

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 Emmet County Road Commission		County Emmet	
Fiscal Year End December 31, 2007		Opinion Date May 2, 2008		Date Audit Report Submitted to State May 19, 2008			

We affirm that:

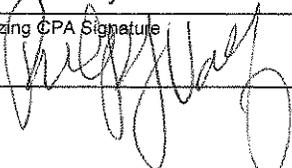
We are certified public accountants licensed to practice in Michigan.

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"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue			City Kincheloe	State MI
			Zip 49788	
Authorizing CPA Signature 		Printed Name Phillip J. Wolf, CPA		License Number 1101017275

Emmet County Road Commission

BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2007

EMMET COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

Leroy Sumner
Vice - Chairman

Frank Zulski, Jr.
Chairman

Richard Bidstrup
Member

Brian A. Gutowski, P.E.
Engineer - Manager

Judy Fouch
Clerk

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Emmet County Road Commission
2265 E. Hathaway Road
Harbor Springs, Michigan 49740

We have audited the accompanying financial statements of the governmental activities and major fund of the Emmet County Road Commission (a component unit of the County of Emmet, Michigan) as of and for the year ended December 31, 2007, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Emmet County Road Commission as of December 31, 2007, and the respective changes in financial position 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 May 2, 2008 on our consideration of the Emmet County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Emmet County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 2, 2008

Management's Discussion and Analysis

Using This Annual Report

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

Reporting the Road Commission as a Whole

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

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

Reporting the Road Commission's Major Fund

Our analysis of the Road Commission's major fund begins on page 11. The fund financial statements begin on page 27 and provide detailed information about the major fund. The Road Commission currently has only one fund, the general operations fund, in which all of the Road Commission's activities are accounted. The general operations fund is a governmental fund type.

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

The Road Commission as a Whole

The Road Commission's net assets increased approximately 17% from \$10.03 million to \$12.09 million for the year ended December 31, 2007. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$68,559. The primary reason for the increase was transportation and maintenance funds. Also, it is important for the reader to realize that the increase in capital assets is largely a result of Road Commission infrastructure assets.

Net assets as of the years ended December 31, 2007 and 2006 are as follows:

	Governmental Activities	
	2007	2006
Current and Other Assets	\$ 1,994,972	\$ 1,704,431
Capital Assets	<u>13,337,354</u>	<u>11,646,775</u>
Total Assets	<u>\$ 15,332,326</u>	<u>\$ 13,351,206</u>
Current Liabilities	\$ 1,033,368	\$ 855,292
Other Liabilities	<u>2,208,327</u>	<u>2,467,841</u>
Total Liabilities	<u>3,241,695</u>	<u>3,323,133</u>
Net Assets:		
Invested in Capital Assets – net of debt	11,073,304	9,079,305
Restricted for County Road	<u>1,017,327</u>	<u>948,768</u>
Total Net Assets	<u>\$ 12,090,631</u>	<u>\$ 10,028,073</u>

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

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Program Revenues:		
Charges for Services	\$ 845,173	\$ 686,357
Operating Grants and Contributions	4,549,466	3,729,868
Capital Grants and Contributions	2,573,012	2,282,843
General Revenues:		
County Appropriations	65,265	32,540
Interest Earnings	31,858	34,852
Gain on Disposal of Equipment	<u>42,970</u>	<u>94,538</u>
Total Revenues	<u>8,107,744</u>	<u>6,860,998</u>
Program Expenses:		
Primary Roads:		
Maintenance	1,529,969	1,453,369
Local Roads:		
Maintenance	2,527,575	1,934,470
State Trunkline:		
Maintenance	725,262	612,284
Nonmaintenance	19,395	3,523
Equipment Expense	304,571	365,048
Administrative	406,485	424,107
Other	436,311	278,077
Interest	<u>95,618</u>	<u>104,310</u>
Total Expenses	<u>6,045,186</u>	<u>5,175,188</u>
Changes in Net Assets	2,062,558	1,685,810
Beginning, Net Assets	<u>10,028,073</u>	<u>8,342,263</u>
Ending, Net Assets	<u>\$ 12,090,631</u>	<u>\$ 10,028,073</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 as listed on page 13 of the general operations fund increased \$122,871 as compared to a decrease of \$624,453 in the fund balance for the year ended December 31, 2006. Total revenues were \$8,107,744, an increase of \$1,246,746 as compared to last year. This change in revenues resulted primarily from an increase in federal funding and township contributions.

Total expenditures were \$7,984,873, an increase of \$499,422 as compared to last year. This change in expenditures is primarily the increase in primary and local road preservation costs and state maintenance in the current year.

Budgetary Highlights

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

The revenue budget for 2007 was lower than the actual receipts by \$55,050. This was due, in part, to the projection of maintenance and MTF contributions.

Road Commission expenditures were projected at \$8,619,466 while actual expenditures were \$7,984,873. This resulted in total expenditures under budget by \$634,593. The largest shares of the variance are in the local road maintenance and capital outlay line items.

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2007 and 2006 the Road Commission had invested in capital assets as follows:

	<u>2007</u>	<u>2006</u>
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 4,308,854	\$ 2,515,346
Total Capital Assets Not Being Depreciated	<u>4,308,854</u>	<u>2,515,346</u>
Other Capital Assets		
Buildings and Improvements	3,723,423	4,532,188
Road Equipment	7,013,631	7,240,167
Other Equipment	711,510	705,153
Infrastructure and Improvements	<u>6,131,715</u>	<u>4,543,446</u>
Total Capital Assets at Historic Cost	<u>17,580,279</u>	<u>17,020,954</u>
Total Accumulated Depreciation	<u>(8,551,779)</u>	<u>(7,889,525)</u>
Total Net Capital Assets	<u>\$ 13,337,354</u>	<u>\$ 11,646,775</u>
Prior and current year's major additions included the following:		
Improvements	\$ 984,743	\$ -
Various Resurfacing Projects	\$ 1,588,269	\$ 1,533,738
Trucks/Equipment	<u>\$ 124,617</u>	<u>\$ 854,370</u>

Debt

The Road Commission has long-term debt obligations in the amount of \$2,522,153. The Commission had no new financing during fiscal 2007. Debt payments are indicated in Note 9 of the "Notes to Financial Statements" section.

Economic Factors and Next Year's Budget

The Board of County Road Commissioner's considered many factors when setting the fiscal year 2008 budget. One of the factors is the economy. The Road Commission derives approximately 70% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed.

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

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Emmet County Road Commission administrative offices at 2265 E. Hathaway Road, Harbor Springs, Michigan.

Basic Financial Statements

Emmet County Road Commission

Statement of Net Assets December 31, 2007

ASSETS

Cash and Equivalents	\$ 732,747
Accounts Receivable:	
Michigan Transportation Fund	553,077
State – Trunkline Maintenance	110,278
State – Other	25,056
Due on County Road Agreements	37,270
Sundry Accounts	6,485
Inventories:	
Road Materials	376,880
Equipment, Parts and Materials	153,179
Capital Assets (Net of Accumulated Depreciation)	
Nondepreciable	4,308,854
Depreciable	<u>9,028,500</u>
Total Assets	<u>\$ 15,332,326</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 111,121
Accrued Liabilities	35,317
Escrow Payable	20,014
Advances from State	292,733
Deferred Revenue	228,125
Interest Payable	7,176
Contingent Loan Commitment	25,056
Installment Purchase Agreements Payable	160,788
Bonds Payable	153,038
Noncurrent Liabilities:	
Vested Employee Benefits	265,279
Installment Purchase Agreements Payable	311,232
Bonds Payable	<u>1,631,816</u>
Total Liabilities	<u>3,241,695</u>

NET ASSETS

Investment in Capital Assets -	
Net of Related Debt	11,073,304
Restricted for County Road	<u>1,017,327</u>
Total Net Assets	<u>\$ 12,090,631</u>

The Notes to Financial Statements are an integral part of this statement.

Emmet County Road Commission

Statement of Activities For the Year Ended December 31, 2007

Program Expenses:	
Primary Road Maintenance and Preventive Maintenance	\$ 1,529,969
Local Road Maintenance and Preventive Maintenance	2,527,575
State Trunkline Maintenance	744,657
Net Equipment Expense	304,571
Net Administrative Expense	406,485
Other	70,556
Depreciation – Unallocated	365,755
Interest Expense	<u>95,618</u>
Total Program Expenses	<u>6,045,186</u>
Program Revenues:	
Charges for Services:	
License and Permits	29,740
Charges for Services	815,433
Operating Grants and Contributions:	
Michigan Transportation Funds	3,521,724
Contributions from Local Units	1,027,742
Investment Earnings	31,858
Capital Grants and Contributions:	
Federal Grants	675,817
State Grants	416,931
Contributions from Local Units	1,384,761
Contributions from Private Sources	<u>95,503</u>
Total Program Revenues	<u>7,999,509</u>
Net Program Revenues (Expenses)	<u>1,954,323</u>
General Revenues:	
County Appropriation	65,265
Gain on Equipment Disposal	<u>42,970</u>
Total General Revenues	<u>108,235</u>
Changes in Net Assets	2,062,558
Net Assets – Beginning of Year	<u>10,028,073</u>
Net Assets – End of Year	<u>\$ 12,090,631</u>

The Notes to Financial Statements are an integral part of this statement.

Emmet County Road Commission

Balance Sheet
December 31, 2007

	Governmental Fund Type General Operating Fund
<u>ASSETS</u>	
Cash and Equivalents	\$ 732,747
Accounts Receivable:	
Michigan Transportation Fund	553,077
State Trunkline Maintenance	110,278
Due on County Road Agreements	37,270
Sundry Accounts	6,485
Inventories:	
Road Materials	376,880
Equipment, Parts, and Materials	<u>153,179</u>
Total Assets	<u>\$ 1,969,916</u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities:	
Accounts Payable	\$ 111,121
Accrued Liabilities	35,317
Escrow Payable	20,014
Advances from State	292,733
Deferred Revenue	<u>228,125</u>
Total Liabilities	<u>687,310</u>
Fund Equities	
Fund Balance	
Unreserved and Undesignated	<u>1,282,606</u>
Total Fund Equities	<u>1,282,606</u>
Total Liabilities and Fund Equities	<u>\$ 1,969,916</u>

The Notes to Financial Statements are an integral part of this statement.

Emmet County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended December 31, 2007

Total Governmental Fund Balance	\$ 1,282,606
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.	13,337,354
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	(2,522,153)
Interest accrued on long term debt obligations payable in current period.	<u>(7,176)</u>
Net Assets of Governmental Activities	<u>\$ 12,090,631</u>

The Notes to Financial Statements are an integral part of this statement.

Emmet County Road Commission

Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended December 31, 2007

	<u>General Operating Fund</u>
Revenues:	
License and Permits	\$ 29,740
Federal Sources	675,817
State Sources	3,938,655
Contributions from Local Units	2,412,503
Charges for Services	804,237
Interest and Rents	33,758
Other Revenue	147,769
Other Financing Sources	<u>65,265</u>
Total Revenues	<u>8,107,744</u>
Expenditures	
Public Works	8,086,269
Capital Outlay	(500,434)
Debt Service	<u>399,038</u>
Total Expenditures	<u>7,984,873</u>
Excess of Revenues Over (Under) Expenditures	122,871
Fund Balance – January 1, 2007	<u>1,159,735</u>
Fund Balance – December 31, 2007	<u>\$ 1,282,606</u>

The Notes to Financial Statements are an integral part of this statement.

Emmet County Road Commission

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2007

Net Change in Fund Balance – Total Governmental Funds	\$ 122,871
Amounts reported for governmental activities in the statements are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	1,690,579
Repayment of notes payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. Proceeds from issuance is a financing source in governmental funds.	303,420
Expenditures which are not considered incurred under modified accrual, but are recognized as expenses in the year.	<u>(54,312)</u>
Change in Net Assets of Governmental Activities	<u>\$ 2,062,558</u>

The Notes to Financial Statements are an integral part of this statement.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Emmet 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 Emmet County Road Commission.

A. Reporting Entity

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

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, (as amended by Statement No. 39), "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 Emmet County Road Commission, a discretely presented component unit of Emmet County.

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Emmet County Road Commission. There is only one fund reported in the government-wide financial statements.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government. Under the terms of grant agreements, the Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Commission's policy to first apply restricted grant resources to such programs, and then general revenues.

D. Assets, Liabilities, and Net Assets or Equity**Cash, Cash Equivalents and Investments**

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

Inventories

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Expenses

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

Capital Assets

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

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Emmet County Road Commission has capitalized current and prior year's infrastructure, as required by GASB Statement No. 34, and has reported the infrastructure assets in the statement of net assets.

Depreciation

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

Land Improvements	5 to 30 years
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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Vacation and Sick Leave)

In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. Employees are compensated 100% of their vested vacation leave upon death, retirement or resignation. Sick leave vests upon death or retirement, limited to 50% of their total accumulated sick time up to a maximum of 50 days.

Use of Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Commission violated provisions of the Act for some line items as indicated on page 26.

The Road Commission’s Chief Administrative Officer (manager) and Clerk prepare and submit a proposed operating budget to the Board of County Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The Board has authorized the Clerk to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 25 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements. All budgets lapse at fiscal year end.

NOTE 3 - CASH AND EQUIVALENTS

The cash and investments are classified into the following categories:

Petty Cash	\$	300
Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)		<u>732,447</u>
Total Cash and Equivalents	\$	<u>732,747</u>

NOTE 3 - CASH AND EQUIVALENTS (Continued)

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

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

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

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

Custodial investment credit risk. Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Commission invests with the County of Emmet 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 Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end, \$601,550 of the Commission's bank balance of \$820,223 was exposed to credit risk because it was uninsured and uncollateralized. Other cash balances that are pooled with the County of Emmet funds and would receive a proportional share of insurance.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Emmet County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Emmet 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 Emmet County Road Commission's financial statements.

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balances 01/01/07	Additions	Adjustments/ Deductions	Ending Balances 12/31/07
<i>Capital Assets Not Being Depreciated</i>				
Land and Improvements	\$ 37,094	\$ -	\$ -	\$ 37,094
Infrastructure Improvements	<u>2,478,252</u>	<u>984,743</u>	<u>(808,765)</u>	<u>4,271,760</u>
Subtotal	<u>2,515,346</u>	<u>984,743</u>	<u>(808,765)</u>	<u>4,308,854</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	878,554	-	808,765	69,789
Buildings	3,653,634	-	-	3,653,634
Road Equipment	7,240,167	118,260	344,796	7,013,631
Shop Equipment	202,635	-	-	202,635
Office Equipment	112,978	-	-	112,978
Engineers' Equipment	64,133	6,357	-	70,490
Yard and Storage	193,606	-	-	193,606
Depletable Assets	131,801	-	-	131,801
Infrastructure	<u>4,543,446</u>	<u>1,588,269</u>	<u>-</u>	<u>6,131,715</u>
Subtotal	<u>17,020,954</u>	<u>1,712,886</u>	<u>1,153,561</u>	<u>17,580,279</u>
<i>Less Accumulated Depreciation</i>				
Land Improvements	14,099	6,979	-	21,078
Buildings	989,553	90,423	-	1,079,976
Road Equipment	5,844,911	520,365	344,796	6,020,480
Shop Equipment	189,115	3,345	-	192,460
Office Equipment	102,504	2,067	-	104,571
Engineers' Equipment	60,847	2,081	-	62,928
Yard and Storage	160,204	16,035	-	176,239
Depletable Assets	63,621	-	-	63,621
Infrastructure	<u>464,671</u>	<u>365,755</u>	<u>-</u>	<u>830,426</u>
Subtotal	<u>7,889,525</u>	<u>1,007,050</u>	<u>344,796</u>	<u>8,551,779</u>
Net Capital Assets Being Depreciated	<u>9,131,429</u>	<u>705,836</u>	<u>808,765</u>	<u>9,028,500</u>
Total Net Capital Assets	<u>\$ 11,646,775</u>	<u>\$ 1,690,579</u>	<u>\$ -</u>	<u>\$ 13,337,354</u>

NOTE 5 - CAPITAL ASSETS (Continued)

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

Equipment Expense	520,364
Administrative / Distributive	120,931
Unallocated - Infrastructure	<u>365,755</u>
 Total Depreciation Expense	 <u>\$ 1,007,050</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT

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

Plan Description – The Emmet County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the 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: 1134 Municipal Way, Lansing, Michigan.

Funding Policy – The obligation to contribute and maintain the system for these employees was established by negotiation with the Emmet County Road Commission's competitive bargaining units and requires a contribution from the employees of 1.1% percent of gross wages for County Road Commission.

Annual Pension Costs – For year ended 2007, the Emmet County Road Commission's annual pension cost of \$298,272 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as of 2005, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31st is as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial Value of Assets	\$ 7,863,505	\$ 7,946,016	\$ 8,150,219
Actuarial Accrued Liability	10,793,022	11,218,247	11,627,445
Unfunded AAL	2,929,517	3,272,231	3,477,226
Funded Ratio	73%	71%	70%
Covered Payroll	833,587	776,507	689,983
UAAL as a Percentage of Covered Payroll	351%	421%	504%

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 198,707	100%	0
2005	244,039	100%	0
2006	270,504	100%	0

Defined Contribution Pension Plan

The Emmet County Road Commission provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by agreement, the County Road Commission contributes 10% percent of employees' gross earnings and employee contributions for each employee (plus interest allocated to the employee's account) are fully vested. Eligible employees are required to contribute 2% of their earnings.

The Emmet County Road Commission's total payroll during the current year was \$1,755,546. The current year contribution was calculated based on covered payroll of \$1,012,104, resulting in an employer contribution of \$101,210 and employee contributions of \$20,242.

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2007, the federal aid received and expended by the Road Commission was \$675,817 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the road commission performs the work and would be subject to single audit requirements if they expended \$500,000 or more.

NOTE 8 - STATE EQUIPMENT PURCHASE ADVANCE

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

NOTE 9 - LONG-TERM DEBT

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

	<u>01/01/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/07</u>	<u>Due Within One Year</u>
Installment payable, secured by equipment, payable in monthly installments of \$14,672 including interest of 3.83%.	\$ 626,775	\$ -	\$ 154,755	\$ 472,020	\$ 160,788
\$2,417,155 Bonds payable to Emmet County Building Authority, 14 years including sliding scale interest rate of 2.4% to 4.25%, maturing in 2017.	<u>1,933,519</u>	<u>-</u>	<u>148,665</u>	<u>1,784,854</u>	153,038
Subtotal	2,560,294	-	303,420	2,256,874	
Vested Employee Benefits	<u>210,967</u>	<u>54,312</u> (1)	<u>-</u>	<u>265,279</u>	
Total Long-Term Debt	<u>\$ 2,771,261</u>	<u>\$ 54,312</u>	<u>\$ 303,420</u>	<u>\$ 2,522,153</u>	

(1) net increase

Notes Payable:	<u>Bonds Payable</u>		<u>Installment Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	153,038	70,495	160,788	15,275
2009	130,300	66,953	167,055	9,008
2010	142,544	63,009	144,177	2,542
2011	155,661	58,163	-	-
2012	169,653	52,029	-	-
2013-2017	<u>1,033,658</u>	<u>133,217</u>	<u>-</u>	<u>-</u>
Total	<u>\$1,784,854</u>	<u>\$ 443,866</u>	<u>\$ 472,020</u>	<u>\$ 26,825</u>

NOTE 10 - POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, the County Road Commission provides post-employment health care benefits to all retired employees and/or their spouse. The benefit includes the provision that a retiree pays 100% of the cost of the premium. The Commission remitted \$39,758 for post employment benefits during 2007 for six participants.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

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

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

NOTE 12 - CONTINGENT LOAN COMMITMENT

During fiscal 2007, the Commission executed a loan contract with the Michigan Department of Transportation to assist the Commission in financing transportation infrastructure improvements. The contract terms stipulated a loan amount not to exceed \$25,056 at a rate of interest of 4% per annum. The loan funds are restricted to use on specific projects only. Additionally, the agreement grants permission to the Michigan Department of Transportation to convert federal advanced construction funds, when available, to repay the loan principal amounts, with final repayment required by September 30, 2009. If repayment is not paid by that date, the Michigan Department of Treasury is allowed to withhold monies from Michigan Transportation Funds in lieu of repayment.

Required Supplementary Information

Emmet County Road Commission**Required Supplementary Information
Budgetary Comparison Schedule
Statement of Revenues
For the Year Ended December 31, 2007**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable Unfavorable)</u>
Licenses and Permits				
Permits	\$ 40,000	\$ 27,790	\$ 29,740	\$ 1,950
Federal Sources				
Surface Transportation Program	700,000	675,817	675,817	-
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Allocation	3,500,000	3,405,354	3,440,053	34,699
Urban	110,000	117,422	118,801	1,379
Snow Removal	140,000	141,706	141,706	-
Economic Development Fund				
Rural Primary (D)	80,000	119,909	119,909	-
Forest Road (E)	63,700	57,817	57,818	1
Job Today	-	50,368	50,368	-
Contributions from Local Units				
Townships	1,800,000	2,406,326	2,411,916	5,590
Other	-	587	587	-
Charges for Services				
State Trunkline				
Maintenance	670,000	774,000	784,275	10,275
Nonmaintenance	25,000	19,395	19,395	-
Salvage Sales	-	567	567	-
Interest and Rents	12,000	31,827	33,758	1,931
Other Revenue				
Other	5,000	105,824	104,799	(1,025)
Gain on Equipment Disposal	20,000	42,720	42,970	250
Other Financing Sources				
County Appropriation	<u>35,000</u>	<u>65,265</u>	<u>65,265</u>	<u>-</u>
Total	<u>\$ 7,210,700</u>	<u>\$ 8,052,694</u>	<u>\$ 8,107,744</u>	<u>\$ 55,050</u>

Emmet County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures For the Year Ended December 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance Favorable Unfavorable)
Primary Road				
Preservation	\$ 600,000	\$ 1,160,000	\$ 1,187,454	\$ (27,454)
Maintenance	1,500,000	1,535,000	1,530,766	4,234
Local Road				
Preservation	1,800,000	1,816,000	1,704,626	111,374
Maintenance	1,500,000	2,230,000	2,207,710	22,290
State Trunkline				
Maintenance	670,000	786,033	725,262	60,771
Nonmaintenance	25,000	19,395	19,395	-
Equipment Expense – Net	150,000	120,000	304,571	(184,571)
Administrative Expense – Net	400,000	422,000	406,485	15,515
Capital Outlay – Net	400,000	132,000	(500,434)	632,434
Debt Service				
Principal	165,000	305,176	303,420	1,756
Interest	60,000	93,862	95,618	(1,756)
Total Expenditures	7,270,000	8,619,466	\$ 7,984,873	\$ 634,593
Fund Balance – January 1, 2007	1,159,735	1,159,735		
Total Budget	\$ 8,429,735	\$ 9,779,201		

Other Supplementary Information

Emmet County Road Commission

Analysis of Changes in Fund Balances For the Year Ended December 31, 2007

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Total Revenues	\$ 3,359,150	\$ 3,868,839	\$ 879,755	\$ 8,107,744
Total Expenditures	<u>2,967,891</u>	<u>4,304,558</u>	<u>712,424</u>	<u>7,984,873</u>
Excess of Revenues Over (Under) Expenditures	391,259	(435,719)	167,331	122,871
Optional Transfers	(435,719)	435,719	-	-
Fund Balance – January 1, 2007	<u>388,063</u>	<u>-</u>	<u>771,672</u>	<u>1,159,735</u>
Fund Balance – December 31, 2007	<u>\$ 343,603</u>	<u>\$ -</u>	<u>\$ 939,003</u>	<u>\$ 1,282,606</u>

Emmet County Road Commission

Analysis of Revenues For the Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ -	\$ 29,740	\$ -	\$ 29,740
Federal Sources				
Surface Transportation Program	314,277	-	-	314,277
D Funds	350,739	-	-	350,739
High Priority	10,801	-	-	10,801
State Sources				
Michigan Transportation Fund				
Engineering	6,490	3,510	-	10,000
Allocation	2,232,533	1,207,520	-	3,440,053
Urban	86,366	32,435	-	118,801
Snow Removal	-	141,706	-	141,706
Economic Development Fund				
Rural Primary (D)	119,909	-	-	119,909
Forest Road (E)	15,397	42,421	-	57,818
Priority	6,801	-	-	6,801
Local Jobs Today	43,567	-	-	43,567
Contributions from Local Units				
Townships	19,038	2,392,878	-	2,411,916
Other	-	-	587	587
Charges for Services				
State Trunkline				
Maintenance	-	-	784,275	784,275
Nonmaintenance	-	-	19,395	19,395
Salvage Sales	-	-	567	567
Interest and Rents	10,660	-	23,098	33,758
Other Revenue				
Other	95,503	-	9,296	104,799
Gain on Disposals	433	-	42,537	42,970
Other Financing Sources				
County Appropriation	46,636	18,629	-	65,265
Total Revenue	\$ 3,359,150	\$ 3,868,839	\$ 879,755	\$ 8,107,744

Emmet County Road Commission

Analysis of Expenditures For the Year Ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation	\$ 1,187,454	\$ -	\$ -	\$ 1,187,454
Maintenance	1,530,766	-	-	1,530,766
Local Road				
Preservation	-	1,704,626	-	1,704,626
Maintenance	-	2,207,710	-	2,207,710
State Trunkline Maintenance	-	-	725,262	725,262
State Trunkline Nonmaintenance	-	-	19,395	19,395
Equipment Expense – Net	91,859	152,377	60,335	304,571
Administrative Expense – Net	166,640	239,845	-	406,485
Capital Outlay – Net	(9,057)	-	(491,377)	(500,434)
Debt Service				
Debt Principal Payments	-	-	303,420	303,420
Interest Expense	<u>229</u>	<u>-</u>	<u>95,389</u>	<u>95,618</u>
Total Expenditures	<u>\$ 2,967,891</u>	<u>\$ 4,304,558</u>	<u>\$ 712,424</u>	<u>\$ 7,984,873</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

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

Board of County Road Commissioners
Emmet County Road Commission
2265 E. Hathaway Road
Harbor Springs, Michigan 49740

We have audited the financial statements of the governmental activities and major fund, of the Emmet County Road Commission as of and for the year ended December 31, 2007, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated May 2, 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 the Emmet County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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 Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control over financial reporting. We consider the deficiencies described in 07-1 and 07-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

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

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 and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 Emmet County Road Commission in a separate letter dated May 2, 2008

The Commission's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Commission's response and, accordingly, we express no opinion on it.

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



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 2, 2008

Emmet County Road Commission

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2007**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Project</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF TRANSPORTATION:				
Pass-Through Programs From:				
Michigan Department of Transportation (Note 7):				
West Conway Road from US 31	20.205	STP 0624 (007)	58325	\$ 495
West Conway Road from M-119	20.205	STP 0624 (010)	58326	4,401
Bear River Road from Maple Hill Road	20.205	STP 0624 (016)	77811	171,704
Mitchell Road from Petoskey	20.205	HPSL 0624 (015)	88237	35,857
Guardrail Upgrades	20.205	STP 0724 (312)	87615	152,485
Middle Road from North Hughston Road	20.205	STP 0724 (314)	86781	<u>310,875</u>
Subtotal – U.S. Department of Transportation				<u>675,817</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 675,817</u>

Financial Statement Findings

SIGNIFICANT DEFICIENCIES

Finding 07-1

Specific Requirement: Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 112.

Criteria: Internal controls should be in place to provide reasonable assurance to the Commission that management reports financial statements necessary to monitor and report annual financial activity in accordance with GASB Statement 34 without auditor intervention.

Condition: Personnel responsible for financial reporting may not be monitoring and reporting annual financial activity in accordance with GASB Statement 34 without auditor intervention.

Effect: The effect of this condition places a reliance on the independent auditor as part of the Commission's internal controls over financial reporting for GASB Statement 34. This reliance makes the independent auditor effectively part of internal controls.

Cause: Change in application of auditing standards for financial reporting.

Recommendation: The Commission should review and implement the necessary procedural activities to monitor and report annual financial activity in accordance with GASB Statement 34.

Planned Corrective Action: As a result of limited funding, the Commission does not have resources to fund this process.

- Contact Person(s) Responsible for Correction:
Brian Gutowski, Manager

Financial Statement Findings (Continued)

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 07-2

Criteria: The expenditures of funds in excess of appropriations is contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

Condition: Our examination of procedures used by the Commission to adopt and maintain operating budgets for the Commission's budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The Commission's 2007 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2007 expenditures exceeded the board's approved budget allocations for some general fund activities.

During the fiscal year ended December 31, 2007, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 26 of the financial statements.

Effect: Condition's may violate State Law.

Cause: Unknown.

Recommendation: We recommend that the Commission's chief administrative officer and personnel responsible for administering the activities of the various funds of the Commission, develop budgetary control procedures for the General Fund which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Planned Corrective Action: Amounts will be maintained in the future.

- Contact Person(s) Responsible for Correction:
Brian Gutowski, Manager



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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MEMBER AICPA
DIVISION FOR CPA FIRMS

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OFFICES IN
MICHIGAN & WISCONSIN

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Members of the Board of Commissioners
Emmet County Road Commission
Harbor Springs, MI 49740

We have audited the financial statements of the Emmet County Road Commission as of and for the year ended December 31, 2007, and have issued our reports thereon dated May 2, 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 April 24, 2008, 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 Emmet 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 Emmet 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 the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our memorandum about planning matters on April 24, 2008.

Significant Audit Findings

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 the Emmet 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 during fiscal 2007. We noted no transactions entered into by the 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 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 most sensitive estimate affecting the financial statements was:

- Management's estimate of the depreciation expense based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determine that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

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. A copy of any adjustments are available from management.

Disagreement 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 May 2, 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 as to determine 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.

Comments and Recommendations

Excess Expenditures Over Appropriations (Prior Year)

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit of government shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County Road's actual expenditures were in excess of amounts appropriated for certain line items as indicated on the Statement of Expenditures – Budget and Actual.

Infrastructure (Prior Year)

During 2006, a revised "Bulletin for County Road Commissions" was issued by the Michigan Department of Treasury. The Bulletin revised the requirements for capitalization of chip sealing and other road surfaces. The Commission should remove infrastructure assets which do not meet the revised criteria for road capitalization.

Status: Corrected.

Policy and Procedure Manual

The Accounting Procedures Manual for Local Units of Governments and the Uniform Accounting Procedures Manual for County Road Commissions were recently updated by the Michigan Department of Treasury. These bulletins contain several policies and procedures which the Commission should review and implement as appropriate. The Commission policy and procedures have not been updated to incorporate the changes recommended in the state manuals.

Inventory Status Report

The inventory status report does not reflect current quantity and per unit costs as indicated in manual support records. The software is designed to automatically calculate quantities and per unit cost rates to assure proper allocations of costs without manual adjustments.

Auto Use

Personal use of governmental automobiles is considered compensation to employees according to Internal Revenue Service Regulations. An auto lease value or daily commuting amount should be calculated in accordance with IRC provisions or mileage paid and included as compensation on the employee's Form W-2 at year end for any usage deemed personal.

Conclusion

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

This information is intended solely for the use of the Emmet County Road Commission, the cognizant audit agencies and other federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 2, 2008