of and for the year ended December 31, 2007, which collectively comprise the Road Commission's basic financial statements and have issued our report thereon dated June 1, 2008. 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 Alger County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alger County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Alger County Road Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Alger County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Alger County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Alger County Road Commission's internal control.

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

Board of County Road Commissioners
Alger County Road Commission

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the audit committee, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Jackman & Company, PLLC
Certified Public Accountants

June 1, 2008



Anderson, Tackman & Company, PLC

Certified Public Accountants
Marquette, Michigan 906-225-1166
Fax – 1-906-225-1714

Partners

John W. Blemberg, CPA

Robert J. Downs, CPA, CVA

Daniel E. Bianchi, CPA

June 1, 2008

To the Board of Commissioners
Alger County Road Commission
E9264 M-28
Munising, Michigan 49862

We have audited the financial statements of the governmental activities and the aggregate remaining fund information of Alger County Road Commission for the year ended December 31, 2007, and have issued our report thereon dated March 14, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

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

Planned Scope and Timing of the Audit

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

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Alger County Road Commission are described in Footnotes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

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

To the Board of Commissioners
Alger County Road Commission

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 1, 2008.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

This information is intended solely for the use of Board of Commissioners and management of Alger County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Anderson, Tackman & Company, PLLC

Certified Public Accountants