

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | | | | | |
|--|--|--------------------------------|--|--|--|----------------------------|--|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | | | Local Unit Name Cheboygan County Road Commission | | County Cheboygan County | |
| Fiscal Year End December 31, 2007 | | Opinion Date April 24, 2008 | | Date Audit Report Submitted to State May 27, 2008 | | | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| We have enclosed the following: | | Enclosed | Not Required (enter a brief justification) | |
|--|--|-------------------------------------|--|------------------------------|
| Financial Statements | | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | | <input checked="" type="checkbox"/> | Audit Communication Letter | |
| Other (Describe) Internal Control | | <input checked="" type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple P.C. | | | Telephone Number (810) 984-3829 | |
| Street Address 1979 Holland Avenue | | | City Port Huron | State MI |
| | | | Zip 48060 | |
| Authorizing CPA Signature  | | Printed Name Larry J. Allen | | License Number 1101008117 |

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

ANNUAL FINANCIAL REPORT
with Supplementary Information

FOR THE YEAR ENDED DECEMBER 31, 2007

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of Cheboygan County
Indian River, Michigan

We have audited the accompanying basic financial statements of the Road Commission of Cheboygan County, Michigan, a component unit of Cheboygan County, Michigan as of December 31, 2007 and for the year then ended. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Cheboygan County, Michigan, as of December 31, 2007, and the results of its operations 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 April 24, 2008, on our consideration of the Road Commission of Cheboygan County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3 - 6 is not a required part of the basic financial statements but is 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules on pages 25 - 27 are presented for purpose of additional analysis and are not a required part of the basic financial statements of the Road Commission of Cheboygan County, Michigan. Such 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.

Stewart, Beaman & Whipple
Certified Public Accountants

April 24, 2008

CHEBOYGAN COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Cheboygan County Road Commission (the "Road Commission"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2007. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Cheboygan County Road Commission's basic financial statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) governmental fund financial statements, and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Cheboygan County Road Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Cheboygan County Road Commission's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Governmental Fund Financial Statements

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds financial statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions.

Both the governmental fund balance sheet/statement of net assets and the governmental fund statements of revenues, expenditures, and changes in fund balance/ statement of activities provide a reconciliation to facilitate this comparison between governmental funds and the government-wide financial statements.

The Cheboygan County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and governmental fund financial statements. The notes to the financial statements can be found on pages 10 to 21 of this report.

FINANCIAL HIGHLIGHTS

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$23,501,899 at December 31, 2007.

The net assets are separated into three major components, investment in capital assets of \$21,783,642 or 92.69% of net assets, restricted net assets of \$944,161 or 4.01% and finally unrestricted net assets of \$774,096 or 3.30%. The investment in capital assets of the Road Commission reflects its investment in capital assets (i.e. land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Road Commission used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Road Commission's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted net assets are the net assets that resulted from Primary and Local Road activities that are restricted by the Michigan Department of Transportation to be used on the respective Primary and Local Roads. The remaining balance of unrestricted net assets may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the current year, the Road Commission is able to report positive balances in all three categories (invested in capital assets, net of related debt, and unrestricted net assets). The Road Commission's combined net assets increased \$1,716,348 from a year ago.

The following table presents a comparison of the net assets at December 31, 2007 and 2006 in a condensed format:

| Condensed Statement of Net Assets | <u>2007</u> | <u>2006</u> |
|--|----------------------|----------------------|
| Assets - | | |
| Current and other unrestricted assets | \$ 2,826,979 | \$ 2,795,006 |
| Capital Assets | <u>24,777,224</u> | <u>23,352,976</u> |
| Total Assets | <u>27,604,203</u> | <u>26,147,982</u> |
| Liabilities - | | |
| Long-term liabilities | 3,360,776 | 3,456,225 |
| Other liabilities | <u>741,528</u> | <u>906,206</u> |
| Total Liabilities | <u>4,102,304</u> | <u>4,362,431</u> |
| Net Assets - | | |
| Invested in capital assets, net of related debt | 21,783,642 | 20,237,049 |
| Restricted | 944,161 | 942,771 |
| Unrestricted | <u>774,096</u> | <u>605,731</u> |
| Total Net Assets | <u>\$ 23,501,899</u> | <u>\$ 21,785,551</u> |

The following table presents a comparison of revenues, expenses and change in net assets for the year ended December 31, 2007 and 2006 in a condensed format:

| Condensed Statement of Activities | <u>2007</u> | <u>2006</u> |
|--|---------------------|-------------------|
| Revenues | | |
| Federal Sources | \$ 1,415,310 | \$ 279,105 |
| State Sources | 4,132,785 | 3,971,752 |
| Local Sources | 1,115,133 | 1,668,967 |
| Charges for Services and Other | <u>2,176,874</u> | <u>2,072,029</u> |
| | <u>8,840,102</u> | <u>7,991,853</u> |
| Expenses | | |
| Maintenance | 5,010,748 | 4,769,122 |
| Administration | 207,087 | 270,394 |
| Equipment (net) | (286,439) | 219,336 |
| Other | 142,025 | 120,804 |
| Depreciation | <u>1,937,536</u> | <u>1,881,830</u> |
| | <u>7,010,957</u> | <u>7,261,486</u> |
| Change in Net Assets | <u>\$ 1,829,145</u> | <u>\$ 730,367</u> |

Financial Analysis of Governmental Fund Financial Statements

As noted earlier, the focus of the governmental fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$1,994,966, an increase of \$318,405 from the prior year. Approximately 46% or \$918,329 of the fund balance constitutes unreserved fund balance, which is available for spending at the Road Commission's discretion. The remainder of the fund balance in the amount of \$1,076,637 is reserved for prepaid items and expenditures related to primary and local roads as required by the Michigan Department of Transportation.

BUDGETARY HIGHLIGHTS

The Road Commission amended its 2007 budget to reflect status changes in preservation/structural improvements and maintenance projects. The final budget was \$1,775,413 less in revenue and \$1,758,575 less in expenditures than the original budget primarily for these reasons. The actual adjusted 2007 revenues were \$93,035 more than the final budget. The actual expenditures were \$242,208 more than the final budget. The actual resulting change in fund balance was an increase of \$335,243 greater than the final budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Road Commission had \$24,777,224 in capital assets at the end of the year, representing an increase of \$1,424,248 or 6.1% from the previous year. The primary reason for the increase from the previous year was the capitalization of preservation/structural improvements funded by federal, state and local revenues. A summary of capital assets net of accumulated depreciation at December 31, 2007 in comparison to the previous year is as follows:

| | 2007 | 2006 |
|--------------------------------------|-------------------|-------------------|
| Land, Improvements and Right-of-Ways | \$ 8,873,061 | \$ 8,131,856 |
| Buildings and Improvements | 2,255,891 | 2,403,174 |
| Equipment | 1,278,723 | 1,648,069 |
| Depletable Assets | 11,753 | 11,753 |
| Infrastructure | 12,357,796 | 11,158,124 |
| Total Capital Assets | \$ 24,777,224 | \$ 23,352,976 |

Additional information on the Road Commission's capital assets may be found in Note 7 to the financial statements.

Long-Term Liabilities - At the end of the current year, the Road Commission had total bond and installment loan debt requirements of \$2,993,582. The debt is backed by the full faith and credit of Cheboygan County. The total debt was issued in anticipation of and payable from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and work incidental thereto. A summary of the Long-Term Debt is as follows:

| | 2007 | 2006 |
|---|--------------|--------------|
| Michigan Transportation Bonds – Series 2004 | \$ 2,835,000 | \$ 2,920,000 |
| Installment Loan – 2006 | 158,582 | 195,927 |
| | \$ 2,993,582 | \$ 3,115,927 |

Additional information on the Road Commission's long-term liabilities may be found in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

2008 projections are that state motor vehicle revenues are expected to be level or decrease from 2007 levels. Revenues for federal/state projects are projected to be \$2,832,032 due to the Jobs Today program and Local Bridge program.

CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designed to provide a general overview of the Cheboygan County Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Cheboygan County Road Commission, 5302 South Straits Hwy, Indian River, Michigan, 49749.

BASIC FINANCIAL STATEMENTS

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2007

| | Governmental Fund | Adjustments (Note 2) | Statement of Net Assets |
|--|----------------------|-------------------------|----------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 871,970 | \$ - | \$ 871,970 |
| Due from other governmental units - | | | |
| State | 784,561 | - | 784,561 |
| Local | 18,586 | - | 18,586 |
| Accounts receivable | 200 | - | 200 |
| Prepaid items | 132,476 | 58,867 | 191,343 |
| Deposits - health insurance | 26,725 | - | 26,725 |
| Deferred charges | - | 81,812 | 81,812 |
| Inventory | 851,782 | - | 851,782 |
| Capital assets, net of accumulated depreciation | | | |
| Assets not being depreciated | - | 9,018,526 | 9,018,526 |
| Assets being depreciated | - | 15,758,698 | 15,758,698 |
| Total Assets | \$ 2,686,300 | \$ 24,917,903 | \$ 27,604,203 |
| LIABILITIES AND FUND EQUITY | | | |
| Liabilities: | | | |
| Accounts payable | \$ 36,460 | \$ - | \$ 36,460 |
| Accrued liabilities | 137,972 | - | 137,972 |
| Accrued interest payable | - | 50,194 | 50,194 |
| Due to other governmental units | 20,330 | - | 20,330 |
| Advances and deposits | 496,572 | - | 496,572 |
| Bonds and notes payable, due within one year | - | 128,944 | 128,944 |
| Bonds and notes payable, due in more than one year | - | 2,864,638 | 2,864,638 |
| Long-term accrued vacation and sick | - | 367,194 | 367,194 |
| Total Liabilities | 691,334 | 3,410,970 | 4,102,304 |
| Fund Balance: | | | |
| Fund Balance - | | | |
| Reserved - | | | |
| Prepaid items | 132,476 | (132,476) | - |
| Primary/Local Roads | 944,161 | (944,161) | - |
| Unreserved - | | | |
| Undesignated | 918,329 | (918,329) | - |
| Total Fund Balance | 1,994,966 | (1,994,966) | - |
| Total Liabilities and Fund Balance | \$ 2,686,300 | | |
| Net Assets: | | | |
| Invested in capital assets net of related debt | | 21,783,642 | 21,783,642 |
| Restricted - | | | |
| Primary/Local Roads | | 944,161 | 944,161 |
| Unrestricted | | 774,096 | 774,096 |
| Total Net Assets | | \$ 23,501,899 | \$ 23,501,899 |

See Notes to Financial Statements

CHEBOYGAN ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Governmental Fund | Adjustments (Note 2) | Statement of Activities |
|--|----------------------|-------------------------|----------------------------|
| Revenues: | | | |
| Permits | \$ 36,455 | \$ - | \$ 36,455 |
| Intergovernmental - | | | |
| Federal sources | 1,415,310 | - | 1,415,310 |
| State sources | 4,132,785 | - | 4,132,785 |
| Local sources | 1,115,133 | - | 1,115,133 |
| Charges for services | 2,113,282 | - | 2,113,282 |
| Interest and rents | 19,797 | - | 19,797 |
| Other | 7,340 | - | 7,340 |
| Total Revenues | 8,840,102 | - | 8,840,102 |
| Expenditures/Expenses: | | | |
| Current - | | | |
| Primary preservation - structural improvements | 1,477,345 | (1,477,345) | - |
| Local preservation - structural improvements | 1,617,517 | (1,617,517) | - |
| Primary maintenance | 1,199,707 | 10,134 | 1,209,841 |
| Local maintenance | 1,806,060 | 15,646 | 1,821,706 |
| State maintenance | 1,979,201 | - | 1,979,201 |
| Administrative | 213,830 | (6,743) | 207,087 |
| Equipment operations - | 2,651,258 | (776,808) | 1,874,450 |
| Less equipment rental | | | |
| charged to other activities | (2,160,889) | - | (2,160,889) |
| Depreciation | - | 1,937,536 | 1,937,536 |
| Capital Outlay | 268,357 | (268,357) | - |
| Less: depreciation credit | | | |
| and retirements | (784,986) | 784,986 | - |
| Debt Service - | | | |
| Principle retirement | 122,345 | (122,345) | - |
| Interest | 131,952 | 10,073 | 142,025 |
| Total Expenditures/Expenses | 8,521,697 | (1,510,740) | 7,010,957 |
| Revenues over expenditures/expenses | 318,405 | 1,510,740 | 1,829,145 |
| Fund Balance/Net Assets at January 1, 2007 | 1,557,360 | 20,108,990 | 21,666,350 |
| Prior Period Adjustment | 119,201 | (112,797) | 6,404 |
| Fund Balance/Net Assets at January 1, 2007, restated | 1,676,561 | 19,996,193 | 21,672,754 |
| Fund Balance/Net Assets at December 31, 2007 | \$ 1,994,966 | \$ 21,506,933 | \$ 23,501,899 |

See Notes to Financial Statements

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|--------------------|-----------------|--------------|---|
| Revenues: | | | | |
| Permits | \$ 40,000 | \$ 36,060 | \$ 36,455 | \$ 395 |
| Intergovernmental - | | | | |
| Federal sources | 3,762,631 | 1,457,229 | 1,415,310 | (41,919) |
| State sources | 4,417,000 | 4,074,833 | 4,132,785 | 57,952 |
| Local sources | 783,949 | 1,052,386 | 1,115,133 | 62,747 |
| Charges for services | 1,478,100 | 2,050,000 | 2,113,282 | 63,282 |
| Interest and rents | 10,000 | 19,794 | 19,797 | 3 |
| Other | 30,800 | 56,765 | 7,340 | (49,425) |
| Total Revenues | 10,522,480 | 8,747,067 | 8,840,102 | 93,035 |
| Expenditures: | | | | |
| Current - | | | | |
| Primary preservation - | | | | |
| structural improvements | 4,096,829 | 1,540,000 | 1,477,345 | 62,655 |
| Local preservation - | | | | |
| structural improvements | 1,393,516 | 1,691,000 | 1,617,517 | 73,483 |
| Primary maintenance | 1,236,000 | 1,351,000 | 1,199,707 | 151,293 |
| Local maintenance | 1,854,000 | 1,989,000 | 1,806,060 | 182,940 |
| State maintenance | 1,468,900 | 1,916,000 | 1,979,201 | (63,201) |
| Administrative | 368,000 | 380,000 | 213,830 | 166,170 |
| Equipment - net | - | 115,436 | 490,369 | (374,933) |
| Capital Outlay - net | (146,143) | (472,828) | (516,629) | 43,801 |
| Debt Service | 251,378 | 254,297 | 254,297 | - |
| Total Expenditures | 10,522,480 | 8,763,905 | 8,521,697 | 242,208 |
| Revenues over (under) expenditures | - | (16,838) | 318,405 | 335,243 |
| Fund Balance at January 1, 2007 | 1,557,360 | 1,557,360 | 1,557,360 | - |
| Prior Period Adjustment | - | - | 119,201 | 119,201 |
| Fund Balance at January 1, 2007, restated | 1,557,360 | 1,557,360 | 1,676,561 | 119,201 |
| Fund Balance at December 31, 2007 | \$ 1,557,360 | \$ 1,540,522 | \$ 1,994,966 | \$ 454,444 |

See Notes to Financial Statements

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting methods and procedures adopted by the Cheboygan County Road Commission conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the Road Commission's basic financial statements.

A. Description of Road Commission Operations –

The Cheboygan County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Cheboygan, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, Federal Financial Assistance, reimbursements from the Department of State Highways for work performed by the County on State trunklines and contributions from other local units of government for work performed by the Road Commission workforce. The Road Fund is the only fund of the Road Commission.

The Road Commission, which is established pursuant to the County Road Law (MCL224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides service to nineteen (19) Townships in Cheboygan County and maintains 1,127 miles of state, local and primary roads.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The government-wide financial statement columns (i.e., statement of net assets and statement of activities) are reported using the economic resource 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. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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

C. Assets, Liabilities, and Fund Balance or Net Assets –

Cash And Cash Equivalents - Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase. Cash equivalents include investment trust funds and are recorded at cost, which approximates market value. The investment trust funds have the general characteristics of demand deposit accounts in that the Road Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Inventories – Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost, which approximates market.

Prepaid Items – Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets estimated useful life in excess of 2 years. No minimum cost is used to record road equipment capital assets and infrastructures are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs 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 in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other fixed assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

| | |
|----------------------------|-------------|
| Buildings and Improvements | 40 years |
| Equipment | 5- 8 years |
| Roads | 8-20 years |
| Bridges | 25-50 years |

Infrastructure is reported retrospectively from 1980, except for right-of-ways and bridges which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource.

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditures accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

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

Accrued Vacation And Sick - In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payments for unused sick leave and vacation under formulas and conditions specified in the contracts. All amounts vested are accrued in the government-wide statements (statement of net assets).

Deferred Revenues - In both the government-wide and the fund financial statements revenue received or recorded before earned is recorded as unearned revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

Equipment Rentals - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be charged (allocated) to the various activities. The effect of this allocation is offset to equipment operations expenditures/expenses.

Estimates - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

A. Explanation of differences between the governmental fund statement and the government-wide statement of net assets (Page 7).

| | |
|---|---------------|
| Fund Balance – governmental fund | \$ 1,994,966 |
| Capital assets used in the governmental fund activities that are not financial resources and therefore not reported in the governmental fund financial statements | |
| Add – capital assets | 40,404,319 |
| Deduct – accumulated depreciation | (15,627,095) |
| Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements | (3,360,776) |
| Accrued interest payable on long-term liabilities not reported in the governmental fund statements | (50,194) |

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - (cont'd):

| | |
|--|----------------------|
| Bond Issuance costs reported as debt retirement in the governmental funds, but deferred and amortized from net assets in the statement of net assets | \$ 81,812 |
| Prepaid expenses not reported in the governmental fund statements | <u>58,867</u> |
| Net Assets | <u>\$ 23,501,899</u> |

B. Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 8).

| | |
|--|---------------------|
| Revenues over expenditures - governmental fund statements | \$ 318,405 |
| The governmental fund statements report capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense | |
| Add – capital outlay and infrastructure | 3,363,219 |
| Deduct – retirements | (1,435) |
| Deduct – depreciation | (1,937,536) |
| Interest expense adjustment for accrual reported in the government-wide Statement of Activities when the liability is incurred and reported in the governmental fund statements only when payment is due | 1,084 |
| Prepaid expense adjustment not reported in the governmental fund statements | 1,116 |
| Principal retirement | 122,345 |
| Amortization of issuance costs expensed in the governmental fund statements in the initial year, but deferred and amortized in the Statement of Activities | (11,157) |
| Accrued vacation and sick time expenses not reported in the governmental fund statements because they will not be paid with current financial resources | <u>(26,896)</u> |
| Change in Net Assets | <u>\$ 1,829,145</u> |

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Auditing and Reporting –

The audit was performed 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 as described in the Independent Auditor's Report, but, also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report, but also with applicable rules of the Michigan State Department of Transportation.

Budgetary Compliance –

The Road Commission Manager prepares from data submitted by the administrative staff, a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

The budget for the General Operating Fund is adopted on the modified accrual basis, which is consistent with accounting principles generally accepted in the United States of America.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioners Resolution.

The Road Commission's approved budget was adopted at the activity level. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act since amendments to the budget at the activity level must be approved by the Board of County Road Commissioners.

The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Michigan Public Act 621 of 1978, Section 18(1) as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. During the year ended December 31, 2007, the Road Commission had expenditures over budget as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS:

As of December 31, 2007, the carrying amount of deposits is as follows:

| | |
|--|-------------------|
| Cash on Hand - | |
| Petty Cash | \$ 300 |
| Deposits with Financial Institution - | |
| Savings - Maintained with County Treasurer | <u>871,670</u> |
| | <u>\$ 871,970</u> |

The Uniform Accounting Procedure Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Cheboygan County Treasurer's Office, and in order to make disbursements, the Cheboygan County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. The investing of cash is performed by the County Treasurer.

Custodial Credit Risk - Deposits - is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. Michigan Public Acts authorize Road Commissions to deposit into the accounts of federally insured banks, insured credit unions, and savings and loan associations with an office in Michigan. The Road Commission's investment policy does not have a custodial credit risk requirement.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. 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.

The Road Commission's deposits consist of demand accounts and savings accounts. At December 31, 2007, the carrying amount of the Road Commission's deposits is \$871,670, and the bank balance is \$937,444. As a component unit of Cheboygan County, all Road Commission cash is part of the accounts maintained by Cheboygan County, at bank institutes insured by federal deposit insurance. However, it cannot be determined to what extent the FDIC insurance applies to the Road Commission.

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk. The County uses only those financial institutions with an acceptable estimated risk level as depositories.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 5 - INVENTORIES:

The Inventory balance of \$851,782 at December 31, 2007 consisted of \$572,545 of road materials and \$279,237 of equipment parts and materials.

NOTE 6 - FEDERAL AWARDS:

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force 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 MDOT.

During the year ended December 31, 2007, the Road Commission of Cheboygan County had less than \$500,000 of force account expenditures applicable to federal awards. As a result, an audit for compliance under the Single Audit Act has not been performed.

During 2007, the Road Commission participated in the MDOT Local Jobs Today Program. Through project contracts with MDOT, the Road Commission is not only provided "State – Jobs Today" dollars but is also provided Federal Funds, which are advanced construction dollars. MDOT administers the projects, however, the Road Commission is required to report the improvements and the related funding as revenue. Under a separate loan contract for the project, the Road Commission is committed to payment of interest and possible repayment of the advanced construction dollars (See Note 12 of the financial statements).

During 2007, the Road Commission reported \$853,959 in advanced federal dollars, and \$213,490 State Jobs Today dollars relating to the Jobs Today projects, which were administered by MDOT. The balance of \$561,351 in federal dollars reported was for the basic contracts with MDOT and represents grant dollars expended on public road improvement projects, which were administered by MDOT, and also required to be reported by the Road Commission.

NOTE 7 - CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

| | Balance January 1, 2007 | Additions | Deletions | Removals | Balance December 31, 2007 |
|---|-------------------------------|----------------|-----------|----------|---------------------------------|
| Capital Assets, not being depreciated – | | | | | |
| Land | \$ 258,755 | \$ - | \$ - | \$ 500 | \$ 259,255 |
| Land Improvements | 7,785,293 | 741,205 | - | - | 8,526,498 |
| Right of Ways | 87,808 | - | - | (500) | 87,308 |
| Construction in Progress | <u>36,310</u> | <u>109,155</u> | <u>-</u> | <u>-</u> | <u>145,465</u> |
| Total Capital Assets, not being depreciated | <u>8,168,166</u> | <u>850,360</u> | <u>-</u> | <u>-</u> | <u>9,018,526</u> |

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 7 - CAPITAL ASSETS - (cont'd):

| | Balance January 1, <u>2007</u> | <u>Additions</u> | <u>Deletions</u> | <u>Removals</u> | Balance December 31, <u>2007</u> |
|---|--------------------------------------|---------------------|-------------------|-------------------|--|
| Capital Assets, being depreciated – | | | | | |
| Buildings and improvements | 3,369,835 | - | - | - | 3,369,835 |
| Road Equipment | 7,416,220 | 263,522 | 138,679 | - | 7,541,063 |
| Shop Equipment | 242,013 | 2,050 | 325 | - | 243,738 |
| Office Equipment | 89,388 | 1,185 | - | - | 90,573 |
| Engineering equipment | 62,345 | - | - | - | 62,345 |
| Yard and storage | 194,724 | 1,600 | - | - | 196,324 |
| Infrastructure - | | | | | |
| Roads | 12,621,550 | 1,905,955 | - | 491,147 | 14,036,358 |
| Bridges | 5,484,737 | 338,547 | - | 4,812 | 5,818,472 |
| Depletable assets – | | | | | |
| Gravel pits | <u>27,085</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>27,085</u> |
| | <u>\$ 29,507,897</u> | <u>\$ 2,512,859</u> | <u>\$ 139,004</u> | <u>\$ 495,959</u> | <u>\$ 31,385,793</u> |
| Less – accumulated depreciation for – | | | | | |
| Buildings | \$ 966,661 | \$ 147,283 | \$ - | \$ - | \$ 1,113,944 |
| Road Equipment | 6,013,349 | 593,683 | 137,244 | - | 6,469,788 |
| Shop Equipment | 115,604 | 17,205 | 325 | - | 132,484 |
| Office Equipment | 73,336 | 5,844 | - | - | 79,180 |
| Engineering Equipment | 56,990 | 899 | - | - | 57,889 |
| Yard and Storage | 97,342 | 18,637 | - | - | 115,979 |
| Infrastructure – | | | | | |
| Roads | 5,262,705 | 1,028,310 | - | 491,147 | 5,799,868 |
| Bridges | 1,721,768 | 125,675 | - | 4,812 | 1,842,631 |
| Depletable Assets | <u>15,332</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>15,332</u> |
| | <u>\$ 14,323,087</u> | <u>\$ 1,937,536</u> | <u>\$ 137,569</u> | <u>\$ 495,959</u> | <u>\$ 15,627,095</u> |
| Total Capital Assets, being depreciated, net | <u>15,184,810</u> | <u>575,323</u> | <u>1,435</u> | <u>-</u> | <u>15,758,698</u> |
| Governmental activity capital assets, net | <u>\$ 23,352,976</u> | <u>\$ 1,425,683</u> | <u>\$ 1,435</u> | <u>\$ -</u> | <u>\$ 24,777,224</u> |

Total depreciation for the year ended December 31, 2007 was \$1,937,536.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 8 - LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2007:

| | Balance Jan. 1, <u>2007</u> | <u>Additions</u> | <u>Deletions</u> | Balance Dec. 31, <u>2007</u> | <u>Due Within One Year</u> |
|---------------------------|-----------------------------------|------------------|-------------------|------------------------------------|--------------------------------|
| 2004 MTF Bond | \$ 2,920,000 | \$ - | \$ 85,000 | \$ 2,835,000 | \$ 90,000 |
| 2006 Installment Loan | 195,927 | - | 37,345 | 158,582 | 38,944 |
| Accrued vacation and sick | <u>340,298</u> | <u>26,896</u> | <u>-</u> | <u>367,194</u> | <u>-</u> |
| | <u>\$ 3,456,225</u> | <u>\$ 26,896</u> | <u>\$ 122,345</u> | <u>\$ 3,360,776</u> | <u>\$ 128,944</u> |

Significant details regarding outstanding long-term liabilities are presented below:

2004 MTF Bonds -

The County of Cheboygan, Michigan issued \$3,060,000 of Michigan Transportation Fund Bonds, Series 2004, dated May 1, 2004, pursuant to the provision of Act 51, Public Acts of Michigan of 1951, as amended. The Bonds are issued in anticipation of and are payable from monies derived from state collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction, construction, and work incidental thereto pursuant to Act 51.

Principal on the bonds is due on February 1 through 2029 with interest due semi-annually at interest rates ranging from 3.50% to 4.75%.

The annual requirements to amortize the bond liability outstanding at December 31, 2007 are as follows:

| | <u>Principle</u> | <u>Interest</u> | <u>Total</u> |
|-----------|---------------------|---------------------|---------------------|
| 2008 | \$ 90,000 | \$ 118,892 | \$ 208,892 |
| 2009 | 90,000 | 116,192 | 206,192 |
| 2010 | 90,000 | 113,403 | 203,403 |
| 2011 | 95,000 | 110,300 | 205,300 |
| 2012 | 95,000 | 106,856 | 201,856 |
| 2013-2017 | 535,000 | 474,573 | 1,009,573 |
| 2018-2022 | 650,000 | 352,010 | 1,002,010 |
| 2023-2027 | 810,000 | 188,387 | 998,387 |
| 2028-2029 | <u>380,000</u> | <u>18,287</u> | <u>398,287</u> |
| | <u>\$ 2,835,000</u> | <u>\$ 1,598,900</u> | <u>\$ 4,433,900</u> |

Installment Loan -

In October 2006, the Road Commission entered into an installment purchase contract for the purchase of two Caterpillar Yard Loaders. The loan is payable monthly with an annual interest rate of 4.2%.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 8 - LONG-TERM LIABILITIES – (cont'd):

The annual requirements to amortize the installment purchase liability outstanding at December 31, 2007 are as follows:

| | <u>Principle</u> | <u>Interest</u> | <u>Total</u> |
|------|-------------------|------------------|-------------------|
| 2008 | \$ 38,945 | \$ 5,916 | \$ 44,861 |
| 2009 | 40,612 | 4,248 | 44,860 |
| 2010 | 42,351 | 2,510 | 44,861 |
| 2011 | <u>36,674</u> | <u>710</u> | <u>37,384</u> |
| | <u>\$ 158,582</u> | <u>\$ 13,384</u> | <u>\$ 171,966</u> |

Accrued Sick and Vacation -

The accrued sick and vacation represents vested sick and vacation benefits due Road Commission employees upon termination of employment with the Road Commission. The balance at December 31, 2007, is \$346,216 for sick, and \$20,978 for vacation. All amounts vested have been accrued on the government-wide statements.

NOTE 9 - EMPLOYEE PENSION PLAN:

Plan Description -

The Cheboygan County Road Commission participates in the Michigan Municipal Employees Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The plan adopted by the Board of County Road Commissioners requires general employees to contribute 4.36% of their annual compensation through August 31, 2007, and 2.0% of their annual compensation effective September 1, 2007, with 0% to 2% required for salaried and supervisory employees. The Road Commission is required to contribute at an actuarially determined rate; the weighted average rate for 2007 was 18.69% for general employees, 39.82% for salaried employees. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 9 - EMPLOYEE PENSION PLAN - (cont'd):

Annual Pension Costs -

For the year ended December 31, 2007, the Road Commission's annual pension cost of \$466,651 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 8.40% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. The standard amortization period to fund the unfunded liability is 30 years for positive unfunded liabilities in the 2005 valuation. This period will be reduced by one year in each of the next five annual valuations. Beginning with the 2011 valuation the 25-year period will be reestablished with each annual valuation. The standard amortization period for negative unfunded liabilities is 10 years, with the 10-year period reestablished with each annual actuarial valuation.

Three-Year Trend Information

Schedule of Employer Contributions -

| Fiscal Year Ending December 31, | Annual Pension Costs (APC) | Percentage of APC Contribution | Net Pension Obligation |
|---------------------------------------|-------------------------------|--------------------------------------|---------------------------|
| 2005 | \$ 450,355 | 100 % | \$ - |
| 2006 | 479,214 | 100 | - |
| 2007 | 466,651 | 100 | - |

Schedule of Funding Progress -

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded (Overfunded) Accrued Liability (UAAL) (b-a) | Funded Ratio (AAL) (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll [(b-a)/c] |
|--------------------------------|--|---|--|-----------------------------------|---------------------------|---|
| 2004 | \$ 8,527,856 | \$ 13,782,867 | \$ 5,255,011 | 62 % | \$ 1,937,668 | 271 % |
| 2005 | 8,867,942 | 14,449,667 | 5,581,725 | 61 | 1,955,250 | 285 |
| 2006 | 9,313,327 | 15,169,395 | 5,856,068 | 61 | 1,961,293 | 299 |

NOTE 10 - POSTEMPLOYMENT BENEFITS:

In addition to the pension benefits described in Note 9, the Cheboygan County Road Commission provides postemployment health care to eligible employees who retire from the Road Commission on or after attaining retirement age with at least ten years of service. Expenditures for postemployment health care benefits are recognized on a pay-as-you-go basis. For the year ended December 31, 2007 these costs amounted to approximately \$456,175 with 34 eligible participants.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
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NOTE 11 - ADVANCES:

Advances of \$496,572 at December 31, 2007, are advanced by the State of Michigan for working capital of \$160,047 and equipment purchases of \$336,525 under a road maintenance contract the Road Commission has with the Michigan Department of Transportation.

Both advances are adjusted annually by the State and must be repaid if the maintenance contract is canceled.

NOTE 12 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

In the normal course of its operations, the Cheboygan County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

As part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

The Road Commission in 2007 participated in MDOT Local Jobs Today Program contracts in which \$853,959 in advanced federal expenditures were made through funds borrowed by the State of Michigan (See Note 6 to the financial statements). Under contracts with MDOT, the Road Commission is committed to pay interest on the advanced funds annually until the State receives the federal funding and is able to retire the related state borrowing. Should the federal funding not be received by the State, the contracts stipulate that the Road Commission must return the applicable federal dollars. The Road Commission believes the return of federal dollars to be remote since the state fully anticipated adequate federal funding to meet the borrowed obligations.

NOTE 13 - RISK MANAGEMENT:

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

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions 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 Cheboygan County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
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NOTE 13 - RISK MANAGEMENT – (cont'd):

The Road Commission is also a member of the County Road Association Self-Insurance Fund for workers' compensation self-insurance. The fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the fund.

The Road Commission is self-insured for health care benefits with the administrative services of the program being performed by the health insurance company. The Road Commission makes monthly payments, based on estimated claims and a stop-loss provision, which are adjusted quarterly. The Road Commission pays claims up to \$40,000 per contract per contract year. Stop-loss insurance has been purchased to insure the Road Commission against losses in excess of these limits. Based on past history, the Road Commission has estimated the accrued health care claims, including an estimate for claims incurred but not reported (IBNR), of \$40,000 at December 31, 2007, which is recorded as current liabilities in the fund financial statements. Changes in the balance of claims liability are as follows:

| | 2007 | 2006 |
|------------------------------------|------------|--------------|
| Unpaid claims, beginning of year | \$ 40,000 | \$ 40,000 |
| Incurred claims (including IBNR's) | 708,104 | 1,009,238 |
| Claims Paid | (708,104) | (1,009,238) |
| | | |
| Unpaid claims, end of year | 40,000 | 40,000 |
| Less current portion | 40,000 | 40,000 |
| | | |
| Long-Term Liabilities | \$ - | \$ - |

NOTE 14 - EQUIPMENT EXPENDITURES/EXPENSE NET BALANCE:

The Road Commission, In compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure/expense in the various maintenance activities. An expenditure/expense credit is reported as an offset against the equipment expenditure/expense activities. Accordingly, the equipment rental does not affect total expenditure/expense or the available operating equity of the Road Commission's General Operating Fund. The net balance for the nine months ended December 31, 2007 is as follows:

| | Governmental Fund | Statement of Activities |
|-----------------------|----------------------|----------------------------|
| Equipment – | | |
| Direct | \$ 1,471,277 | \$ 877,594 |
| Indirect | 762,726 | 579,601 |
| Operating | 417,255 | 417,255 |
| | 2,651,258 | 1,874,450 |
| Less-equipment rental | (2,160,889) | (2,160,889) |
| | \$ 490,369 | \$(286,439) |

CHEBOYGAN COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 15 - CAPITAL OUTLAY EXPENDITURES BALANCE:

On the governmental financial statements, the Road Commission reports a depreciation credit as an offset to capital outlay as a result of charging to various expenditure accounts as explained in Note 1. retirements are also reported as a credit against capital outlay. The balance at December 31, 2007 consists of the following:

| | |
|--|---------------------|
| Capital Outlay – | |
| Land improvements, building and equipment | \$ 268,357 |
| Less - depreciation/depletion | (783,551) |
| - retirements | (1,435) |
| | <u>\$(516,629)</u> |

NOTE 16 - PRIOR PERIOD ADJUSTMENT:

A prior period adjustment of \$119,201 has been recorded in the fund statements and \$6,404 in the Statement of Activities, for the reporting of the self-insured health insurance activity based on actual claims.

SUPPLEMENTARY INFORMATION

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County

DETAIL SCHEDULE OF REVENUES
GENERAL OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

Revenues:

| | | |
|--|--|--------------|
| Permits | | \$ 36,455 |
| | | |
| Federal Sources - | | |
| Bridge | | 289,207 |
| D Funds | | 384,281 |
| Surface Transportation Program (STP) | | 741,822 |
| | | 1,415,310 |
| | | |
| State Sources - | | |
| Motor Vehicle Highway Funds - Act 51 - | | |
| Engineering | | 10,000 |
| Primary roads | | 1,884,134 |
| Local roads | | 1,712,322 |
| Forest Road Money | | 119,636 |
| Snow removal | | 138,977 |
| Critical bridge | | 54,226 |
| Jobs Today | | 213,490 |
| | | 4,132,785 |
| | | |
| Local Sources - | | |
| Township contributions | | 1,065,085 |
| Other contributions | | 50,048 |
| | | 1,115,133 |
| | | |
| Charges for Services - | | |
| Trunkline maintenance & nonmaintenance | | 2,096,419 |
| Salvage Sales | | 16,863 |
| | | 2,113,282 |
| | | |
| Interest | | 19,797 |
| | | |
| Other - | | |
| Gain (loss) on equipment disposal | | 6,665 |
| Land and building sales | | 675 |
| | | 7,340 |
| | | |
| Total Revenues | | \$ 8,840,102 |

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County

DETAIL SCHEDULE OF EXPENDITURES
GENERAL OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

Expenditures:

| | |
|---|---------------------|
| Preservation/ structural improvements - | |
| Primary roads and structures | \$ 1,477,345 |
| Local roads and structures | 1,617,517 |
| | <u>3,094,862</u> |
| Maintenance - | |
| Primary roads and structures, winter maintenance and traffic control | 1,199,707 |
| Local roads and structures, winter maintenance, and traffic control | 1,806,060 |
| | <u>3,005,767</u> |
| State Maintenance - | |
| Trunkline maintenance and nonmaintenance | <u>1,979,201</u> |
| Equipment - | |
| Direct | 1,471,277 |
| Indirect | 762,726 |
| Operating | 417,255 |
| Less - equipment rental | <u>(2,160,889)</u> |
| | <u>490,369</u> |
| Administrative - | |
| Administration | 403,495 |
| Less - | |
| State trunkline overhead | (184,693) |
| Purchase discounts and other | <u>(4,972)</u> |
| | <u>213,830</u> |
| Capital Outlay - | |
| Equipment | 268,357 |
| Less - | |
| Depreciation | (783,551) |
| Equipment retirements | <u>(1,435)</u> |
| | <u>(516,629)</u> |
| Debt Service - | |
| Principal retirement | 122,345 |
| Interest | 131,952 |
| | <u>254,297</u> |
| Total Expenditures | <u>\$ 8,521,697</u> |

CHEBOYGAN COUNTY ROAD COMMISSION
A Component Unit of Cheboygan County

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BY FUND BALANCE SUB-ACCOUNTS
GENERAL OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

| | <u>Primary</u> | <u>Local</u> | <u>County</u> | <u>Total</u> |
|---|-------------------|-------------------|---------------------|---------------------|
| Revenues: | | | | |
| Permits | \$ - | \$ - | \$ 36,455 | \$ 36,455 |
| Intergovernmental - | | | | |
| Federal Sources | 1,016,138 | 399,172 | - | 1,415,310 |
| State Sources | 2,251,608 | 1,881,177 | - | 4,132,785 |
| Local Sources | 16,404 | 1,092,745 | 5,984 | 1,115,133 |
| Charges for services | - | - | 2,113,282 | 2,113,282 |
| Interest | - | - | 19,797 | 19,797 |
| Other | - | - | 7,340 | 7,340 |
| Total Revenues | <u>3,284,150</u> | <u>3,373,094</u> | <u>2,182,858</u> | <u>8,840,102</u> |
| Expenditures: | | | | |
| Preservation/ structural improvements | 1,477,345 | 1,617,517 | - | 3,094,862 |
| Maintenance | 1,199,707 | 1,806,060 | - | 3,005,767 |
| State maintenance | - | - | 1,979,201 | 1,979,201 |
| Equipment - net | 103,076 | 238,319 | 148,974 | 490,369 |
| Administrative - net | 93,832 | 119,998 | - | 213,830 |
| Capital outlay - net | - | - | (516,629) | (516,629) |
| Debt Service - | | | | |
| Principal | - | - | 122,345 | 122,345 |
| Interest and issuance costs | - | - | 131,952 | 131,952 |
| Total Expenditures | <u>2,873,960</u> | <u>3,781,894</u> | <u>1,865,843</u> | <u>8,521,697</u> |
| Revenues over (under) expenditures before optional transfers | 410,190 | (408,800) | 317,015 | 318,405 |
| Optional transfers | <u>(565,000)</u> | <u>565,000</u> | <u>-</u> | <u>-</u> |
| Net Changes in Fund Balance | <u>(154,810)</u> | <u>156,200</u> | <u>317,015</u> | <u>318,405</u> |
| Fund Balance at January 1, 2007 | 628,241 | 195,329 | 733,790 | 1,557,360 |
| Prior Period Adjustment | <u>37,048</u> | <u>82,153</u> | <u>-</u> | <u>119,201</u> |
| Fund Balance at January 1, 2007, restated | <u>665,289</u> | <u>277,482</u> | <u>733,790</u> | <u>1,676,561</u> |
| Fund Balance at December 31, 2007 | <u>\$ 510,479</u> | <u>\$ 433,682</u> | <u>\$ 1,050,805</u> | <u>\$ 1,994,966</u> |

**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 County Road Commissioners
of Cheboygan County
Indian River, Michigan

We have audited the financial statements of Cheboygan County Road Commission as of and for the year ended December 31, 2007, and have issued our report thereon, dated April 24, 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 Cheboygan 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 Cheboygan County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cheboygan County Road Commission's internal control over financial reporting.

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

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 Cheboygan 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 Cheboygan County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Cheboygan County Road Commission's internal control. We consider the deficiency described as follows to be a significant deficiency in internal control over financial reporting:

The Road Commission prepares various financial information to assess operations and the financial condition of the Road Commission including the completion of the MDOT ACT 51 Report at year end. However, that information is not required to be a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Road Commission relies on our firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

The Road Commission has individuals on staff to review and determine that the financial report is accurate, however, has not elected to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Road Commission, under Statement on Auditing Standards No. 112, is considered to have a significant control deficiency, since reporting errors or omissions could occur in the presentation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Road Commission may not be in a position to detect the errors or omissions.

The Road Commission has evaluated the cost versus the benefit of expanding internal controls over the preparation of the annual financial statements to include reporting in accordance with GAAP, and has determined that it is in the best interest of the Road Commission to outsource this responsibility to the external auditors. The Road Commission will continue to carefully review the draft financial statements and notes prior to approving and accepting responsibility for their content and presentation.

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 Cheboygan County Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cheboygan 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*.

We noted certain matters that we reported to management of the Cheboygan County Road Commission in a separate letter dated April 24, 2008.

This report is intended for the information and use of the management and Board of County Road Commissioners of Cheboygan County, Michigan and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

April 24, 2008



AUDIT COMMUNICATION LETTER

April 24, 2008

To the Board of County Road Commissioners
Cheboygan County
Indian River, Michigan

We have audited the financial statements of the Road Commission of Cheboygan County for the year ended December 31, 2007, and have issued our report thereon dated April 24, 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 and Government Auditing Standards

As stated in our engagement letter dated November 13, 2007, 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.

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

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

Planned Scope and Timing of Audit

We performed the audit according to the planned scope and timing previously communicated to you in our Preliminary Audit Communication Letter, and discussions with management.

Qualitative Aspects of Accounting Practices

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Cheboygan County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed in 2007. We noted no transactions entered into by the Cheboygan County Road Commission 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 basic 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 basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statement were:

As part of the implementation of GASB 34, the Road Commission was required to record infrastructure as a capital asset. As a result, the original cost of roads, bridges, traffic signals, land improvements and right-of-way had to be determined. Because the supporting data for original cost was not always available, estimates were required to be made based on available data. We evaluated the key factors and assumptions used to develop the cost estimates for infrastructure in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of depreciation is based on Michigan Department of Transportation guidelines. We evaluated the key factors and assumptions used to develop the depreciation estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Adjustments Governmental Fund Financial Statements

Professional standards require us to accumulate all known and likely adjustments identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no proposed audit adjustments, other than the attached schedule (Attachment B) of unrecorded audit adjustments. The attached schedule summarizes uncorrected adjustments of the financial statements. Management has determined that their effects are immaterial both individually and in the aggregate, to the financial statement taken as a whole, with which we agree.

Assistance with GASB 34 Presentation

As a result of our assistance with the GASB 34 presentation, we proposed several entries, to the December 31, 2007 account balances to reflect the difference between the Governmental Fund and the Government-wide financial statements. These entries are described in Note 2 to the financial statements.

Statement on Auditing Standards No. 112

Statement on Auditing Standards No. 112 "Communicating Internal Control Related Matters Identified in an Audit" implementation was first effective for your year end December 31, 2006. Under SAS 112 internal control over financial reporting includes the annual audited financial statements including the notes being presented in accordance with Generally Accepted Accounting Principles.

If a governmental organization relies on our firm to present the financial statements in accordance with generally accepted accounting principles, we are required to report that there is a significant deficiency in internal control. We, again, fulfilled this responsibility in your internal control letter for the year ended December 31, 2007.

A substantial portion of our clients are receiving this comment, and per discussion with other CPA firms, a substantial number of their clients are also receiving the comment. This is the result of it being the practice in the past to rely on the auditor since the annual financial report is prepared once a year and we stay current on generally accepted accounting principles. We recommended to management that the Road Commission evaluate the cost versus the benefit of expanding internal control over financial reporting to

include presentation under GAAP, especially since there was no audit adjustments proposed and the Act 51 Report is prepared by the Road Commission.

Other Audit Internal Control Communication

In addition to the Report on Internal Control, we noted another item that although is not considered a significant deficiency, could improve controls, the operational efficiency and/or compliance with laws and regulations. This item is discussed in Attachment A.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic 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 April 24, 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 relevant facts. To our knowledge, there were no such consultations with accountants.

Issues Discussed Prior to Retention of Independent Auditors

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

This report is intended for the information and use of the management and the Board of County Road Commissioners of Cheboygan County, Michigan and is not intended to be and should not be used by anyone other than these specific parties.


Certified Public Accountants

Attachment A

The following item that we discussed with management is not considered a significant deficiency, however, is an item that could improve controls, the operational efficiency of the accounting department and/or compliance with laws and regulations:

Controls over Transfer Vouchers

At the present time, transfer vouchers (journal entries) include a description for the entry and are numbered and maintained in a binder for control purposes. However, not all transfer vouchers are required to be formally approved by a second individual.

Not having a procedure requiring that transfer vouchers be formally approved allows for the possibility of inaccurate financial reporting.

We recommend that the transfer vouchers be approved by an individual that is able to analyze the accompanying information supporting the entry. This may be accomplished by having different individuals reviewing transfer vouchers, or at a minimum, any transfers that are not standard entries.

