

**AUDITED FINANCIAL STATEMENTS  
REQUIRED SUPPLEMENTAL INFORMATION  
OTHER FINANCIAL INFORMATION  
AND SUPPLEMENTAL REPORT**

**GOGEBIC COUNTY ROAD COMMISSION  
BESSEMER, MICHIGAN**

**December 31, 2007**

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# Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended.

Unit Name	Gogebic County Road Comm.	County	GOGEBIC	Type	OTHER	MuniCode	27-0-100
Opinion Date	June 16, 2008	Audit Submitted		Fiscal Year	December 31, 2007		

If a local unit of government (authorities & 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, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?      14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 6,608,981.00
General Fund Expenditure:	\$ 6,095,543.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 1,763,811.00
Governmental Activities Long-Term Debt (see instructions):	\$ 305,898.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Karl	Last Name	Ahonen	Ten Digit License Number	1101025488
CPA Street Address	301 N. Suffolk Street	City	Ironwood	State MI	Zip Code 49938
CPA Firm Name	Joki, Makela & Pollack, PLLC	Unit's Street Address	200 N. Moore St	City	Bessemer
					Zip Code 49911

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**JOKI, MAKELA & POLLACK, P.L.L.C.**

CERTIFIED PUBLIC ACCOUNTANTS  
301 N. SUFFOLK STREET  
IRONWOOD, MICHIGAN 49938-2027

T. J. MAKELA, C.P.A.  
W. J. JOKI, C.P.A.  
A. R. POLLACK, C.P.A., C.S.E.P.  
MEMBERS

TELEPHONE  
906-932-4430  
FAX  
906-932-0677  
EMAIL  
jmp@ironwoodcpa.com

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Commissioners  
Gogebic County Road Commission  
Bessemer, Michigan

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

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities of Gogebic County Road Commission as of December 31, 2007, and the changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2008, on our consideration of Gogebic 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 important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 11 and page 34 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 an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying financial information listed in the table of contents as Other Financial Information is presented for purposes of additional analysis and is not a required part of the basic financial statements of Gogebic County Road Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

*Joti, Makela & Pollack, PLLC*

Certified Public Accountants

Ironwood, Michigan  
June 16, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2007

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#### **Management's Discussion and Analysis**

This section of the Gogebic County Road Commission's (Commission) annual financial report presents our discussion and analysis of the Commission's financial performance during the year ended December 31, 2007. It is to be read in conjunction with the Commission's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments* and is intended to provide the financial results for the fiscal year ending December 31, 2007.

#### **Government-wide Financial Statements**

The Government-wide financial statements appear first in the financial report. These financial statements include the statement of net assets and the statement of activities. They report information about the Commission as a whole. The statements are prepared using the accrual basis of accounting which is the accounting used by most private sector businesses. The statement of net assets includes all of the Commission's assets and liabilities. All current year revenues and expenses are reported in the statement of activities. The two statements report the governmental activities of the Commission that include all services performed by the Commission. These activities are funded by Michigan Transportation Fund monies, local charges for services and federal and state grants.

The statement of net assets shows the Commission's assets and liabilities. The corresponding balance between the assets and liabilities equals the net assets or deficit of the Commission. A deficit occurs when there are more liabilities than there are assets to pay those liabilities. This statement measures the financial strength of the Commission; the greater the net asset figure, the healthier the financial position of the Commission generally is. It helps management determine if the Commission will be able to fund current obligations and whether they have resources available for future use.

The statement of activities shows the current year change in net assets on a revenue less expenditure basis. It generally shows the operating results for a given year of the Commission. Any excess of revenues over expenditures results in a surplus for the year that in turn increases the net assets (or reduces a deficit) available to fund future needs of the Commission.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**Fund Financial Statements**

The Commission's fund financial statements show detail of funds that are determined to be significant, called major funds. The Commission has only one fund. That fund is a special revenue fund, which is the major governmental fund. The Commission has no nonmajor funds.

Governmental funds are accounted for by the modified accrual method of accounting (flow of current financial resources measurement focus). This method records revenues when all applicable eligibility requirements are met and resources are available to finance expenditures of the fiscal period. Expenditures are recorded when the related liability is incurred. The governmental fund financial statements show the detail of operations for a given year according to this method of accounting. This is similar to how the Commission reported their finances in the past. The individual fund statements help management determine what financial resources are available on a short-term basis to fund operations.

Since the government-wide financial statements and the fund financial statements use different methods of accounting to report the Commission's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.

**Government-wide Financial Statements – Condensed Financial Information**

Statement of Net Assets

The following is a December 31, 2007 and 2006, condensed statement of net assets with a detailed analysis of the statement below.

	<u>Governmental Activities</u>	
	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash	\$ 124	\$ 186
Investments	1,400,527	682,447
Accounts receivable	624,072	826,544
Inventories	563,389	522,703
Other current assets	<u>23,163</u>	<u>24,084</u>
Total Current Assets	\$ 2,611,275	\$ 2,055,964
<b>Noncurrent Assets -</b>		
Capital assets, net of allowances for depreciation of:		
2007 - \$5,984,643; 2006 - \$5,603,117	<u>10,468,333</u>	<u>7,995,164</u>
Total Assets	<u>\$ 13,079,608</u>	<u>\$ 10,051,128</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**Government-wide Financial Statements – Condensed Financial Information (Continued)**

Statement of Net Assets (Continued)

		<u>Governmental Activities</u>	
		<u>December 31,</u>	
		<u>2007</u>	<u>2006</u>
<b>LIABILITIES</b>			
Accounts payable		\$ 85,393	\$ 87,654
Other current liabilities		121,550	102,597
Advances		240,770	229,107
Deferred revenue		399,751	386,233
Current portion of long-term liabilities		<u>                    </u>	<u>30,921</u>
	Total Current Liabilities	\$ 847,464	\$ 836,512
Long-term liabilities		<u>305,898</u>	<u>280,061</u>
	Total Liabilities	<u>\$ 1,153,362</u>	<u>\$ 1,116,573</u>
<b>NET ASSETS</b>			
Investment in capital assets		\$ 10,468,333	\$ 7,995,164
Unrestricted		<u>1,457,913</u>	<u>939,391</u>
	Total Net Assets	<u>\$ 11,926,246</u>	<u>\$ 8,934,555</u>

The Commission's net assets are \$11,926,246 at December 31, 2007. Capital assets are \$10,468,333. This figure is derived by taking the original costs of the Commission's assets and subtracting allowances for depreciation to date. The Commission had no debt related to capital assets at December 31, 2007 or 2006.

The unrestricted net assets total \$1,457,913 as of December 31, 2007. This is the net accumulated results of past years' operations.

**Statement of Activities**

The results of operations for the Commission as a whole are reported in the statement of activities. This statement reports the changes in net assets for the years ended December 31, 2007 and 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**Statement of Activities (Continued)**

	<u>Governmental Activities</u>	
	<u>Year ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Revenues -		
Program Revenues:		
Charges for services	\$ 1,498,352	\$ 879,763
Operating grants and entitlements	4,278,125	4,136,581
Capital grants and contributions	<u>3,154,779</u>	<u>1,429,598</u>
	\$ 8,931,256	\$ 6,445,942
General Revenues:		
Interest	\$ 44,317	\$ 26,820
Gain on asset disposals	<u>65,700</u>	<u>61,234</u>
	\$ 110,017	\$ 88,054
Total Revenues	\$ 9,041,273	\$ 6,533,996
Functions/Program Expenses -		
Public works	<u>6,049,582</u>	<u>5,875,687</u>
Increase in Net Assets	<u>\$ 2,991,691</u>	<u>\$ 658,309</u>

The Commission had an overall increase in net assets of \$2,991,691 for the year ended December 31, 2007.

The Commission's revenues totaled \$9,041,273 and \$6,533,996 for the years ended December 31, 2007 and 2006, respectively. Of this amount, \$1,845,098 or 20% were from federal grants. The amount was \$541,692 or 8% for December 31, 2006. Most of the federal grants were passed-through the State of Michigan and included Surface Transportation Funds, Federal "D" Funds and Critical Bridge Funds. The Commission also received funds directly from the Bureau of Indian Affairs. Most of these revenues are included in the capital grants revenue category and were used to enhance the County road system and replace various bridges.

State grants totaled \$2,985,151, or 33% of total revenues for the year ended December 31, 2007 and \$2,791,399, or 43% for the year ended December 31, 2006. The major source of state grants are monies from the Michigan Transportation Fund. These are gas tax revenues that are returned to counties for road maintenance. Other state grants received include snow removal funds, Critical Bridge funds, forest road funds, state "D" funds and Local Jobs Today funds. These revenues are split between operating grants and capital grants depending on what the monies are earmarked for.

The other major portion of revenues is rental income. The Commission charges rents based on approved State of Michigan, Department of Transportation rates to all of the projects they incur expenses on during the year. The rents are spread across all of the projects and the funding sources for the projects are charged for those costs. Rent revenues totaled \$1,750,682 or 19% and \$1,471,109 or 23% for the years ended December 31, 2007 and 2006, respectively. The revenues are categorized as operating grants and capital grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**Statement of Activities (Continued)**

The Commission's total cost to fund all governmental activities was \$6,049,582 for the year ended December 31, 2007. All of these costs were for road and bridge construction and reconstruction or maintenance on the road system in Gogebic County. The amount totaled \$5,875,687 for the year ended December 31, 2006. This amount fluctuates from year to year based on project funding levels and the scope of work performed on various projects.

**Fund Financial Statements**

The governmental fund financial statements report the Commission's finances similar to how they have been reported prior to implementation of GASB Statement No. 34. The Commission reports a fund balance of \$1,763,811 and \$1,250,373 at December 31, 2007 and 2006, respectively. There was an increase of \$513,438 from last year. Total expenditures reported were \$6,095,543 and \$4,540,388 for the years ended December 31, 2007 and 2006, respectively. Salaries and wages paid to employees totaled \$1,571,153 or 26% of total expenditures and related fringes were \$948,162 or 16% of the total for year ended December 31, 2007. This is compared to amounts of \$1,570,640 or 35% and \$1,066,270 or 23% for the year ended December 31, 2006. Capital outlay purchases totaled \$248,170 and major acquisitions were a used backhoe, used front-end loader and a used paving machine.

**Budgetary Comparison Schedules - Variance Analysis**

The significant budget changes of the Commission for year ended December 31, 2007, included the following:

<u>Original Budget to Final Budget</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budget Change</u>
<b>REVENUES</b>			
Federal aid	\$ 2,278,240	\$ 2,110,336	\$ (167,904)
State funds	3,063,059	3,012,873	(50,186)
Contributions - local units	213,800	161,966	(51,834)
Charges for services	907,000	1,136,124	229,124
Gain on asset disposal	10,000	65,700	55,700
<b>EXPENDITURES</b>			
Primary roads	3,456,972	2,752,443	704,529
Local roads	1,458,117	1,601,438	(143,321)
State trunkline maintenance	835,000	955,835	(120,835)
Equipment expense - net	(506,889)	(328,729)	(178,160)
Distributive expenses	1,140,000	1,039,695	100,305
Other		162,060	(162,060)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**Budgetary Comparison Schedules - Variance Analysis (Continued)**

The Federal aid and state revenues were reduced as costs for road rehabilitation projects came in less than originally anticipated. Local unit contributions were less than original budget as less work was performed on township roads than originally anticipated. Charges for services were more as the Commission is now charging rental rates equal to the states approved rates rather than a modified rate used in past years. The gain on asset disposal increase was due to the sale of old equipment upgraded during the year and the trade-in on a used paving machine.

The primary roads expenditure budget reduction was \$704,529, local roads had an increase of \$143,321 and state trunkline maintenance had a reduction of \$120,835. When the original budget was adopted for the year ended December 31, 2007, the Commission had a tentative plan of which projects would be completed in 2007 and the amount of maintenance spending on local roads and state highways. This is done five to six months prior to the construction season. As the year progresses, changes are made to the projects and maintenance schedules based on priority and safety issues. As the location and scope of work changes, so do the expenditure categories.

The equipment expense – net reduction of \$178,160 was caused by equipment rental use being less than originally anticipated and costs to maintain equipment increased.

The distributive expenses reduction of \$100,305 was due to fringe benefits being lower than the original budget due to caps on health insurance costs and less employees from the prior year.

Other expenses are costs incurred by the Commission on federal aid, Bureau of Indian Affairs projects that were not part of the county road system.

The initial budget for the December 31, 2007 year-end was adopted by the Commission on December 11, 2006. Amendments were made on July 31, August 6, September 10 and December 10, 2007, with the final amendments made on December 17, 2007.

Final Budget to Actual

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES - State aid	\$ 3,012,873	\$ 2,985,151	\$ (27,722)
EXPENDITURES			
Primary roads	\$ 2,752,443	\$ 3,003,341	\$ (250,898)
Local roads	1,601,438	1,842,858	(241,420)
Services provided	1,015,835	1,054,257	(38,422)
Equipment expense - net	(328,729)	(152,061)	(176,668)
Administrative expense - net	115,770	208,489	(92,719)
Other	162,060	203,678	(41,618)
Capital outlay - net	(106,608)	(65,019)	(41,589)

**Budgetary Comparison Schedules - Variance Analysis (Continued)**

The Commission overspent in various expenditure categories during the year and these items are reported as budget violations in the supplemental report. The major reason is that the Commission budgets a line item for "distributive expenses" each year but for the financial statements, these expenses are allocated to each of the expenditure categories above. This amount was \$1,039,695 for the year ended December 31, 2007.

**Capital Assets**

At December 31, 2007 the Commission had \$10,468,333 invested in capital assets. This amount increased during the past fiscal year by \$2,473,169, consisting of additions totaling \$3,154,779 and depreciation charges of \$681,610. The additions included various equipment additions of \$248,170 and infrastructure additions of \$2,906,609. Assets disposed of during the year had a historical cost of \$300,084 that was equal to the accumulated depreciation on the assets. The infrastructure capitalized includes various road construction and reconstruction completed in 2007 that meets the State of Michigan Department of Transportation guidelines for capitalization. The Commission was given the option of reporting infrastructure on a prospective basis and chose to do so beginning with projects completed during 2003.

**Debt**

The Commission had \$305,898 of long-term liabilities at December 31, 2007, of which none was determined to be a current liability. The entire amount is for accrued vacation and sick benefits payable to employees. The liability for vacation and sick benefits will not be relieved until the benefits are paid out to employees.

**Future Considerations**

With the State of Michigan, federal government and the local county, city and township governments facing financial difficulties and spending issues, the funding for construction and maintenance projects are in the hands of the state, federal and local governments. The level of work the Road Commission performs is based on this revenue.

The increased price of gas and diesel fuel is resulting in less consumers purchasing fuel in the State. This in turns results in less gas tax revenues collected by the State and less funds to be distributed to the Commission. Services such as snow plowing, mowing and other maintenance may need to be reduced.

**Contacting the Commission**

If you have any questions about this report or need additional information, contact the Manager at the Gogebic County Road Commission, Courthouse Annex, Bessemer, MI 49911.

BASIC  
FINANCIAL  
STATEMENTS

STATEMENT OF NET ASSETS  
GOGEBIC COUNTY ROAD COMMISSION

December 31, 2007

ASSETS	
<b>CURRENT ASSETS</b>	
Cash	\$ 124
Investments	1,400,527
Accounts receivable:	
Federal government	28,527
State of Michigan	483,893
Due from other governmental units	111,652
Inventories:	
Equipment parts and materials	296,220
Road materials	267,169
Prepaid insurance	<u>23,163</u>
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 2,611,275</b>
<b>NON CURRENT ASSETS</b>	
Capital assets	\$ 16,452,976
Less allowances for depreciation	<u>(5,984,643)</u>
<b>TOTAL NON CURRENT ASSETS</b>	<b>\$ 10,468,333</b>
<b>TOTAL ASSETS</b>	<b>\$ 13,079,608</b>
LIABILITIES	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 85,393
Salaries, wages and related benefits	111,037
Due to State of Michigan	10,513
Advances:	
Private driveway plowing	57,988
State trunkline equipment purchase	116,939
State trunkline maintenance	65,843
Deferred revenue	<u>399,751</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 847,464</b>
<b>LONG-TERM LIABILITIES</b>	
Vacation and sick benefits	<u>305,898</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 1,153,362</b>
NET ASSETS	
Investment in capital assets	\$ 10,468,333
Unrestricted	<u>1,457,913</u>
<b>TOTAL NET ASSETS</b>	<b>\$ 11,926,246</b>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ACTIVITIES  
GOGEBIC COUNTY ROAD COMMISSION  
Year ended December 31, 2007

GOVERNMENTAL FUNCTIONS -

Program expenses -

Public works:

Primary road maintenance	\$ 918,268
Local road maintenance	1,021,322
Services provided	1,054,257
Equipment expense	1,967,042
Net administrative expense	208,489
Net compensated absences	(5,084)
Other	203,678
Depreciation expense	<u>681,610</u>

TOTAL PROGRAM EXPENSES \$ 6,049,582

Program revenues:

Charges for services	\$ 1,498,352
Operating grants and contributions:	
State Aid	1,831,596
Contributions from local units	14,237
Rents	1,750,682
Other	681,610
Capital grants and contributions:	
Federal Aid	1,845,098
State Aid	1,153,555
Contributions from local units	<u>156,126</u>

TOTAL PROGRAM REVENUES \$ 8,931,256

NET PROGRAM REVENUES \$ 2,881,674

GENERAL REVENUES:

Interest and dividends	\$ 44,317
Gain on asset disposals	<u>65,700</u>

TOTAL GENERAL REVENUES \$ 110,017

CHANGE IN NET ASSETS FOR THE YEAR \$ 2,991,691

NET ASSETS at January 1, 2007 8,934,555

NET ASSETS at December 31, 2007 \$11,926,246

The accompanying notes are an integral part of the financial statements.

## BALANCE SHEET - GOVERNMENTAL FUND

## GOGEBIC COUNTY ROAD COMMISSION

December 31, 2007

## ASSETS

Cash	\$ 124
Investments	1,400,527
Accounts receivable:	
Federal government	28,527
State of Michigan	483,893
Due from other governmental units	111,652
Inventories:	
Equipment parts and materials	296,220
Road materials	267,169
Prepaid insurance	<u>23,163</u>
	<u>\$ 2,611,275</u>

## LIABILITIES AND EQUITY

Accounts payable	\$ 85,393
Salaries, wages and related benefits	111,037
Due to State of Michigan	10,513
Advances:	
Private driveway plowing	57,988
State trunkline equipment purchase	116,939
State trunkline maintenance	65,843
Deferred revenue	<u>399,751</u>
	TOTAL LIABILITIES \$ 847,464
Unreserved fund equity	<u>1,763,811</u>
	<u>\$ 2,611,275</u>

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
WITH THE STATEMENT OF NET ASSETS  
GOGEBIC COUNTY ROAD COMMISSION

December 31, 2007

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Total fund equity of the governmental fund	\$ 1,763,811
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Amounts reported for the governmental activities in the statement of net assets are different because:

Additions:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

The cost of the capital assets is	\$ 16,452,976	
Allowance for depreciation is	<u>(5,984,643)</u>	10,468,333

Reductions:

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in governmental funds.

Accrued vacation and sick benefits	<u>(305,898)</u>
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Total net assets of governmental activities	<u>\$ 11,926,246</u>
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The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - GOVERNMENTAL FUND  
GOGEBIC COUNTY ROAD COMMISSION  
Year ended December 31, 2007

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Total revenues	\$6,608,981
Total expenditures	<u>6,095,543</u>
Excess of revenues over expenditures	\$ 513,438
Fund balance at January 1, 2007	<u>1,250,373</u>
FUND BALANCE AT DECEMBER 31, 2007	<u>\$1,763,811</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES - GOVERNMENTAL FUND - BUDGET AND ACTUAL

GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2007

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Federal Aid:</b>			
Surface Transportation funds		\$ 1,457,226	
Federal "D" funds		70,130	
Critical Bridge funds		262,742	
Bureau of Indian Affairs		<u>303,354</u>	
	\$ 2,110,336	\$ 2,093,452	\$ (16,884)
<b>State Aid:</b>			
<b>Michigan Transportation Fund:</b>			
Engineering		\$ 10,000	
Primary road		1,497,659	
Local road		656,269	
Primary urban road		35,228	
Local urban road		6,897	
Snow removal		282,764	
Critical Bridge funds		49,264	
<b>Economic Development Fund:</b>			
State "D" funds		75,000	
Forest Road funds		188,780	
Local Jobs Today funds		<u>183,290</u>	
	3,012,873	\$ 2,985,151	(27,722)
<b>County raised and other revenues:</b>			
<b>Contributions from:</b>			
Cities		\$ 4,237	
Townships		156,126	
Other governmental units		<u>10,000</u>	
	161,966	\$ 170,363	8,397
<b>Charges for services:</b>			
State trunkline maintenance		\$ 1,060,439	
State trunkline nonmaintenance		105,451	
Private driveway plowing		77,353	
Other		<u>6,755</u>	
	1,136,124	\$ 1,249,998	113,874
Interest and dividends earned	42,472	44,013	1,541
Other		304	304
Gain on asset disposals	<u>65,700</u>	<u>65,700</u>	
<b>TOTAL REVENUES</b>	<b>\$ <u>6,529,471</u></b>	<b>\$ <u>6,608,981</u></b>	<b>\$ <u>79,510</u></b>

The accompanying notes are an integral part of the financial statements.

## STATEMENT OF EXPENDITURES - GOVERNMENTAL FUND - BUDGET AND ACTUAL

## GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2007

	Budget	Actual	Variance Favorable (Unfavorable)
Primary road:			
Preservation - structural improvements		\$2,064,685	
Maintenance		913,001	
Primary road structures:			
Preservation - structural improvements		20,388	
Maintenance		<u>5,267</u>	
	\$2,752,443	\$3,003,341	\$ (250,898)
Local road:			
Preservation - structural improvements		\$ 445,536	
Maintenance		1,016,664	
Local road structures:			
Preservation - structural improvements		376,000	
Maintenance		<u>4,658</u>	
	1,601,438	\$1,842,858	(241,420)
Services provided:			
State trunkline maintenance		\$ 871,453	
State trunkline nonmaintenance		<u>105,451</u>	
	\$ 955,835	\$ 976,904	\$ (21,069)
Private driveway plowing	<u>60,000</u>	<u>77,353</u>	<u>(17,353)</u>
	\$1,015,835	\$1,054,257	\$ (38,422)
Equipment expense - net:			
Direct		\$ 856,226	
Indirect		489,277	
Operating		253,118	
Less equipment rental		<u>(1,750,682)</u>	
	(328,729)	\$ (152,061)	(176,668)
Administrative expenses - net:			
Administrative expense		\$ 309,487	
Less:			
Handling charges		(5,846)	
Overhead - state trunkline maintenance		(93,872)	
Purchase discounts		(521)	
Other		<u>(759)</u>	
	115,770	\$ 208,489	(92,719)

STATEMENT OF EXPENDITURES - GOVERNMENTAL FUND -  
BUDGET AND ACTUAL (CONTINUED)

	Budget	Actual	Variance Favorable (Unfavorable)
Distributive expenses	1,039,695		1,039,695
Other	162,060	203,678	(41,618)
Capital outlay - net:			
Capital outlay		\$ 248,170	
Less depreciation		<u>(313,189)</u>	
	<u>(106,608)</u>	<u>\$ (65,019)</u>	<u>(41,589)</u>
TOTAL EXPENDITURES	<u>\$6,251,904</u>	<u>\$6,095,543</u>	<u>\$ 156,361</u>

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE WITH THE STATEMENT OF ACTIVITIES

GOGEBIC COUNTY ROAD COMMISSION

December 31, 2007

Total net change in fund balance - governmental fund	\$ 513,438
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or construct capital assets are reported as expenditures in governmental funds. For governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlay exceeds depreciation expense in the period.

Depreciation expense	\$ (681,610)	
Capital outlays	<u>3,154,779</u>	2,473,169

In the statement of activities, operating expenses for compensated absences are measured by amounts earned during the year while the governmental funds report expenditures as amounts are paid. This year the amount paid for compensated absences was more than the amount earned by \$5,084.

5,084

Change in net assets of governmental activities

\$ 2,991,691

The accompanying notes are an integral part of the financial statements.

NOTES TO  
FINANCIAL  
STATEMENTS

NOTES TO FINANCIAL STATEMENTS  
GOGEBIC COUNTY ROAD COMMISSION

December 31, 2007

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NOTE A - REPORTING ENTITY

Gogebic County Road Commission (the Commission) was established pursuant to the County Road Law (MCL 224.1) and is governed by a five member Board of County Road Commissioners appointed by the County Board of Commissioners. The 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 Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB 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 only Gogebic County Road Commission, a discretely presented component unit of Gogebic County, Michigan.

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Gogebic County Road Commission conform to accounting principles generally accepted in the United States as applicable to governmental units. The following is a summary of the significant policies:

Basis of Presentation

Government-Wide Financial Statements

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report information on all of the activities of the Commission. The activities of the Commission are considered to be governmental activities.

The government-wide financial statements report all financial and capital assets, short and long-term liabilities, revenues, expenses, gains and losses using the economic resource measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

The Statement of Activities reports net cost information based on the Commission's functions. Direct expenses are listed by function with program revenues for each function offset against those expenses. The Commission has one function, public works, and its program revenues are generated from charges for services, operating grants and contributions and capital grants.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Fund-based Financial Statements

Separate financial statements are provided on the basis of funds, which are considered separate fiscal and accounting entities. The Commission has only one fund. That fund is a special revenue fund which is the major governmental fund.

Governmental funds are accounted for using the modified accrual basis of accounting and the flow of expendable financial resources (measurement focus). Under the modified accrual basis of accounting, revenue is recognized when the revenue is subject to accrual, eligibility requirements are met and the revenues are available to finance expenditures of the fiscal period. Revenue is considered available when the revenue has been collected in the current period or soon enough after the end of the period to use to pay current fund liabilities. The Commission considers revenues to be available if collected within 60 days of the end of the period. Expenditure-based grants are recognized as revenue when revenue is available, the qualifying expenditures have been incurred and all other grant requirements have been met. Expenditures, if measurable, are recorded when they have used or are expected to use current expendable financial resources.

#### Investments

Investments are stated for financial statement purposes at their fair market value.

#### Accounts Receivable

The Commission grants credit to customers for various types of services performed. Included among its customers are federal, state and local units of government. The direct charge-off method is used for recognizing uncollectible accounts. All accounts deemed to be uncollectible as of the end of the year are charged off as an expenditure. The effects of using this method approximate those of the allowance method.

#### Inventories

Inventories are priced at cost as determined by the moving average method, except for stockpiled road materials, which are priced at the 2007 average unit production cost. Inventory items are charged to road construction, equipment maintenance, repairs and operations as they are used.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Capital Assets and Depreciation

Capital assets include land, buildings, equipment and infrastructure and are reported in the government-wide financial statements. Capital assets are defined by the Commission as assets with an acquisition cost of more than \$1,000 with an estimated useful life of at least four years. Assets costing less than \$1,000 are capitalized if they have an equipment rental rate as determined by the State of Michigan. Assets meeting this criteria are recorded at historical cost or estimated historical costs if the amount is not known. Any donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks of infrastructure assets acquired, constructed or substantially rehabilitated to be capitalized and depreciated. The Commission has capitalized the current year infrastructure as required by GASB 34 and has reported the infrastructure in the Statement of Net Assets. The Commission had the option to report infrastructure prospectively and chose to do so beginning with projects completed in 2003.

The costs of capital assets are charged to expense using an annual allocation of depreciation expense. The expense is recorded in the Government-wide Statement of Activities and included as a direct expense of an identifiable function if the assets sole purpose can be identified as being for that function.

The capital assets are depreciated using the sum-of-the-years-digits method for road equipment and straight-line method for all other fixed assets over the useful lives as established by the Uniform Accounting Procedures Manual for Michigan County Road Commissions. It is the Commission's policy to take no depreciation in the year of completion for infrastructure assets. The lives are summarized as follows:

Buildings	30 – 50 years
Road equipment	5 – 8 years
Shop equipment	10 years
Engineering equipment	4 – 10 years
Office equipment	4 – 10 years
Infrastructure – Roads	8 – 30 years
Infrastructure - Bridges	12 – 50 years

#### Investment in Capital Assets, Net of Related Debt

The portion of net assets of the Commission that consists of capital assets, net of allowances for depreciation and reduced by any long-term liabilities attributable to the acquisition of those assets is reported as investment in capital assets, net of related debt. There were no long-term liabilities associated with these assets at December 31, 2007.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Unrestricted Net Assets

Net assets not meeting the criteria above are considered unrestricted.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

#### Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the Board of County Road Commissioners to approve a budget for the County Road Fund. Prior to January 1, the Commission's chief administrative officer prepares and submits a proposed operating budget to the Board of County Road Commissioners for their review and consideration. The Board of County Road Commissioners conducts a public budget hearing and subsequently adopts the operating budget. The budget is adopted on a functional level. The Board of County Road Commissioners has authorized the chief administrative officer to amend the operating budget, when necessary, by transferring up to 20% from one line item to another. The operating budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended, by the Board of County Road Commissioners. The budget lapses on December 31.

### NOTE C – CASH AND INVESTMENTS

Cash is deposited with the Gogebic County Treasurer, the depository agent for cash balances of the various funds of Gogebic County. The County Treasurer combines cash balances for investment purposes. A detailed accounting of cash balances allocable to the various funds is maintained.

Deposits and investments were made in accordance with State of Michigan statutes and under authorization of the County Board of Commissioners. State of Michigan statutes authorize investments in direct obligations of the United States or an agency of the United States; banks which are members of the Federal Deposit Insurance Corporation; commercial paper rated at the time of purchase within the three highest classifications established by no fewer than two standard rating services; United States government or agency obligation repurchase agreements; bankers' acceptances of United States banks; certain mutual funds and certain common stocks.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C – CASH AND INVESTMENTS (CONTINUED)

The Commission uses an imprest system with zero balances for its accounts payable and payroll checking accounts. The portion of these two accounts covered by FDIC insurance cannot be determined because the accounts are among several Gogebic County accounts in the same local banks. The investment balance reflected on the balance sheet of the General Operating Fund is represented by deposits included in Gogebic County's common municipal investment mutual fund accounts with all transfers to the accounts payable and payroll accounts approved by the Gogebic County's Board of Commissioners. Required information related to the investments may be found in Note F – Cash and Investment Information of the County's separately issued Audited Financial Statements.

NOTE D – LONG-TERM LIABILITIES

Long-term liabilities of the Commission is summarized as follows:

	Balance at January 1, <u>2007</u>	Net Change	Balance at December 31, <u>2007</u>
Long-Term Liabilities:			
Vacation benefits	\$ 91,528	\$ 3,299	\$ 94,827
Sick leave benefits	<u>219,454</u>	<u>(8,383)</u>	<u>211,071</u>
TOTALS	<u>\$ 310,982</u>	<u>\$ (5,084)</u>	<u>\$ 305,898</u>

Vacation Benefits

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

Sick Leave Benefit Policies

The Commission employment policies provide that each full-time employee shall earn one day of sick leave credit for each month of service. Sick leave credits may be accumulated to a maximum of 120 days. Payment of 60% of accumulated benefits will be made when a union employee takes a normal retirement; payment of 50% will be made when a union employee dies or is discharged or laid off; and payment of 25% will be made to a union employee who voluntarily separates from employment with the Commission.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D – LONG-TERM LIABILITIES (CONTINUED)

Sick Leave Benefit Policies (continued)

Employees not covered by the union collective bargaining agreement receive payment of 60% of accumulated benefits at normal retirement age; 75% of benefits with 20-25 years of service; and 100% of benefits with 25 or more years of service. Payment of 25% of benefits will be made upon voluntary separation and no benefits are paid if the employee is discharged.

NOTE E – CAPITAL ASSETS

Following is a summary of the changes in the capital assets and allowances for depreciation for the year ended December 31, 2007:

	Balance at January 1, <u>2007</u>	<u>Additions</u>	<u>Deductions</u>	Balance at December 31, <u>2007</u>
Land, buildings, equipment and infrastructure:				
Land and improvements	\$ 1,617			\$ 1,617
Buildings	793,534			793,534
Road equipment	4,879,598	\$ 243,221	\$ 294,504	4,828,315
Shop equipment	130,649	1,854		132,503
Yard and storage equipment	185,351			185,351
Office equipment	97,591	3,095	5,580	95,106
Depletable assets	68,757			68,757
Infrastructure	<u>7,441,184</u>	<u>2,906,609</u>	<u>          </u>	<u>10,347,793</u>
TOTAL LAND, BUILDINGS EQUIPMENT AND INFRASTRUCTURE	\$ 13,598,281	\$ 3,154,779	\$ 300,084	\$ 16,452,976
Allowances for depreciation:				
Buildings	\$ 431,879	\$ 20,178		\$ 452,057
Road equipment	4,191,982	279,728	\$ 294,504	4,177,206
Shop equipment	120,394	2,359		122,753
Yard and storage equipment	180,344	5,009		185,353
Office equipment	69,798	5,915	5,580	70,133
Infrastructure	<u>608,720</u>	<u>368,421</u>	<u>          </u>	<u>977,141</u>
TOTAL ALLOWANCES FOR DEPRECIATION	\$ 5,603,117	\$ 681,610	\$ 300,084	\$ 5,984,643
NET CARRYING AMOUNT	<u>\$ 7,995,164</u>	<u>\$ 2,473,169</u>	<u>\$ 0</u>	<u>\$ 10,468,333</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE E – CAPITAL ASSETS (CONTINUED)

Depreciation expense is charged to expense categories based on the usage of equipment for each of the categories. The Commission also records depreciation expense and a corresponding revenue of equal amount to facilitate in charging allocable amounts of depreciation to the proper categories.

### NOTE F – RETIREMENT SYSTEM

The Commission participates in the Gogebic County Employee Retirement System, a defined benefit pension plan administered by Gogebic County. The plan covers substantially all of its employees and its assets may be used only for the payment of benefits to the members of that plan, in accordance with the terms of the plan. Required schedules of funding progress and actuarial valuation information may be found in Note Q - Retirement System of the County's separately issued Audited Financial Statements.

All full-time employees are eligible to participate in the System. Employees who retire at or after age 55 with 30 years of credited service, or age 60 with 8 years of credited service, are entitled to an annual retirement benefit, payable monthly for life, equal to total service years times 2.0% of final average compensation, except for one employee whose monthly benefit uses a 2.25% negotiated rate. Final average compensation is the employee's highest five consecutive years out of the last ten, except for employees with over 30 years of service whose final average compensation is the employee's highest three consecutive years out of the last five.

Benefits fully vest on reaching 8 years of service. The System also provides death and disability benefits. Benefits are established by State statute. Members not fully vested are required to contribute 3% of the first \$4,200 of annual compensation plus 5% of compensation in excess of \$4,200. The Commission makes all required payments for fully vested members. Members who were not fully vested contributed \$18,302 to the System during 2007. The Commission's contributions to the System for the years ended December 31, 2005, 2006 and 2007, were \$161,100, \$181,381 and \$179,209, respectively, in accordance with the contribution requirements determined by actuarial valuations of the plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G – RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to torts; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission manages its risk by being a member of the Michigan County Road Commission Self-Insurance Pool (MCRCSIP), a public entity risk pool providing general liability, auto, property and crime insurance coverage to its participating members and the County Road Association Self-Insurance Fund (CRASIF), a public entity risk pool providing workers' compensation coverage to its participating members. The Commission is sharing risks with other members of the pools and pays an annual premium to each pool for the following coverage:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
General liability	\$10,500,000	\$1,000
Physical damage:		
Building Ordinance Coverage	1,000,000	500
Property in Transit	50,000	500
At Unnamed Locations	10,000	500
Crime	25,000	1,000
Workers' compensation	Statutory limits	0
Employment Practices and Public Officials Errors and Omissions	10,000,000	0

The pools provide this coverage to members by internally assuming risks and reinsuring risks through commercial companies. The MCRCSIP has reinsurance up to \$10,500,000 for each member per occurrence and the CRASIF has reinsurance up to \$10,000,000 and each has the authority to make additional assessments to the members.

The Commission's liabilities for its share of losses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities can include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. The Commission does not know the incurred but not reported claims, but estimates that the potential unpaid and unreported claims do not exceed the amount of assets in either risk pool available to pay claims.

The Commission carries commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE H – DEFERRED COMPENSATION PLAN

Road Commission employees are eligible to participate in a deferred compensation plan in addition to the normal retirement plan discussed in Note F above. The Plan was created in accordance with Internal Revenue Code Section 457. The Plan is available to substantially all full-time employees and permits employees to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the Plan and all income attributable to those amounts, are (until paid or made available to the employee or other beneficiary) to be held in a trust for the exclusive benefit of Plan participants and their beneficiaries.

Investments are managed by the Plan's trustees under one of several investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

It has been determined that the Commission does not have any fiduciary responsibility regarding this Plan and, accordingly, has not reflected any of its assets or activities in its financial statements.

### NOTE I – MICHIGAN PUBLIC ACT 621 OF 1978 DISCLOSURE

Michigan Public Act 621 of 1978 (MCL 141.421), as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended December 31, 2007, the Commission incurred expenditures in certain of its budgetary activities in excess of the amounts appropriated.

### NOTE J – SINGLE AUDIT ACT

The Commission has expended over \$500,000 of federal financial assistance during the year ended December 31, 2007, and is included in Gogebic County, Michigan's county-wide single audit conducted in accordance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. As such, the required reporting is included in the County's separately issued Audited Financial Statements.

### NOTE K – OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note F, the Commission also has the following benefits for retirees:

Two employees that retired under the old retirement plan receive health insurance benefits as part of the County Retirement System. The Commission pays the premiums on a monthly basis and the County Retirement System reimburses the Commission the cost of the premiums.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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NOTE K – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The Commission pays health insurance costs of certain retirees until the retiree is eligible for Medicare benefits. Currently, the Commission has 6 employees who are receiving this benefit.

The payments are recorded as current expenditures when paid and amounted to \$76,048 during the year ended December 31, 2007.

The Commission also made payments to two retirees who elected to decline the post-employment health benefit. The payments in-lieu of the health benefit totaled \$6,300 for 2007.

REQUIRED  
SUPPLEMENTAL  
INFORMATION

BUDGETARY COMPARISON SCHEDULE

GOGEBIC COUNTY ROAD COMMISSION

December 31, 2007

	Original Budget	Final Budget	Actual
<b>REVENUES</b>			
Federal aid	\$2,278,240	\$2,110,336	\$2,093,452
State funds	3,063,059	3,012,873	2,985,151
Contributions - local units	213,800	161,966	170,363
Charges for services	907,000	1,136,124	1,249,998
Interest and rents	25,001	42,472	44,013
Other			304
Gain on asset disposals	<u>10,000</u>	<u>65,700</u>	<u>65,700</u>
<b>TOTAL REVENUES</b>	<b>\$6,497,100</b>	<b>\$6,529,471</b>	<b>\$6,608,981</b>
<b>EXPENDITURES</b>			
Primary roads	\$3,456,972	\$2,752,443	\$3,003,341
Local roads	1,458,117	1,601,438	1,842,858
Services provided:			
State trunkline maintenance	835,000	955,835	976,904
Driveway plowing	60,000	60,000	77,353
Equipment expense - net	(506,889)	(328,729)	(152,061)
Administrative expense - net	128,900	115,770	208,489
Distributive expenses	1,140,000	1,039,695	
Other		162,060	203,678
Capital outlay - net	<u>(75,000)</u>	<u>(106,608)</u>	<u>(65,019)</u>
<b>TOTAL EXPENDITURES</b>	<b>\$6,497,100</b>	<b>\$6,251,904</b>	<b>\$6,095,543</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>\$ 0</b>	<b>\$ 277,567</b>	<b>\$ 513,438</b>
Fund balance at January 1, 2007	<u>1,250,373</u>	<u>1,250,373</u>	<u>1,250,373</u>
<b>FUND BALANCE AT DECEMBER 31, 2007</b>	<b><u>\$1,250,373</u></b>	<b><u>\$1,527,940</u></b>	<b><u>\$1,763,811</u></b>

The accompanying notes are an integral part of the financial statements.

OTHER  
FINANCIAL  
INFORMATION

ANALYSIS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Total revenues	\$3,629,583	\$ 1,747,808	\$ 1,231,590	\$ 6,608,981
Total expenditures	<u>3,337,274</u>	<u>2,062,880</u>	<u>695,389</u>	<u>6,095,543</u>
Excess (deficiency) of revenues over expenditures	\$ 292,309	\$ (315,072)	\$ 536,201	\$ 513,438
Other financing source (use) - optional transfers	<u>(315,072)</u>	<u>315,072</u>	_____	_____
Excess (deficiency) of revenues and other financing source over expenditures and other financing use	\$ (22,763)	\$ 0	\$ 536,201	\$ 513,438
Fund balance at January 1, 2007	626,800	516,407	107,166	1,250,373
Interfund adjustment	<u>22,763</u>	_____	<u>(22,763)</u>	_____
FUND BALANCE AT DECEMBER 31, 2007	<u>\$ 626,800</u>	<u>\$ 516,407</u>	<u>\$ 620,604</u>	<u>\$ 1,763,811</u>

The accompanying notes are an integral part of the financial statements.

ANALYSIS OF REVENUES  
GOGEBIC COUNTY ROAD COMMISSION

Year ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
<b>Federal Aid:</b>				
Surface Transportation funds	\$1,457,226			\$1,457,226
Federal "D" funds	70,130			70,130
Critical Bridge funds		\$ 262,742		262,742
Bureau of Indian Affairs		<u>303,354</u>		<u>303,354</u>
	\$1,527,356	\$ 566,096		\$2,093,452
<b>State Aid:</b>				
Michigan Transportation Fund:				
Engineering	\$ 7,000	\$ 3,000		\$ 10,000
Allocation	1,497,659	656,269		2,153,928
Urban road	35,228	6,897		42,125
Snow removal	<u>115,270</u>	<u>167,494</u>		<u>282,764</u>
	\$1,655,157	\$ 833,660		\$2,488,817
Critical Bridge funds		49,264		49,264
Economic Development Fund:				
State "D" funds	\$ 75,000			\$ 75,000
Forest Road funds	188,780			188,780
Local Jobs Today funds	<u>183,290</u>			<u>183,290</u>
	\$ 447,070			\$ 447,070
	\$2,102,227	\$ 882,924		\$2,985,151
<b>County raised and other revenues:</b>				
Contributions from:				
Cities		\$ 4,237		\$ 4,237
Townships		156,126		156,126
Other governmental units		10,000		10,000
Charges for services:				
State trunkline maintenance			\$1,060,439	1,060,439
State trunkline nonmaintenance			105,451	105,451
Private driveway plowing		77,353		77,353
Other		6,755		6,755
Interest and dividends earned		44,013		44,013
Other		304		304
Gain on asset disposals			<u>65,700</u>	<u>65,700</u>
		<u>\$ 298,788</u>	<u>\$1,231,590</u>	<u>\$1,530,378</u>
<b>TOTAL REVENUES</b>	<u><b>\$3,629,583</b></u>	<u><b>\$1,747,808</b></u>	<u><b>\$1,231,590</b></u>	<u><b>\$6,608,981</b></u>

The accompanying notes are an integral part of the financial statements.

ANALYSIS OF EXPENDITURES  
GOGEBIC COUNTY ROAD COMMISSION  
Year ended December 31, 2007

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Primary road:				
Preservation - structural improvements	\$ 2,064,685			\$ 2,064,685
Maintenance	913,001			913,001
Primary road structures:				
Preservation - structural improvements	20,388			20,388
Maintenance	<u>5,267</u>			<u>5,267</u>
	\$ 3,003,341			\$ 3,003,341
Local road:				
Preservation - structural improvements		\$ 445,536		\$ 445,536
Maintenance		1,016,664		1,016,664
Local road structures:				
Preservation - structural improvements		376,000		376,000
Maintenance		<u>4,658</u>		<u>4,658</u>
		\$ 1,842,858		\$ 1,842,858
Services provided:				
State trunkline maintenance			\$ 871,453	\$ 871,453
State trunkline nonmaintenance			105,451	105,451
Private driveway plowing			<u>77,353</u>	<u>77,353</u>
			\$ 1,054,257	\$ 1,054,257
Equipment expense - net	(43,444)	(62,938)	(45,679)	(152,061)
Administrative expenses - net	129,207	79,282		208,489
Other		203,678		203,678
Capital outlay - net	<u>248,170</u>		<u>(313,189)</u>	<u>(65,019)</u>
<b>TOTAL EXPENDITURES</b>	<b><u>\$ 3,337,274</u></b>	<b><u>\$ 2,062,880</u></b>	<b><u>\$ 695,389</u></b>	<b><u>\$ 6,095,543</u></b>

The accompanying notes are an integral part of the financial statements.

SUPPLEMENTAL  
REPORT

**JOKI, MAKELA & POLLACK, P.L.L.C.**

CERTIFIED PUBLIC ACCOUNTANTS  
301 N. SUFFOLK STREET  
IRONWOOD, MICHIGAN 49938-2027

T. J. MAKELA, C.P.A.  
W. J. JOKI, C.P.A.  
A. R. POLLACK, C.P.A., C.S.E.P.  
MEMBERS

TELEPHONE  
906-932-4430  
FAX  
906-932-0677  
EMAIL  
jmp@ironwoodcpa.com

**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***

Members of the Board of Commissioners  
Gogebic County Road Commission  
Bessemer, Michigan

We have audited the accompanying financial statements of the governmental activities of Gogebic County Road Commission, a component unit of Gogebic County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Gogebic County Road Commission's basic financial statements, and have issued our report thereon dated June 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and with standards prescribed by the State Treasurer.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gogebic 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 or expressing an opinion on the effectiveness of the Gogebic County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Gogebic 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 a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 Gogebic 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 Gogebic County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Gogebic County Road Commission's internal control. We consider the deficiency described below as item 07-1 to be a significant deficiency in internal control over financial reporting.

07-1 Michigan Public Act 621 of 1978

Michigan Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended December 31, 2007, the Gogebic County Road Commission incurred expenditures in certain of its budgetary activities in excess of amounts appropriated.

We recommend that the Gogebic County Road Commission review the requirements of Michigan Public Act 621 of 1978, amend its budget in accordance therewith in the future and require conformity to the Act. Gogebic County Road Commission management agrees and will take necessary steps to comply with the Act in the future.

This deficiency was reported in the prior year audit.

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 Gogebic 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 the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gogebic 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*.

Gogebic County Road Commission's response to the finding identified in our audit is described above. We did not audit Gogebic County Road Commission's response and, accordingly, we express no opinion on it.

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

*Joki, Makela & Pollack, PLLC*

Certified Public Accountants

Ironwood, Michigan  
June 16, 2008