

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 checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name County of Mackinac, Michigan	County Mackinac
Fiscal Year End December 31, 2007	Opinion Date May 27, 2008	Date Audit Report Submitted to State June 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.)
- 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.
 - 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.
 - The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - The local unit has adopted a budget for all required funds.
 - A public hearing on the budget was held in accordance with State statute.
 - 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.
 - The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - The local unit only holds deposits/investments that comply with statutory requirements.
 - 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).
 - 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.
 - The local unit is free of repeated comments from previous years.
 - The audit opinion is UNQUALIFIED.
 - The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - The board or council approves all invoices prior to payment as required by charter or statute.
 - 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) Single Audit	<input checked="" 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 Zip MI 49788
Authorizing CPA Signature <i>Kenneth A. Talsma</i>	Printed Name Kenneth A. Talsma, CPA	License Number 1101024989

County of Mackinac, Michigan

BASIC FINANCIAL STATEMENTS

December 31, 2007

COUNTY OF MACKINAC, MICHIGAN

ORGANIZATION

MEMBERS OF THE COUNTY COMMISSION

COMMISSIONER

CARL FRAZIER

COMMISSIONER

LAWRENCE LEVEILLE

COMMISSIONER

CALVIN MCPHEE

COMMISSIONER

DAWN NELSON

COMMISSIONER

MIKE J. PATRICK

ELECTED OFFICIALS

COUNTY TREASURER

JANE E. HAMPTON

COUNTY CLERK

MARY KAY TAMLYN

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members
Of the Board of Commissioners
County of Mackinac, Michigan
100 S. Marley Street
St. Ignace, MI 49781

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Mackinac, Michigan as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Mackinac's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Mackinac County Road Commission and the Mackinac County Housing Commission, which represent 89.3% and 96.6% of assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, is so far as it relates to the amounts recorded for the Road Commission and Housing Commission is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Mackinac, Michigan as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2008 on our consideration of the County of Mackinac's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information as listed in the table of contents 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 County of Mackinac's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have 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.

The accompanying schedule of expenditures of federal awards is 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, the information is 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 27, 2008

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide financial statements.

The County as a Whole

Mackinac County provides services such as General Government, Public Safety, Public Works, Judicial, Health & Welfare, and Tax Collection to its 11,000 residents.

In a condensed format, the table below shows the net assets of Mackinac County.

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current Assets	\$ 7,894,681	\$ 8,007,697	\$ 6,310,803	\$ 5,934,684	\$ 14,205,484	\$ 13,942,381
Noncurrent Assets	<u>5,463,715</u>	<u>5,655,202</u>	<u>-</u>	<u>-</u>	<u>5,463,715</u>	<u>5,655,202</u>
Total Assets	<u>\$ 13,358,396</u>	<u>\$ 13,662,899</u>	<u>\$ 6,310,803</u>	<u>\$ 5,934,684</u>	<u>\$ 19,669,199</u>	<u>\$ 19,597,583</u>
Current Liabilities	\$ 1,717,000	\$ 2,393,185	\$ 2,341	\$ 268	\$ 1,719,341	\$ 2,393,453
Noncurrent Liabilities	<u>2,468,247</u>	<u>2,881,247</u>	<u>-</u>	<u>-</u>	<u>2,468,247</u>	<u>2,881,247</u>
Total Liabilities	<u>4,185,247</u>	<u>5,274,432</u>	<u>2,341</u>	<u>268</u>	<u>4,187,588</u>	<u>5,274,700</u>
Net Assets						
Invested in Capital Assets - Net of Debt	1,430,271	1,380,458	-	-	1,430,271	1,380,458
Restricted	2,406,028	2,567,980	422,177	412,730	2,828,205	2,980,710
Unrestricted (Deficit)	<u>5,336,850</u>	<u>4,440,029</u>	<u>5,886,285</u>	<u>5,521,686</u>	<u>11,223,135</u>	<u>9,961,715</u>
Total Net Assets	<u>\$ 9,173,149</u>	<u>\$ 8,388,467</u>	<u>\$ 6,308,462</u>	<u>\$ 5,934,416</u>	<u>\$ 15,481,611</u>	<u>\$ 14,322,883</u>

The current level of unrestricted net assets for our governmental activities stands at \$5,336,850, or about 75.4% of expenditures. This is within the targeted range set by the County Board of Commissioners during its last budget process.

Net Assets of the governmental activities increased by \$784,682. Net Assets of the business-type activities increased by \$374,046.

The following table shows the activities of the County.

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Program Revenues						
Charges for Services	\$ 877,093	\$ 1,010,870	\$ 415,245	\$ 441,208	\$ 1,292,338	\$ 1,452,078
Operating Grants and Contributions	1,634,195	1,597,972	-	-	1,634,195	1,597,972
Capital Grants and Contributions	-	740,000	-	-	-	740,000
General Revenues						
Property Taxes	4,906,009	5,339,361	-	-	4,906,009	5,339,361
Unrestricted Investment Earnings	183,972	196,506	216,671	174,375	400,643	370,881
Transfers In	133,981	129,809	(133,981)	(129,809)	-	-
Other	<u>127,523</u>	<u>59,793</u>	<u>-</u>	<u>-</u>	<u>127,523</u>	<u>59,793</u>
Total Revenues	<u>7,862,773</u>	<u>9,074,311</u>	<u>497,935</u>	<u>485,774</u>	<u>8,360,708</u>	<u>9,560,085</u>
Program Expenses						
Legislative	113,834	130,045	-	-	113,834	130,045
Judicial	1,053,511	1,073,832	-	-	1,053,511	1,073,832
General Government	1,841,949	2,079,570	-	-	1,841,949	2,079,570
Public Safety	1,785,709	2,043,513	-	-	1,785,709	2,043,513
Public Works	94,672	133,222	-	-	94,672	133,222
Health and Welfare	1,426,681	1,272,992	-	-	1,426,681	1,272,992
Interest Expense	107,797	130,227	-	-	107,797	130,227
Other	653,938	337,987	-	-	653,938	337,987
Tax Collection	-	-	106,857	95,925	106,857	95,925
Commissary	-	-	<u>17,032</u>	<u>22,857</u>	<u>17,032</u>	<u>22,857</u>
Total Expenses	<u>7,078,091</u>	<u>7,201,388</u>	<u>123,889</u>	<u>118,782</u>	<u>7,201,980</u>	<u>7,320,170</u>
Changes in Net Assets	784,682	1,872,923	374,046	366,992	1,158,728	2,239,915
Beginning Net Assets	<u>8,388,467</u>	<u>6,515,544</u>	<u>5,934,416</u>	<u>5,567,424</u>	<u>14,322,883</u>	<u>12,082,968</u>
Ending Net Assets	<u>\$ 9,173,149</u>	<u>\$ 8,388,467</u>	<u>\$ 6,308,462</u>	<u>\$ 5,934,416</u>	<u>\$ 15,481,611</u>	<u>\$ 14,322,883</u>

Governmental Activities

Revenues for governmental activities totaled \$7.8 million in 2007. Of this amount \$4.9 million was received for taxes. Expenses for the governmental activities totaled \$7.0 million for 2007. The two largest expenses were for General Government and Public Safety.

Business-Type Activities

The County has two business-type activities, the Delinquent Tax Revolving Fund, which purchases any delinquent real property taxes from local municipalities and the Commissary Fund, which is used to account for the concession operations in the county jail. During the year the Delinquent Tax Revolving Fund had a net income of \$363,380, the previous years' net income was \$354,322. The Commissary Fund had a net increase of \$10,666.

The County's Funds

Our analysis of the County's major funds begins on page 9 following the entity wide financial statements. The individual fund financial statements provide detail information about the most significant funds, not the County as a whole. The County Board of Commissioners creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The County's major funds for 2007 include the General Fund, Revenue Sharing Reserve, Hospital Millage, Hospital Debt Service Fund, and the Delinquent Tax Fund. Funds supported by special millages consist of the Hospital Millage Fund.

The General Fund supports most of the County's governmental services. The most costly are the police, courts, and law enforcement functions. The Revenue Sharing Reserve Fund accounts for tax monies set aside for revenue sharing that was discontinued by the State of Michigan in 2004. The Hospital Millage fund accounts for a special millage used to fund health services with the Mackinac Straits Hospital. The MSH/LTC Debt Fund is used to repay principal and interest on the Medical Facility Bond. The Delinquent Tax fund is supported by interest and fees from the collection of taxes.

General Fund Budgetary Highlights

The General Fund had \$(170,001) less in revenues than anticipated for the fiscal year. The General Fund operations expended \$280,127 less than appropriated. Operating Transfers were \$500 under budget.

Actual revenues were under budget because of less federal revenues than budgeted amounting to \$109,960. Actual expenditures were under budget because of less spending than budgeted in most departments.

Over the course of the year, the County Board amended the General Fund budget to reflect adjustments in revenues that developed in the year. The major adjustments were in Taxes and Penalties, State, and Federal Grants. The budget was also amended to reflect adjustments in expenditures. The major adjustments to expenditures were to reflect decreases in the Circuit Court, Marine Law Enforcement, Snowmobile Law Enforcement, and Insurance and increases to the Data Processing, Bois Blanc Deputy, Emergency Preparedness Departments, and Contingency.

Other Funds

The 911 Programs, Child Care, Friend of the Court Fund and Community Corrections ended the year with a fund balance of ten percent or greater. All of this provides for stability, future flexibility, and a mechanism for setting aside funds for services and equipment replacement.

Capital Asset and Debt Administration

During the 2007 period, the County invested or acquired \$59,489 in capital assets that meet the dollar threshold of the reporting requirement. The 2007 new capital assets included various equipment for the jail, equalization, and courts.

The County reduced its bond debt load by \$200,000 in principal payments, ending with a debt balance of \$2,670,000.

Economic Factors and Next Year's Budgets and Rates

The County is in a budget battle from year to year. The cap on the growth rate under the Headlee Amendment, the voter's reluctance to adjust or augment taxes for general operations, and the corresponding double digit growth rates in health and liability insurances have put significant limitations on budget flexibility. There are looming indications from the state that further cuts will occur in other state funded areas. This could put increased pressure on already tight budget projections. Mackinac County having the highest unemployment rate in the United States also impacts the County's economic future. We are pleased to end the current year with healthy fund balances in all major funds, but are realistic in projecting revenue for current and future budgets in order that revenue expectations and corresponding expenses are not inflated.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have any questions about this report or need additional information, please contact the County Clerk's Office at (906) 647-7300.

Basic Financial Statements

County of Mackinac, Michigan

Statement of Net Assets

December 31, 2007

	Primary Government		Totals	Component Units
	Governmental Activities	Business-type Activities		
ASSETS:				
Current Assets:				
Cash & Equivalents - Unrestricted	\$ 6,233,979	\$ 5,282,311	\$ 11,516,290	\$ 1,428,428
Receivables:				
Accounts	42,604	-	42,604	82,822
Taxes	1,433,005	792,723	2,225,728	-
Leases	-	-	-	107,000
Interest	-	43,732	43,732	-
Prepaid Expenses	-	-	-	111,170
Due from Governmental Units	185,093	192,037	377,130	988,002
Inventories	-	-	-	810,242
Total Current Assets	<u>7,894,681</u>	<u>6,310,803</u>	<u>14,205,484</u>	<u>3,527,664</u>
Non-Current Assets:				
Leases Receivable	1,320,000	-	1,320,000	3,759,000
Capital Assets (Not Depreciated)	320,240	-	320,240	15,994,677
Capital Assets (Net of Accumulated Depreciation)	<u>3,823,475</u>	<u>-</u>	<u>3,823,475</u>	<u>17,763,389</u>
Total Noncurrent Assets	<u>5,463,715</u>	<u>-</u>	<u>5,463,715</u>	<u>37,517,066</u>
TOTAL ASSETS	<u>\$ 13,358,396</u>	<u>\$ 6,310,803</u>	<u>\$ 19,669,199</u>	<u>\$ 41,044,730</u>
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 217,208	\$ 2,341	\$ 219,549	\$ 345,727
Accrued Liabilities	53,987	-	53,987	66,416
Accrued Interest Payable	36,071	-	36,071	62,838
Advances from State	-	-	-	149,136
Deferred Revenue	986,290	-	986,290	6,434
Other Liabilities	-	-	-	66,202
Capital Leases	43,444	-	43,444	1,375
Installment Loans	-	-	-	111,220
Bonds Payable	<u>380,000</u>	<u>-</u>	<u>380,000</u>	<u>187,000</u>
Total Current Liabilities	<u>1,717,000</u>	<u>2,341</u>	<u>1,719,341</u>	<u>996,348</u>
Noncurrent Liabilities:				
Vested Employee Benefits	178,247	-	178,247	64,455
Installment Loans	-	-	-	713,667
Bonds Payable	<u>2,290,000</u>	<u>-</u>	<u>2,290,000</u>	<u>5,259,000</u>
Total Noncurrent Liabilities	<u>2,468,247</u>	<u>-</u>	<u>2,468,247</u>	<u>6,037,122</u>
TOTAL LIABILITIES	<u>4,185,247</u>	<u>2,341</u>	<u>4,187,588</u>	<u>7,033,470</u>
NET ASSETS:				
Invested in Capital Assets (net of related debt)	1,430,271	-	1,430,271	31,351,804
Restricted	2,406,028	422,177	2,828,205	575,645
Unrestricted	<u>5,336,850</u>	<u>5,886,285</u>	<u>11,223,135</u>	<u>2,083,811</u>
TOTAL NET ASSETS	<u>\$ 9,173,149</u>	<u>\$ 6,308,462</u>	<u>\$ 15,481,611</u>	<u>\$ 34,011,260</u>

County of Mackinac, Michigan

Statement of Activities For the Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 113,834	\$ -	\$ -	\$ -	\$ (113,834)	\$ -	\$ (113,834)	\$ -
Judicial	1,053,511	391,131	447,889	-	(214,491)	-	(214,491)	-
General Government	1,841,949	222,345	751,337	-	(868,267)	-	(868,267)	-
Public Safety	1,785,709	263,617	328,491	-	(1,193,601)	-	(1,193,601)	-
Public Works	94,672	-	-	-	(94,672)	-	(94,672)	-
Health & Welfare	1,426,681	-	106,478	-	(1,320,203)	-	(1,320,203)	-
Interest Expense	107,797	-	-	-	(107,797)	-	(107,797)	-
Other	653,938	-	-	-	(653,938)	-	(653,938)	-
Total Governmental Activities	<u>7,078,091</u>	<u>877,093</u>	<u>1,634,195</u>	<u>-</u>	<u>(4,566,803)</u>	<u>-</u>	<u>(4,566,803)</u>	<u>-</u>
Business-type activities:								
Sheriff Commissary	17,032	27,698	-	-	-	10,666	10,666	-
Tax Collection	106,857	387,547	-	-	-	280,690	280,690	-
Total Business-type Activities	<u>123,889</u>	<u>415,245</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>291,356</u>	<u>291,356</u>	<u>-</u>
Total Primary Government	<u>\$ 7,201,980</u>	<u>\$ 1,292,338</u>	<u>\$ 1,634,195</u>	<u>\$ -</u>	<u>(4,566,803)</u>	<u>291,356</u>	<u>(4,275,447)</u>	<u>-</u>
Component Units:								
Road Commission	\$ 4,003,509	\$ 301,484	\$ 7,216,345	\$ -	-	-	-	3,514,320
Board of Public Works	175,794	-	175,794	-	-	-	-	-
Housing Commission	324,266	73,753	147,237	-	-	-	-	(103,276)
Economic Development	208	978	-	-	-	-	-	770
Total Component Units	<u>4,503,777</u>	<u>376,215</u>	<u>7,539,376</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,411,814</u>
Total	<u>\$ 11,705,757</u>	<u>\$ 1,668,553</u>	<u>\$ 9,173,571</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
General Revenues and Transfers:								
Taxes	-	-	-	-	4,906,009	-	4,906,009	-
Investment Earnings (Loss)	-	-	-	-	183,972	216,671	400,643	46,383
Transfers	-	-	-	-	133,981	(133,981)	-	-
Other	-	-	-	-	127,523	-	127,523	161,975
Total General Revenues and Transfers	-	-	-	-	<u>5,351,485</u>	<u>82,690</u>	<u>5,434,175</u>	<u>208,358</u>
Changes in Net Assets	-	-	-	-	784,682	374,046	1,158,728	3,620,172
Net Assets - Beginning	-	-	-	-	8,388,467	5,934,416	14,322,883	30,391,088
Net Assets - Ending	-	-	-	-	<u>\$ 9,173,149</u>	<u>\$ 6,308,462</u>	<u>\$ 15,481,611</u>	<u>\$ 34,011,260</u>

See accompanying notes to financial statements.

County of Mackinac, Michigan

Balance Sheet Governmental Funds December 31, 2007

	General	Revenue Sharing Reserve	Hospital Millage	Mackinac Straits Hospital	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash & Equivalents - Unrestricted	\$ 2,877,664	\$ 2,406,028	\$ 1,111	\$ -	\$ 949,176	\$ 6,233,979
Due from Other Funds	64,367	-	-	-	-	64,367
Receivables:						
Accounts	-	-	-	-	42,604	42,604
Taxes	449,044	-	983,961	-	-	1,433,005
Leases Receivable	-	-	-	1,320,000	-	1,320,000
Due from Governmental Units	104,600	-	2,965	-	77,528	185,093
TOTAL ASSETS	<u>\$ 3,495,675</u>	<u>\$ 2,406,028</u>	<u>\$ 988,037</u>	<u>\$ 1,320,000</u>	<u>\$ 1,069,308</u>	<u>\$ 9,279,048</u>
LIABILITIES:						
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ 64,367	\$ 64,367
Accounts Payable	125,820	-	-	-	91,388	217,208
Accrued Liabilities	52,742	-	-	-	1,245	53,987
Deferred Revenue	2,329	-	983,961	1,320,000	-	2,306,290
TOTAL LIABILITIES	<u>180,891</u>	<u>-</u>	<u>983,961</u>	<u>1,320,000</u>	<u>157,000</u>	<u>2,641,852</u>
FUND BALANCES:						
Reserved for Revenue Sharing	-	2,406,028	-	-	-	2,406,028
Unreserved:						
Undesignated	603,166	-	-	-	907,308	1,510,474
Designated	2,711,618	-	4,076	-	5,000	2,720,694
TOTAL FUND BALANCES	<u>3,314,784</u>	<u>2,406,028</u>	<u>4,076</u>	<u>-</u>	<u>912,308</u>	<u>6,637,196</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,495,675</u>	<u>\$ 2,406,028</u>	<u>\$ 988,037</u>	<u>\$ 1,320,000</u>	<u>\$ 1,069,308</u>	
Reconciliation to amounts reported for governmental activities in the statement of net assets:						
Capital assets used by governmental activities						4,143,715
Long term notes & leases payable for governmental activities						(2,713,444)
Compensated absences liability						(178,247)
Deferred revenue recognized as current revenue						1,320,000
Accrued interest expense						(36,071)
Net assets of governmental activities						<u>\$ 9,173,149</u>

County of Mackinac, Michigan

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

	General	Revenue Sharing Reserve	Hospital Millage	Mackinac Straits Hospital Debt	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes	\$ 3,952,700	\$ -	\$ 953,309	\$ -	\$ -	\$ 4,906,009
Licenses & Permits	8,111	-	-	-	-	8,111
Federal Sources	264,637	-	-	-	80,324	344,961
State Sources	807,314	-	-	-	350,805	1,158,119
Local Sources	98,065	-	-	190,155	33,050	321,270
Charges for Services	624,465	-	-	-	231,560	856,025
Fines & Forfeits	5,976	-	-	-	6,981	12,957
Interest & Rentals	114,814	50,677	645	-	17,836	183,972
Other Revenue	54,407	-	-	-	17,961	72,368
TOTAL REVENUES	5,930,489	50,677	953,954	190,155	738,517	7,863,792
EXPENDITURES:						
Legislative	113,834	-	-	-	-	113,834
Judicial	1,035,767	-	-	-	8,868	1,044,635
General Government	1,598,003	-	-	-	107,612	1,705,615
Public Safety	1,448,497	-	-	-	276,424	1,724,921
Public Works	-	-	-	-	80,550	80,550
Health & Welfare	176,344	-	951,776	-	298,561	1,426,681
Capital Outlay	-	-	-	-	31,813	31,813
Debt Service	-	-	-	190,155	133,981	324,136
Other Expenditures	653,938	-	-	-	-	653,938
TOTAL EXPENDITURES	5,026,383	-	951,776	190,155	937,809	7,106,123
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	904,106	50,677	2,178	-	(199,292)	757,669
OTHER FINANCING SOURCES (USES):						
Operating Transfers In	346,610	-	-	-	323,481	670,091
Operating Transfers Out	(323,481)	(212,629)	-	-	-	(536,110)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	927,235	(161,952)	2,178	-	124,189	891,650
FUND BALANCES, JANUARY 1	2,387,549	2,567,980	1,898	-	788,119	5,745,546
FUND BALANCES, DECEMBER 31	\$ 3,314,784	\$ 2,406,028	\$ 4,076	\$ -	\$ 912,308	\$ 6,637,196

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

Net Changes in fund balances – total governmental funds \$ 891,650

The change in net assets reported for governmental activities in the Statement of Activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities, the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense \$(250,976) exceeded capital outlay of \$59,489. (191,487)

Repayment of bond principal is an expenditure in the governmental fund but reduces the liability in the statement of net assets. 200,000

Repayment of capital lease is an expenditure in the governmental fund but reduces the liability in the statement of net assets. 41,300

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred. (135,000)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	(10,444)	
Accrued interest on bonds	(11,337)	
	(21,781)	(21,781)

Changes in net assets of governmental funds \$ 784,682

**Statement of Net Assets
Proprietary Funds
December 31, 2007**

	Enterprise Funds		Totals
	Major	Non-Major	
	Delinquent Tax Fund	Sheriff Commissary	
ASSETS:			
Cash and Equivalents	\$ 5,257,315	\$ 24,996	\$ 5,282,311
Interest Receivable	43,732	-	43,732
Taxes Receivable	792,723	-	792,723
Due from Governmental Units	192,037	-	192,037
TOTAL ASSETS	\$ 6,285,807	\$ 24,996	\$ 6,310,803
LIABILITIES:			
Accounts Payable	\$ 855	\$ 1,486	\$ 2,341
TOTAL LIABILITIES	855	1,486	2,341
NET ASSETS:			
Reserved	422,177	-	422,177
Unreserved	5,862,775	23,510	5,886,285
TOTAL NET ASSETS	6,284,952	23,510	6,308,462
TOTAL LIABILITIES AND NET ASSETS	\$ 6,285,807	\$ 24,996	\$ 6,310,803

**Statement of Revenues, Expenses, and
Changes in Net Assets - Proprietary Funds
For the Year Ended December 31, 2007**

	Enterprise Funds		Totals
	Major	Non-Major	
	Delinquent Tax Fund	Sheriff Commissary	
OPERATING REVENUES:			
Charges for Services	\$ 159,167	\$ 27,698	\$ 186,865
Interest & Rentals	228,380	-	228,380
TOTAL REVENUES	387,547	27,698	415,245
OPERATING EXPENSES:			
Other Expenses	106,857	17,032	123,889
TOTAL EXPENSES	106,857	17,032	123,889
OPERATING INCOME (LOSS)	280,690	10,666	291,356
NON-OPERATING REVENUES (EXPENSES):			
Interest on Deposits	216,671	-	216,671
Total Non-operating Revenues (Expenses)	216,671	-	216,671
Income (loss) before transfers	497,361	10,666	508,027
Operating Transfers Out	(133,981)	-	(133,981)
Change in Net Assets	363,380	10,666	374,046
NET ASSETS, JANUARY 1	5,921,572	12,844	5,934,416
NET ASSETS, DECEMBER 31	\$ 6,284,952	\$ 23,510	\$ 6,308,462

**Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2007**

	Enterprise Funds		Totals
	Major	Nonmajor	
	Delinquent Tax Fund	Sheriff Commissary	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from Customers	\$ 2,634,239	\$ 27,698	\$ 2,661,937
Payments to Suppliers	(2,484,230)	(15,814)	(2,500,044)
Net Cash Provided (Used) by Operating Activities	<u>150,009</u>	<u>11,884</u>	<u>161,893</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Operating Transfers Out	(133,981)	-	(133,981)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(133,981)</u>	<u>-</u>	<u>(133,981)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest Earned	216,671	-	216,671
Net Cash Provided (Used in) Investing Activities	<u>216,671</u>	<u>-</u>	<u>216,671</u>
Net Increase (Decrease) in Cash and Cash Equivalents	232,699	11,884	244,583
Cash and Cash Equivalents - Beginning of the Year	<u>5,024,616</u>	<u>13,112</u>	<u>5,037,728</u>
Cash and Cash Equivalents - End of the Year	<u>\$ 5,257,315</u>	<u>\$ 24,996</u>	<u>\$ 5,282,311</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ 280,690	\$ 10,666	\$ 291,356
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Change in Assets and Liabilities:			
(Increase) Decrease in Assets:			
Receivables	(131,536)	-	(131,536)
Increase (Decrease) in Liabilities:			
Payables	<u>855</u>	<u>1,218</u>	<u>2,073</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 150,009</u>	<u>\$ 11,884</u>	<u>\$ 161,893</u>

**Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2007**

	<u>Agency Funds</u>
ASSETS:	
Cash & Equivalents	\$ 761,237
TOTAL ASSETS	<u>\$ 761,237</u>
LIABILITIES:	
Due to Others	\$ 12,056
Due to Governmental Units	679,663
Due to Other Individuals	<u>69,518</u>
TOTAL LIABILITIES	<u>\$ 761,237</u>

Component Units

	Road Commission	Board of Public Works	Housing Commission	Economic Development Corporation	Totals
ASSETS:					
Current Assets:					
Cash & Equivalents	\$ 1,386,125	\$ -	\$ 37,531	\$ 4,772	\$ 1,428,428
Accounts Receivable	37,923	-	44,899	-	82,822
Leases Receivable	-	107,000	-	-	107,000
Prepaid Expenses	69,493	36,071	5,606	-	111,170
Inventories	810,242	-	-	-	810,242
Due from other Governmental Units	988,002	-	-	-	988,002
Noncurrent Assets:					
Leases Receivable	-	3,759,000	-	-	3,759,000
Capital Assets (not depreciated)	15,956,859	-	37,818	-	15,994,677
Capital Assets (net of depreciation)	16,370,167	-	1,393,222	-	17,763,389
TOTAL ASSETS	\$ 35,618,811	\$ 3,902,071	\$ 1,519,076	\$ 4,772	\$ 41,044,730
LIABILITIES:					
Current Liabilities:					
Accounts Payable	\$ 330,762	\$ -	\$ 14,965	\$ -	\$ 345,727
Accrued Liabilities	64,060	-	2,356	-	66,416
Accrued Interest Payable	26,767	36,071	-	-	62,838
Advances from State	149,136	-	-	-	149,136
Deferred Revenue	-	-	6,434	-	6,434
Other Liabilities	61,781	-	4,421	-	66,202
Bonds Payable	80,000	107,000	-	-	187,000
Installment Notes	111,220	-	-	-	111,220
Capital Leases Payable	1,375	-	-	-	1,375
Noncurrent Liabilities:					
Bonds Payable	1,500,000	3,759,000	-	-	5,259,000
Installment Notes	713,667	-	-	-	713,667
Vested Employee Benefits	63,706	-	749	-	64,455
TOTAL LIABILITIES	3,102,474	3,902,071	28,925	-	7,033,470
NET ASSETS:					
Invested in Capital Assets, net of related debt	29,920,764	-	1,431,040	-	31,351,804
Restricted for County Road	575,645	-	-	-	575,645
Unrestricted	2,019,928	-	59,111	4,772	2,083,811
TOTAL NET ASSETS	\$ 32,516,337	\$ -	\$ 1,490,151	\$ 4,772	\$ 34,011,260

**Statement of Activities
Component Units
For the Year Ended December 31, 2007**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road Commission	Board of Public Works	Housing Commission	Economic Development Corporation	Total
Road Commission									
Public Works	\$ 4,003,509	\$ 301,484	\$ 7,216,345	\$ -	\$ 3,514,320	\$ -	\$ -	\$ -	\$ 3,514,320
Board of Public Works									
Public Works	175,794	-	175,794	-	-	-	-	-	-
Housing Commission									
Health & Welfare	324,266	73,753	147,237	-	-	-	(103,276)	-	(103,276)
Economic Development Corporation									
Community/Economic Development	208	978	-	-	-	-	-	770	770
Total Component Units	<u>\$ 4,503,777</u>	<u>\$ 376,215</u>	<u>\$ 7,539,376</u>	<u>\$ -</u>	<u>3,514,320</u>	<u>-</u>	<u>(103,276)</u>	<u>770</u>	<u>3,411,814</u>
General Revenues:									
Investment Earnings					45,286	-	1,067	30	46,383
Other					152,908	-	9,067	-	161,975
Total General Revenues					<u>198,194</u>	<u>-</u>	<u>10,134</u>	<u>30</u>	<u>208,358</u>
Change in Net Assets					3,712,514	-	(93,142)	800	3,620,172
Net Assets - Beginning					28,803,823	-	1,583,293	3,972	30,391,088
Net Assets - Ending					<u>\$ 32,516,337</u>	<u>\$ -</u>	<u>\$ 1,490,151</u>	<u>\$ 4,772</u>	<u>\$ 34,011,260</u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of Mackinac, Michigan, conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the County:

A – Reporting Entity:

The County of Mackinac, Michigan, established October 26, 1818, is a public corporation created under the Constitution and Statutes of the State of Michigan and covers an area of approximately 1,000 square miles with the County seat located in the City of St. Ignace. The County operates under an elected Board of Commissioners (five members) and provides services to its more than eleven thousand residents in many areas: including law enforcement, administration of justice, public housing, public health, social services, and roads.

Component Units:

In conformity with U.S. generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

Blended Component Units

County of Mackinac Building Authority – The Authority is an entity legally separate from the County. The Authority is governed by a board, appointed by the Commission and is reported as if it were part of the County's operations because its primary purpose is the procurement and management of debt financing for the County.

Discretely Presented Component Units

The component unit's column in the government-wide financial statements includes the financial data of the other component units of the County. The following is a summary of the component units:

Mackinac County Road Commission - The Mackinac County Road Commission maintains local, state, and federal trunklines within Mackinac County. The Road Commission operations are financed primarily from the State distribution of gas and weight taxes, federal financial assistance, and contributions from other local governmental units within the County. The Road Commission operates under a Board which consists of three commissioners, who are elected by County residents. The Road Commission is financially accountable to the County for two reasons: (1) The County is secondarily obligated to provide repayment of material notes (2) all general long-term debt issuance, excluding capital lease purchases agreements, requires County authorization.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mackinac County Board of Public Works – The Board of Public Works has the responsibility of administering the various public works project construction and debt services under the provisions of Act 185, Public Act of 1957, as amended. The Board of Public Works is under the general control of the County Board of Commissioners. The County must authorize and approve any long-term debt issues and are secondarily responsible for all obligations.

Mackinac County Housing Commission – Is a nonprofit entity established pursuant to the authority of Act 18 of the Public Act of 1933, as amended, which is governed by a County appointed (five member) board. This is a legally separate entity, but is considered as a component unit due to the County’s ability to influence the Housing Commission’s actions through representation on the Housing Commission Board because of their financial relationship.

Mackinac County Economic Development Corporation – During 2001, the Mackinac County Economic Development Corporation (EDC) was established pursuant to the provisions of Public Act 338 of 1974, as amended, which is governed by an (eleven person) board of directors appointed by the Mackinac County Board of Commissioners. The EDC may not issue debt without the County’s approval.

Component Unit Financial Statements – The financial statements of the Mackinac County Road Commission and the Mackinac County Housing Commission are audited separately and may be obtained from their administration offices at the following locations:

Mackinac County Road Commission
706 North State Street
St. Ignace, MI 49871

Mackinac County Housing Commission
N9174 Kozy Street 50
Curtis, MI 49820

The funds and account groups associated with the activities of the Mackinac County Board of Public Works are included within the scope of the audit of the basic financial statements. Separate audited financial statements for the component were not issued.

Fiscal Year Ended – All of the County funds and Component Units operate and are reported on a December 31st year end with the exception of the Mackinac County Housing Commission which operates as of June 30.

Jointly Governed Organizations

Mackinac Straits Hospital Authority – Is a joint municipal hospital authority, organized pursuant to public Act 47, as amended. The Hospital operates an emergency room, acute care, long-term care, and ancillary services to both residents and non-residents of Mackinac County. The County has entered into a Health Service Agreement and the County levied a voter approved millage. In addition, the County leases the Hospital and Medical Care Facility to the Authority. However, the County does not appoint the governing Board, nor do they have any fiscal responsibility. Therefore, it is not considered a component unit of Mackinac County.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Hiawatha Behavioral Health Authority – Is a multi-county agency established in 1986 under the provisions of Act 258, P.S. 1974 as amended in the revised Mental Health Code, to provide mental health services to Mackinac, Schoolcraft, and Chippewa Counties. Mackinac, Schoolcraft, and Chippewa Counties provide annual appropriations to subsidize operations. Hiawatha Behavioral Health is considered a separate authority and is not included as a component unit of any of the counties above.

Luce-Mackinac-Alger-Schoolcraft District Health Department – Is a multi-county agency established to provide public health service to the residents of Luce, Mackinac, Alger, and Schoolcraft Counties. Mackinac and the other participating Counties provide annual appropriations to subsidize operations. The Health Department is a component unit of Luce County.

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 nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The County first utilizes restricted resources to finance qualifying activities.

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, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable – Property Taxes

The County of Mackinac property tax is levied on each December 1st and July 1st on the taxable valuation of property (as defined by State statutes) located in the County of Mackinac as of the preceding December 31st.

Although, the County of Mackinac 2006 ad valorem tax is levied and collectible on December 1, 2006 and 2007 ad valorem tax is levied and collectible on July 1, 2007, it is the County of Mackinac's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be paid from the Delinquent Tax Revolving fund within one year.

The 2006 taxable valuation of the County of Mackinac totaled \$801,024,899, on which ad valorem taxes levied consisted of 1.3701 mills for the County Operating and 1.1916 mills for Hospital Operations, raising \$1,097,484 and \$1,534,764 respectively. These amounts are recognized in the respective General and Special Revenue financial statements as tax revenue.

The July 1, 2007 taxable valuation of the County of Mackinac totaled \$849,671,765, on which ad valorem taxes levied consisted of 4.4631 mills for the General fund, raising \$3,792,170 for operating. This amount is recognized in the General Fund financial statements as revenue.

The County utilized \$1,005,823 in taxes for the Revenue Sharing Reserve. This amount is approximately equal to 1/3 of the County's operating levy in 2004. These taxes are utilized from the December levy of the General Fund.

All other revenue items are considered to be available only when cash is received by the government.

The County reports the following major governmental funds:

General Fund

This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Hospital Millage Fund

This Fund accounts for the collection of tax revenues for health services and the contract for the services with the Mackinac Straits Hospital.

Revenue Sharing Reserve Fund

This Fund accounts for the collection of tax revenues for the replacement of State Shared Revenue.

Mackinac Straits Hospital Debt Fund

This Fund is used to accumulate resources and pay the principal and interest on the Medical Care Facility Bond.

The County reports the following major proprietary funds:

Delinquent Tax Revolving Fund

This fund accounts for the payment to each local unit of government within the County for the delinquent real property taxes outstanding as of March 1, of each year. The fund is also used to account for the collection of those delinquent taxes along with penalties and interest.

Additionally, the County reports the following fund types:

Agency Funds

Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for tax collections. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D - Assets, Liabilities, and Net Assets or Equity:

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds is allocated to each fund based on average cash balance. Deposits are recorded at cost.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st and July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items – All inventories, including the cost of supplies, are expensed when purchased. Certain insurance premiums and other expenditures are expensed when purchased.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Roads	10 to 30 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years
Infrastructure – Roads	8 to 20 years
Infrastructure – Bridges	12 to 30 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vested Benefits Payable – General County Employees - The County's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service.

The annual vacation benefits earned by each employee during the current year are credited to the employee at year end.

Employees' vacation and sick leave benefits are earned at varying amounts depending on various union and non-union personnel policies. Employees may accumulate vacation leave up to 175 hours until termination of employment, at which time they will be compensated in full for the unused portion. All employees may accumulate up to 630 hours of sick leave. However, employees are compensated for 50 percent of their total accumulation at termination.

Long-Term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Deferred Revenues – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

Grants and Other Intergovernmental Revenues – Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the representative grants.

Interfund Transfers – During the course of normal operations, the County has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by County management.

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 disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The County follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each December, after receiving input from the individual departments, the Board of Commissioners prepares a proposed operating budget for the fiscal period commencing January 1st and lapses on December 31st. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to January 1st, the budget is legally enacted through a resolution passed by the Board of Commissioners.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Commissioners. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The County does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end, the County’s deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and Equivalents – Unrestricted	\$ 6,233,979	\$ 5,282,311	\$ 11,516,290	\$ 761,237	\$ 1,428,428
Total	<u>\$ 6,233,979</u>	<u>\$ 5,282,311</u>	<u>\$ 11,516,290</u>	<u>\$ 761,237</u>	<u>\$ 1,428,428</u>
		<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>	
Bank Deposits (checking and savings accounts, certificates of deposit)		\$ 11,514,990	\$ 761,237	\$ 1,428,278	
Petty Cash and Cash on Hand		<u>1,300</u>	<u>-</u>	<u>150</u>	
Total		<u>\$ 11,516,290</u>	<u>\$ 761,237</u>	<u>\$ 1,428,428</u>	

Interest rate risk. The County 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 County has no investment policy that would further limit its investment choices.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the County’s deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year end, \$12,002,306 of the County’s bank balance of \$12,431,123 was exposed to credit risk because it was uninsured and uncollateralized. \$0 was uninsured and collateralized by the pledging financial institution.

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the County to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker’s acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The County’s deposits and investment policy are in accordance with statutory authority.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balances</u>
Governmental Activities:					
<i>Capital Assets not being Depreciated:</i>					
Land Improvements	\$ 22,126	\$ -	\$ -	\$ -	\$ 22,126
Land	<u>298,114</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>298,114</u>
Subtotal	<u>320,240</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>320,240</u>
<i>Capital Assets being Depreciated:</i>					
Buildings	4,694,496	-	-	415,000	5,109,496
Machinery and Equipment	1,127,311	59,489	(32,700)	-	1,154,100
Infrastructure	<u>415,000</u>	<u>-</u>	<u>-</u>	<u>(415,000)</u>	<u>-</u>
Subtotal	<u>6,236,807</u>	<u>59,489</u>	<u>(32,700)</u>	<u>-</u>	<u>6,263,596</u>

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balances</u>
Governmental Activities:					
<i>Less accumulated depreciation for:</i>					
Buildings	(1,544,547)	(140,326)	-	(16,600)	(1,701,473)
Equipment	(660,698)	(110,650)	32,700	-	(738,648)
Infrastructure	(16,600)	-	-	16,600	-
Subtotal	<u>(2,221,845)</u>	<u>(250,976)</u>	<u>32,700</u>	<u>-</u>	<u>(2,440,121)</u>
Net Capital Assets Being Depreciated	<u>4,014,962</u>	<u>(191,487)</u>	<u>-</u>	<u>-</u>	<u>3,823,475</u>
Governmental Activity Total					
Capital Assets - Net of Depreciation	<u>\$ 4,335,202</u>	<u>\$ (191,487)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,143,715</u>

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

Governmental Activities:	
Judicial	\$ 8,876
General Government	125,890
Public Safety	102,088
Health and Welfare	<u>14,122</u>
Total Governmental Activities	<u>\$ 250,976</u>

A summary of changes in the Road Commission's capital assets are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Removals/ Adjustments</u>	<u>Ending Balances</u>
<i>Capital assets not being depreciated:</i>					
Land	\$ 268,222	\$ -	\$ -	\$ -	\$ 268,222
Land and Improvements	15,037,950	649,027	-	-	15,686,977
Construction in Progress	-	<u>1,660</u>	-	-	<u>1,660</u>
Subtotal	<u>15,306,172</u>	<u>650,687</u>	<u>-</u>	<u>-</u>	<u>15,956,859</u>
<i>Capital assets being depreciated:</i>					
Buildings and Improvements	1,640,367	4,286	-	-	1,644,653
Road Equipment	5,953,742	494,313	151,569	-	6,296,486
Shop Equipment	21,847	-	-	-	21,847
Office Equipment	69,759	4,715	-	-	74,474
Engineer's Equipment	21,528	-	-	-	21,528
Depletable Assets	41,828	-	-	-	41,828
Infrastructure – Bridges	3,684,837	-	-	-	3,684,837
Infrastructure – Roads	<u>13,775,744</u>	<u>4,028,105</u>	<u>-</u>	<u>(210,351)</u>	<u>17,593,498</u>
Subtotal	<u>25,209,652</u>	<u>4,531,419</u>	<u>151,569</u>	<u>(210,351)</u>	<u>29,379,151</u>

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Removals/ Adjustments</u>	<u>Ending Balances</u>
<i>Less accumulated depreciation:</i>					
Buildings	(218,613)	(36,478)	-	-	(255,091)
Road Equipment	(4,260,618)	(681,712)	148,102	-	(4,794,228)
Shop Equipment	(18,670)	(801)	-	-	(19,471)
Office Equipment	(60,398)	(3,785)	-	-	(64,183)
Engineer's Equipment	(13,424)	(2,112)	-	-	(15,536)
Depletable Assets	(31,053)	-	-	-	(31,053)
Infrastructure – Bridges	(1,562,554)	(71,161)	-	-	(1,633,715)
Infrastructure – Roads	(5,607,430)	(798,628)	-	210,351	(6,195,707)
Subtotal	<u>(11,772,760)</u>	<u>(1,594,677)</u>	<u>148,102</u>	<u>210,351</u>	<u>(13,008,984)</u>
Net Capital Assets Being Depreciated	<u>13,436,892</u>	<u>2,936,742</u>	<u>3,467</u>	<u>-</u>	<u>16,370,167</u>
Total Net Capital Assets	<u>\$ 28,743,064</u>	<u>\$ 3,587,429</u>	<u>\$ 3,467</u>	<u>\$ -</u>	<u>\$ 32,327,026</u>

Depreciation and depletion expense was charged to the following activities:

Public Works \$ 1,594,677

A summary of changes in the Housing Commission's capital assets are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets not being depreciated:</i>				
Land	\$ 37,818	\$ -	\$ -	\$ 37,818
Subtotal	<u>37,818</u>	<u>-</u>	<u>-</u>	<u>37,818</u>
<i>Capital assets being depreciated:</i>				
Buildings	2,724,583	-	-	2,724,583
Building Improvements	824,432	-	-	824,432
Furniture, Equipment and Machinery – Dwellings	54,327	-	-	54,327
Furniture, Equipment and Machinery – Administration	<u>84,928</u>	<u>-</u>	<u>-</u>	<u>84,928</u>
Subtotal	<u>3,688,270</u>	<u>-</u>	<u>-</u>	<u>3,688,270</u>
Less accumulated depreciation	<u>(2,169,984)</u>	<u>(128,926)</u>	<u>3,862</u>	<u>(2,295,048)</u>
Net Capital Assets Being Depreciated	<u>1,518,286</u>	<u>(128,926)</u>	<u>3,862</u>	<u>1,393,222</u>
Total Net Capital Assets	<u>\$ 1,556,104</u>	<u>\$ (128,926)</u>	<u>\$ 3,862</u>	<u>\$ 1,431,040</u>

Depreciation expense was charged to the following activities:

Health and Welfare \$ 128,926

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The County of Mackinac, Michigan reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds, proprietary funds, and fiduciary funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS	
		General Fund
Other Governmental	\$	<u>64,367</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

TRANSFERS IN	TRANSFERS (OUT)			
	General Fund	Revenue Sharing Reserve	Delinquent Tax	Total
General Fund	\$ -	\$ 212,629	\$ 133,981	\$ 346,610
All Other	<u>323,481</u>	<u>-</u>	<u>-</u>	<u>323,481</u>
Total	<u>\$ 323,481</u>	<u>\$ 212,629</u>	<u>\$ 133,981</u>	<u>\$ 670,091</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 - LEASES RECEIVABLE

Mackinac County Board of Public Works (Component Unit) – The County has entered into a number of lease agreements with various municipalities within the County. Under the agreements the County issued bonds that were used for the construction of water and/or sewage disposal systems. The municipalities agreed to pay the County the amount necessary to pay the principal, interest, and paying agent fees as they come due. Upon final payment of the respective bond issue, ownership of the system will revert to the respective municipalities. (See Note 8).

On this basis, the aggregate future lease payments necessary for retirement of outstanding bond principal have been recorded as receivable and deferred revenue.

The future minimum lease payments to be received are as follows:

<u>Year End December 31</u>	<u>Board of Public Works</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 107,000	\$ 170,375
2009	109,000	165,990
2010	115,000	161,397
2011	122,000	156,613
2012	104,000	152,615
2013-2017	590,000	693,057
2018-2022	727,000	550,411
2023-2027	923,000	362,819
2028-2032	523,000	160,436
2033-2037	402,000	76,195
2038-2039	<u>144,000</u>	<u>6,240</u>
Total	<u>\$ 3,866,000</u>	<u>\$ 2,656,148</u>

NOTE 7 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government.

Bond and contractual obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
General Obligation Bonds					
\$1,995,000 General Obligation Refunding Medical Facility bonds, Series 2002, due in annual installments increasing from \$115,000 to \$220,000 through May 1, 2014, plus interest ranging from 3.25% to 4.30% payable semi-annually.	\$ 1,455,000	\$ -	\$ 135,000	\$ 1,320,000	\$ 135,000

NOTE 7 - LONG-TERM DEBT (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
\$1,300,000 Building Authority Bonds, through Rural Development, due in annual installments increasing from \$40,000 to \$90,000 through September 1, 2012, plus interest at 4.875 payable semi-annually.	960,000	-	45,000	915,000	45,000
\$589,000 Building Authority Bonds, through Rural Development, due in annual installments ranging from \$14,000 to \$40,000 through September 1, 2022, with interest of 4.875 payable semi- annually.	<u>455,000</u>	<u>-</u>	<u>20,000</u>	<u>435,000</u>	<u>200,000</u>
Total Governmental Activities	<u>\$ 2,870,000</u>	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$ 2,670,000</u>	<u>\$ 380,000</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 200,000	\$ 115,798
2009	251,000	106,814
2010	252,000	96,602
2011	283,000	85,630
2012	280,000	73,783
2013-2017	892,000	214,074
2018-2022	<u>512,000</u>	<u>68,880</u>
Total	<u>\$ 2,670,000</u>	<u>\$ 761,581</u>

A summary of vested benefits payable at December 31, 2007 is as follows:

	<u>Beginning Balance</u>	<u>Increases/ Decreases</u>	<u>Ending Balance</u>
Vacation	\$ 72,813	\$ 22,427	\$ 95,240
Sick Leave	<u>94,990</u>	<u>(11,983)</u>	<u>83,007</u>
TOTALS	<u>\$ 167,803</u>	<u>\$ 10,444</u>	<u>\$ 178,247</u>

NOTE 7 - LONG-TERM DEBT (Continued)

Component Units

Board of Public Works

The County has constructed several water supply and sewage disposal systems for various townships in the county and is leasing them to the townships that are operating, maintaining, and managing the systems. General Obligation Bonds were issued with the full faith and credit of the townships, villages, cities and County pledged to the payment pursuant to Act 185, Public Acts of Michigan, 1957, as amended. The principal and interest on bonds outstanding are to be paid out of money received from the municipalities by the Board of Public Works of the County pursuant to the lease agreements. Upon final payment of the respective bond issues, ownership of the systems will revert to the townships. Bonds payable at December 31, 2007, per respective construction projects are as follows:

The following is a summary of changes in the long-term debt of the Board of Public Works for the year ended December 31, 2007:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Within One Year</u>
\$145,000 1972 Mackinac County Sanitary Sewage Disposal System Revenue Bonds for Clark Township, maturing serially to 2012 in amounts ranging from \$22,000 to \$24,000 and bearing interest of 5% semiannually.	\$ 120,000	\$ -	\$ 24,000	\$ 96,000	\$ 24,000
\$2,475,000 Mackinac County Sanitary Sewage Disposal System #2 Bonds for Clark Township, Series 2002, maturing serially to 2031 in annual amounts ranging from \$45,000 to \$155,000 and bearing interest of 2% to 5.125 % semiannually.	2,220,000	-	55,000	2,165,000	60,000
\$90,000 Mackinac County Sewage Disposal System Bonds, Series 1999 for Clark Township, maturing semiannually to 2039 in annual amounts ranging from \$9,000 to \$51,000 and bearing interest of 4.75% semiannually.	843,000	-	11,000	832,000	11,000
\$842,000 Mackinac County Sewage Disposal System Bonds for Brevort Township dated December 20, 1999, due in annual installments increasing from \$10,000 to \$46,000 through December 1, 2032 with interest of 3.25% semi-annually.	<u>785,000</u>	<u>-</u>	<u>12,000</u>	<u>773,000</u>	<u>12,000</u>
Total Board of Public Works	<u>\$ 3,968,000</u>	<u>\$ -</u>	<u>\$ 102,000</u>	<u>\$ 3,866,000</u>	<u>\$ 107,000</u>

NOTE 7 - LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End December 31</u>	<u>Board of Public Works</u>	
	<u>Principal</u>	<u>Interest</u>
2008	107,000	170,375
2009	109,000	165,990
2010	115,000	161,397
2011	122,000	156,613
2012	104,000	152,615
2013-2017	590,000	693,057
2018-2022	727,000	550,411
2023-2027	923,000	362,819
2028-2032	523,000	160,436
2033-2037	402,000	76,195
2038-2039	144,000	6,240
Total	\$ 3,866,000	\$ 2,656,148

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Installment Notes –					
Equipment 2006	\$ 777,161	\$ -	\$ 78,009	\$ 699,152	\$ 96,222
Equipment 2007	-	136,675	10,940	125,735	14,998
	<u>777,161</u>	<u>136,675</u>	<u>88,949</u>	<u>824,887</u>	<u>111,220</u>
Bonds and Notes Payable –					
MTF Bonds 2001	830,000	-	40,000	790,000	40,000
MTF Bonds 2001A	830,000	-	40,000	790,000	40,000
	<u>1,660,000</u>	<u>-</u>	<u>80,000</u>	<u>1,580,000</u>	<u>80,000</u>
Other liabilities –					
Accrued Sick Vacation	81,289	-	17,583	63,706	-
MDOT Settlement	18,300	-	9,150	9,150	9,150
Capital Lease 2004	3,094	-	1,719	1,375	1,375
Self Insurance	52,600	-	45,100	7,500	7,500
	<u>155,283</u>	<u>-</u>	<u>73,552</u>	<u>81,731</u>	<u>18,025</u>
Total	\$ 2,592,444	\$ 136,675	\$ 242,501	\$ 2,486,618	\$ 209,245

NOTE 7 - LONG-TERM DEBT (Continued)

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

Installment Notes –

In January 2006, the Road Commission borrowed \$93,892 for the purchase of a tractor and compactor. The note is payable in monthly installments until January 2011 in the amount of 44,427. The balance at December 31, 2007 is \$60,122.

In August 2006, the Road Commission borrowed \$428,104 for the purchase of equipment related to the five dump trucks purchased in August 2006. The note is payable in monthly installments until August 2016 in the amount of \$3,079. The balance at December 31, 2007 is \$376,385.

In December 2006, the Road Commission borrowed \$287,806 for the purchase of equipment related to the five dump trucks purchased in August 2006. The note is payable in monthly installments until August 2016 in the amount of \$3,079. The balance at December 31, 2007 is \$262,645.

In March 2007, the Road Commission borrowed \$136,675 for the purchase of a road grader. The note is payable in monthly installments until March 2015 in the amount of \$1,701. The balance at December 31, 2007 is \$125,735.

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

<u>Year End December 31</u>	<u>Installment Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 111,220	\$ 35,129
2009	100,570	30,782
2010	105,113	26,238
2011	90,383	21,831
2012	92,693	17,781
2013-2016	<u>324,908</u>	<u>28,356</u>
Total	<u>\$ 824,887</u>	<u>\$ 160,117</u>

MTF Bonds –

The County of Mackinac, Michigan issued \$995,000 of Michigan Transportation Fund Bonds, Series 2001, dated July 11, 2001 pursuant to the provision of Act 202, Public of Michigan of 1943, as amended. The Bonds are issued in anticipation of and are payable from monies derived from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction and work incidental thereto pursuant to Act 202. The proceeds from the bonds were for the construction, improvement, and repair of various roads in Mackinac County and to purchase equipment, which is necessary and incidental thereto.

NOTE 7 - LONG-TERM DEBT (Continued)

Principal on the bonds is due on July 1, 2007 through 2021 with interest due semi-annually on January 1 and July 1 at interest rates ranging from 4.1% to 5.55%.

The County of Mackinac, Michigan issued \$995,000 of Michigan Transportation Fund Bonds, Series 2001A, dated June 12, 2001 pursuant to the provision of Act 202 Public Acts of Michigan 1943, as amended. The bonds are issued in anticipation of and are payable from money derived from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and work incidental thereto pursuant to Act 202. The proceeds from the bonds were for the construction, improvement, and repair of various roads in Mackinac County and to construct a garage, which is necessary and incidental thereto.

Principal on the bonds is due on June 1, 2007 through 2021 with interest due semi-annually on June 1 and December 1 at interest rates ranging from 4.1% to 5.25%.

As additional security for the payment of the principal of and interest on both Bond issues, in the event and to the extent that Michigan Transportation Fund money is not sufficient to pay such principal and interest, the County is obligated to advance from its general fund money sufficient to pay such principal and interest. The County does not have the power to levy taxes to pay principal of and interest on the bonds over and above its authorized tax rate established pursuant to law. To the extent such an advance is made from the County's general fund, the general fund shall be reimbursed from the first subsequent revenues received by the Road Commission from Michigan Transportation Fund money not pledged or required to be set aside and used for the payment of bonds or notes of other evidence of indebtedness.

The MTF Series 2001 in 2007 through 2011 are not subject to redemption prior to maturity. Bonds maturing on or after July 1, 2012 are subject to redemption prior to maturity at the option of the County, in such order as shall be determined by the County, on any one or more interest payment dates on or after July 1, 2011. Bonds of a denomination greater than \$50,000 may be partially redeemed in the amount of \$5,000 or any integral multiple thereof. If less than all of the Bonds maturing in any year are to be redeemed, the Bonds or portions of bonds to be redeemed shall be selected by lot. The redemption price shall be the par value of the bonds or portion of the bonds called to be redeemed plus interest to the date fixed for redemption.

The MTF Series 2001A in 2006 through 2011 shall not be subject to redemption prior to maturity. Bonds maturing on or after June 1, 2012 shall be subject to redemption prior to maturity at the option of the County, in such order as shall be determined by the County, on any one or more interest payment dates on or after June 1, 2011. Bonds of a denomination greater than \$50,000 may be partially redeemed in the amount of \$5,000 or any integral multiple thereof. If less than all of the Bonds maturing in any year are to be redeemed, the Bonds or portions of bonds to be redeemed shall be selected by lot. The redemption price shall be the par value of the bonds or portion of the bonds called to be redeemed plus interest to the date fixed for redemption.

NOTE 7 - LONG-TERM DEBT (Continued)

The annual requirements to amortize the bonds outstanding as December 31, 2007, including interest payments are as follows:

Year Ending December 31,	MTF Bonds Series 2001		MTF Bond Series 2001A	
	Principal	Interest	Principal	Interest
2008	\$ 40,000	\$ 41,260	\$ 40,000	\$ 38,168
2009	40,000	39,420	40,000	36,456
2010	45,000	37,540	45,000	32,561
2011	45,000	35,380	45,000	30,363
2012	50,000	33,175	50,000	30,363
2013-2021	<u>570,000</u>	<u>166,926</u>	<u>570,000</u>	<u>148,664</u>
	<u>\$ 790,000</u>	<u>\$ 353,701</u>	<u>\$ 790,000</u>	<u>\$ 316,575</u>

NOTE 8 - RISK MANAGEMENT

The County is exposed to various risks of loss related to: torts, errors, and omissions, injuries to employees, natural disaster, and the damage, destruction or theft of assets. The County is a member in the Michigan Municipal Risk Management Authority (MMRMA) for risk of loss relating to its property and general liability (including auto liability and vehicle physical damage).

The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and property liability.

The County has joined the numerous other governmental agencies in Michigan as a participant in MMRMA’s “State Pool”. Members of the State Pool do not have individual self-insured retention amounts other than \$250 deductible per occurrence of property and vehicle coverage.

State Pool members’ limits of coverage (per occurrence) are 10 million for liability and approximately \$9,800,000 for property. If a covered loss exceeds these limits, or if for any reason MMRMA’s resources are depleted, the payment of all unpaid losses is the sole obligation of the County.

Component Unit (Road Commission)

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

The Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

NOTE 8 - RISK MANAGEMENT (Continued)

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

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

The Road Commission is self-insured for health care benefits. The health insurance company performs the administrative services for the self-insured program. The Road Commission makes monthly payments based on estimated claims and a stop-loss provision, which are adjusted quarterly.

NOTE 9 - CONTINGENT LIABILITIES

The County 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 is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the County. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the County at December 31, 2007.

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

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMSDescription of Plan and Plan Assets

The County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.0 percent times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2006.

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 MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Funding Policy

The obligation to contribute to, and maintain the system for these employees was established by negotiation with the County’s competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The County is required to contribute at an actuarially determined rate.

Annual Pension Cost

During the year ended December 31, 2007, the County’s contributions totaling \$328,227 were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2006. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The Employer normal cost is for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member’s retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases. The unfunded actuarial liability is amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31 follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial Value of Assets	\$ 7,516,295	\$ 7,822,592	\$ 8,528,415
Actuarial Accrued Liability	9,956,056	10,202,546	10,777,156
Unfunded AAL	2,439,761	2,379,954	2,248,741
Funded Ratio	75%	77%	79%
Covered Payroll	1,822,206	1,752,084	1,752,275
UAAL as a Percentage of Covered Payroll	134%	136%	128%

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	331,759	100%	0
2006	327,866	100%	0
2007	328,227	100%	0

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)***ROAD COMMISSION***Description of Plan and Plan Assets

The Mackinac County Road Commission participates in the Michigan Municipal Employees Retirement System (MERS); a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The plan adopted by the Board of County Road Commissioners requires general employees to contribute 4.36% of their annual compensation with 0% to 2% required for salaried and supervisory employees. The Road Commission is required to contribute at an actuarially determined rate; the weighted average rate for 2007 was 0% for general employees, 30.90% for salaried employees. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2007, the Road Commission's annual pension cost of \$204,190 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years for positive unfunded liabilities and 10 years for negative unfunded liabilities.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Three year trend information as of December 31 follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial Value of Assets	\$ 3,393,555	\$ 3,590,890	\$ 3,844,294
Actuarial Accrued Liability	5,687,076	5,795,076	6,112,150
Unfunded AAL	2,293,521	2,204,186	2,267,856
Funded Ratio	60%	62%	63%
Covered Payroll	868,395	866,581	844,312
UAAL as a Percentage of Covered Payroll	264%	254%	269%

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	220,345	100%	0
2006	223,711	100%	0
2007	204,190	100%	0

NOTE 11 - LEASES

Capital Leases – The County leases vehicles under capital lease with yearly lease payments ranging from \$4,895 to \$39,800, including interest rates ranging from 5.15% to 6.75%. The leases qualify as capital leases for accounting purposes and therefore have been recorded at the present value of future minimum lease payments as of the inception date. The vehicles have been included with the fixed assets of the County. The future minimum lease obligations and the net present values are as follows:

2008	<u>45,701</u>
Total minimum lease payments	45,701
Less amount representing interest	<u>(2,257)</u>
Present value of minimum lease payment	<u>\$ 43,444</u>

NOTE 12 - POST-RETIREMENT BENEFITS

Primary Government

In addition to the pension benefits described in Note 11, Mackinac County provides a portion of post-retirement health care benefits to all employees that retired from the County with at least fifteen years of service. The County pays from between 15% for employees who retire with fifteen years of service to 50% for employees who retire with twenty-five years of service of the single rate. Expenditures for post-retirement health care benefits are recognized on a pay-as-you-go basis and amounted to \$12,371 for 2007 with 7 eligible participants.

NOTE 12 - POST-RETIREMENT BENEFITS (Continued)

Component Unit (Road Commission)

In addition to the pension benefits describe in Note 10, the Mackinac County Road Commission provides post-retirement health care to eligible employees who retire from the Road Commission on or after attaining retirement age with at least six years of service. Expenditures for post-retirement health care benefits are recognized on a pay-as-you-go basis. For the year ended December 31, 2007, these costs amount to approximately \$73,519 with four eligible participants.

NOTE 13 - NET ASSETS RESTRICTED/FUND EQUITY RESERVES

Net assets restrictions/fund equity reserve can be described as follows:

Revenue Sharing Reserve	2,406,028	Restricted/Reserved for Revenue Sharing
Delinquent Tax	422,177	Restricted/Reserved for Tax Administration

NOTE 14 - DESIGNATED FUND BALANCE

The various governing boards of the County have the power to designate or set aside, all or a portion of unreserved fund balance for specific purposes. The following is a summary of designated fund balance of December 31, 2007:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General Fund	Capital Improvements	\$ 2,711,618
Hospital Millage	Hospital Purposes	4,076
Nonmajor Fund		
911 Landlines	Equipment	<u>5,000</u>
		<u>\$ 2,720,694</u>

NOTE 15 - RETAINED EARNINGS RESERVED

In addition, there is \$422,177 of retained earnings reserved in the Delinquent Tax Revolving Fund for the tax sale.

NOTE 16 - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, Section 18(1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County's actual expenditures were in excess of amounts appropriated as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Special Revenue Fund:			
Hospital Millage	\$ 916,000	\$ 951,776	\$ (35,776)

Required Supplementary Information

County of Mackinac, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund For the Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes and Penalties	\$ 3,193,176	\$ 3,934,844	\$ 3,952,700	\$ 17,856
Licenses and Permits	8,500	9,255	8,111	(1,144)
Federal Grants	373,579	373,997	264,637	(109,360)
State Grants	878,095	835,883	807,314	(28,569)
Local Contributions	65,818	99,930	98,065	(1,865)
Charges for Services	617,000	677,827	624,465	(53,362)
Fines & Forfeits	4,825	6,216	5,976	(240)
Interest & Rentals	100,200	107,542	114,814	7,272
Other Revenues	22,500	54,996	54,407	(589)
TOTAL REVENUES	5,263,693	6,100,490	5,930,489	(170,001)
EXPENDITURES:				
Legislative:				
Board of Commissioners	121,201	121,255	113,834	7,421
General Government:				
Elections	6,660	6,660	7,892	(1,232)
County Clerk	187,060	188,960	184,929	4,031
Equalization	252,427	253,942	240,120	13,822
Prosecuting Attorney	280,486	289,411	262,022	27,389
Register of Deeds	134,911	134,911	129,559	5,352
County Treasurer	157,682	157,682	154,956	2,726
Cooperative Extension	130,380	131,610	127,866	3,744
Data Processing	50,600	96,415	50,493	45,922
Court House and Grounds	273,085	273,085	305,865	(32,780)
Microfilm Department	600	600	573	27
Planning Commission	26,000	26,650	20,783	5,867
Airport	97,413	99,277	92,945	6,332
Legal Services	10,000	10,000	-	10,000
Audit Services	25,000	25,000	20,000	5,000
Total general government	1,632,304	1,694,203	1,598,003	96,200
Judicial:				
Circuit Court	118,529	113,621	90,254	23,367
Family Court	66,171	60,071	28,105	31,966
District Court	323,936	334,752	331,699	3,053
Friend of the Court	182,943	192,273	186,459	5,814
Jury Board	5,150	5,150	3,513	1,637
Public Defender	69,662	69,662	70,338	(676)
Probate Court	300,153	303,288	309,717	(6,429)
Juvenile Coordinator	16,072	16,072	15,682	390
Total judicial	1,082,616	1,094,889	1,035,767	59,122

County of Mackinac, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund For the Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Safety:				
Sheriff	471,788	460,820	456,529	4,291
Secondary Road Patrol	62,167	66,255	66,410	(155)
Bois Blanc Deputy	33,995	46,695	47,846	(1,151)
SANE	13,000	13,000	13,000	-
Marine Law Enforcement	88,292	45,273	42,775	2,498
Snowmobile Law Enforcement	30,690	15,950	12,768	3,182
Forest Services	6,500	6,500	5,718	782
County Jail	715,629	757,243	704,720	52,523
Emergency Preparedness	39,257	40,360	45,405	(5,045)
Animal Control	57,264	60,264	53,326	6,938
Total public safety	<u>1,518,582</u>	<u>1,512,360</u>	<u>1,448,497</u>	<u>63,863</u>
Health And Welfare:				
Medical Examiner	37,340	37,340	39,801	(2,461)
Veterans Affairs	13,605	13,605	13,487	118
Housing Board	4,000	4,000	4,491	(491)
Other Health and Welfare	117,137	117,137	118,565	(1,428)
Total health and welfare	<u>172,082</u>	<u>172,082</u>	<u>176,344</u>	<u>(4,262)</u>
Other Expenditures:				
Fringe Benefits	58,635	58,635	48,131	10,504
Insurance	604,000	566,225	560,099	6,126
Contingency	64,562	82,461	45,687	36,774
Other	4,400	4,400	21	4,379
Total other expenditures	<u>731,597</u>	<u>711,721</u>	<u>653,938</u>	<u>57,783</u>
TOTAL EXPENDITURES	<u>5,258,382</u>	<u>5,306,510</u>	<u>5,026,383</u>	<u>280,127</u>
EXCESS OF REVENUES OVER EXPENDITURES	5,311	793,980	904,106	110,126
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	345,789	346,610	346,610	-
Operating Transfers Out	(323,981)	(323,981)	(323,481)	500
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 27,119</u>	<u>\$ 816,609</u>	927,235	<u>\$ 110,626</u>
FUND BALANCES, JANUARY 1			<u>2,387,549</u>	
FUND BALANCES, DECEMBER 31			<u>\$ 3,314,784</u>	

County of Mackinac, Michigan

Required Supplementary Information Budgetary Comparison Schedule Revenue Sharing Reserve Fund For the Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES:				
Taxes and Penalties	\$ 1,005,823	\$ 1,005,823	\$ -	\$ (1,005,823)
Interest & Rentals	24,000	24,000	50,677	26,677
TOTAL REVENUES	1,029,823	1,029,823	50,677	(979,146)
EXCESS OF REVENUES (EXPENDITURES)	1,029,823	1,029,823	50,677	\$ (979,146)
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(211,808)	(211,808)	(212,629)	(821)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 818,015	\$ 818,015	(161,952)	\$ (979,967)
FUND BALANCE, JANUARY 1			2,567,980	
FUND BALANCE, DECEMBER 31			\$ 2,406,028	

**Required Supplementary Information
Budgetary Comparison Schedule
Hospital Millage Fund
For the Year Ended December 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes and Penalties	\$ 921,400	\$ 921,400	\$ 953,309	\$ 31,909
Interest & Rentals	800	800	645	(155)
 TOTAL REVENUES	 922,200	 922,200	 953,954	 31,754
EXPENDITURES:				
Health and Welfare	916,000	916,000	951,776	(35,776)
 TOTAL EXPENDITURES	 916,000	 916,000	 951,776	 (35,776)
 EXCESS OF REVENUES (EXPENDITURES)	 \$ 6,200	 \$ 6,200	 2,178	 \$ (4,022)
 FUND BALANCE, JANUARY 1			 1,898	
 FUND BALANCE, DECEMBER 31			 \$ 4,076	

Other Supplementary Information

County of Mackinac, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2007

	Special Revenue Funds								
	Liquor Law Enforcement	Friend of the Court	Family Counseling	Emergency Planning	Pass-Through Grants	R.O.D Automation	Survey Remonumentation	Community Corrections	911 Program
ASSETS:									
Cash and Equivalents - Unrestricted	\$ 36,853	\$ 18,773	\$ 23,590	\$ 2,968	\$ -	\$ 35,931	\$ -	\$ 39,536	\$ 432,056
Accounts Receivable	-	8	-	-	-	-	-	-	18,653
Due from Other Governmental Units	-	-	-	700	-	-	64,367	-	-
TOTAL ASSETS	\$ 36,853	\$ 18,781	\$ 23,590	\$ 3,668	\$ -	\$ 35,931	\$ 64,367	\$ 39,536	\$ 450,709
LIABILITIES:									
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 64,367	\$ -	\$ -
Accounts Payable	5,197	-	-	-	-	-	-	55	48,495
Accrued Liabilities	-	-	-	-	-	-	-	594	651
TOTAL LIABILITIES	5,197	-	-	-	-	-	64,367	649	49,146
FUND EQUITY:									
Fund Balances:									
Unreserved:									
Designated	-	-	-	-	-	-	-	-	5,000
Undesignated	31,656	18,781	23,590	3,668	-	35,931	-	38,887	396,563
TOTAL FUND EQUITY	31,656	18,781	23,590	3,668	-	35,931	-	38,887	401,563
TOTAL LIABILITIES AND FUND EQUITY	\$ 36,853	\$ 18,781	\$ 23,590	\$ 3,668	\$ -	\$ 35,931	\$ 64,367	\$ 39,536	\$ 450,709

County of Mackinac, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2007

	Special Revenue Funds								
	911 Wireless	Project Help	Drug Court	Correction's Officer's Training	Probation Oversight	Law Library	Airport Terminal Improvement	Michigan Justice Training	Township Road
ASSETS:									
Cash and Equivalents - Unrestricted	\$ 102,581	\$ 14,000	\$ 4,914	\$ 4,316	\$ 3,121	\$ 11,789	\$ 14,350	\$ 3,285	\$ 82,688
Accounts Receivable	23,943	-	-	-	-	-	-	-	-
Due from Other Governmental Units	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 126,524	\$ 14,000	\$ 4,914	\$ 4,316	\$ 3,121	\$ 11,789	\$ 14,350	\$ 3,285	\$ 82,688
LIABILITIES:									
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	24,228	-	-	43	32	-	-	1,000	12,338
Accrued Liabilities	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	24,228	-	-	43	32	-	-	1,000	12,338
FUND EQUITY:									
Fund Balances:									
Unreserved:									
Designated	-	-	-	-	-	-	-	-	-
Undesignated	102,296	14,000	4,914	4,273	3,089	11,789	14,350	2,285	70,350
TOTAL FUND EQUITY	102,296	14,000	4,914	4,273	3,089	11,789	14,350	2,285	70,350
TOTAL LIABILITIES AND FUND EQUITY	\$ 126,524	\$ 14,000	\$ 4,914	\$ 4,316	\$ 3,121	\$ 11,789	\$ 14,350	\$ 3,285	\$ 82,688

County of Mackinac, Michigan

**Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2007**

	Special Revenue Funds				Debt Service Funds	Total
	Child Care	In Home Child Care	Veteran's Trust	Victim's Restitution	Courthouse Debt Service	
ASSETS:						
Cash and Equivalents - Unrestricted	\$ 111,546	\$ -	\$ 346	\$ 6,533	\$ -	\$ 949,176
Accounts Receivable	-	-	-	-	-	42,604
Due from Other Governmental Units	12,461	-	-	-	-	77,528
TOTAL ASSETS	\$ 124,007	\$ -	\$ 346	\$ 6,533	\$ -	\$ 1,069,308
LIABILITIES:						
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 64,367
Accounts Payable	-	-	-	-	-	91,388
Accrued Liabilities	-	-	-	-	-	1,245
TOTAL LIABILITIES	-	-	-	-	-	157,000
FUND EQUITY:						
Fund Balances:						
Unreserved:						
Designated	-	-	-	-	-	5,000
Undesignated	124,007	-	346	6,533	-	907,308
TOTAL FUND EQUITY	124,007	-	346	6,533	-	912,308
TOTAL LIABILITIES AND FUND EQUITY	\$ 124,007	\$ -	\$ 346	\$ 6,533	\$ -	\$ 1,069,308

County of Mackinac, Michigan

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

	Special Revenue Funds								
	Liquor Law Enforcement	Friend of the Court	Family Counseling	Emergency Planning	Pass-Through Grants	R.O.D Automation	Survey Remonumentation	Community Corrections	911 Program
REVENUES:									
Federal Grants	\$ -	\$ -	\$ -	\$ 700	\$ 79,624	\$ -	\$ -	\$ -	\$ -
State Grants	10,623	-	-	-	21,090	-	107,396	5,960	-
Local Contributions	-	-	-	-	-	-	-	-	-
Charges for Services	-	3,690	3,615	-	-	19,690	-	5,126	180,869
Fines & Forfeits	-	-	-	-	-	-	-	-	-
Interest & Rentals	-	-	-	-	-	883	-	-	13,576
Other Revenues	-	-	-	-	14,718	-	-	-	-
TOTAL REVENUES	10,623	3,690	3,615	700	115,432	20,573	107,396	11,086	194,445
EXPENDITURES:									
General Government	-	-	-	-	-	-	107,612	-	-
Judicial	-	29	-	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-	-	6,243	173,956
Public Works	-	-	-	-	-	-	-	-	-
Health And Welfare	-	-	-	-	115,432	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
Capital Outlay	5,197	1,000	-	-	-	25,616	-	-	-
TOTAL EXPENDITURES	5,197	1,029	-	-	115,432	25,616	107,612	6,243	173,956
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,426	2,661	3,615	700	-	(5,043)	(216)	4,843	20,489
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	-	-	-	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	5,426	2,661	3,615	700	-	(5,043)	(216)	4,843	20,489
FUND BALANCES (DEFICIT), JANUARY 1	26,230	16,120	19,975	2,968	-	40,974	216	34,044	381,074
FUND BALANCES (DEFICIT), DECEMBER 31	\$ 31,656	\$ 18,781	\$ 23,590	\$ 3,668	\$ -	\$ 35,931	\$ -	\$ 38,887	\$ 401,563

County of Mackinac, Michigan

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

	Special Revenue Funds								
	911 Wireless	Project Help	Drug Court	Correction's Officer's Training	Probation Oversight	Law Library	Airport Terminal Improvement	Michigan Justice Training	Township Road
REVENUES:									
Federal Grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State Grants	100,328	-	-	-	-	-	-	1,837	-
Local Contributions	-	14,000	1,464	-	-	-	-	-	-
Charges for Services	-	-	3,450	4,560	-	-	-	-	-
Fines & Forfeits	-	-	-	-	2,024	2,500	-	-	-
Interest & Rentals	3,377	-	-	-	-	-	-	-	-
Other Revenues	-	-	-	-	-	-	3,243	-	-
TOTAL REVENUES	103,705	14,000	4,914	4,560	2,024	2,500	3,243	1,837	-
EXPENDITURES:									
General Government	-	-	-	-	-	-	-	-	-
Judicial	-	-	-	-	-	7,566	-	-	-
Public Safety	88,471	-	-	2,991	2,169	-	-	2,594	-
Public Works	-	-	-	-	-	-	-	-	80,550
Health And Welfare	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	88,471	-	-	2,991	2,169	7,566	-	2,594	80,550
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	15,234	14,000	4,914	1,569	(145)	(5,066)	3,243	(757)	(80,550)
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	-	-	-	-	-	9,500	-	-	130,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	15,234	14,000	4,914	1,569	(145)	4,434	3,243	(757)	49,450
FUND BALANCES (DEFICIT), JANUARY 1	87,062	-	-	2,704	3,234	7,355	11,107	3,042	20,900
FUND BALANCES (DEFICIT), DECEMBER 31	\$ 102,296	\$ 14,000	\$ 4,914	\$ 4,273	\$ 3,089	\$ 11,789	\$ 14,350	\$ 2,285	\$ 70,350

County of Mackinac, Michigan

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

	Special Revenue Funds				Debt Service Funds	Totals
	Child Care	In Home Child Care	Veteran's Trust	Circuit Court Victim's Restitution	Courthouse Debt Service	
REVENUES:						
Federal Grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 80,324
State Grants	100,910	-	2,661	-	-	350,805
Local Contributions	17,586	-	-	-	-	33,050
Charges for Services	10,560	-	-	-	-	231,560
Fines & Forfeits	-	-	-	2,457	-	6,981
Interest & Rentals	-	-	-	-	-	17,836
Other Revenues	-	-	-	-	-	17,961
TOTAL REVENUES	129,056	-	2,661	2,457	-	738,517
EXPENDITURES:						
General Government	-	-	-	-	-	107,612
Judicial	-	-	-	1,273	-	8,868
Public Safety	-	-	-	-	-	276,424
Public Works	-	-	-	-	-	80,550
Health And Welfare	180,351	-	2,778	-	-	298,561
Debt Service	-	-	-	-	133,981	133,981
Capital Outlay	-	-	-	-	-	31,813
TOTAL EXPENDITURES	180,351	-	2,778	1,273	133,981	937,809
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(51,295)	-	(117)	1,184	(133,981)	(199,292)
OTHER FINANCING SOURCES (USES):						
Operating Transfers In	50,000	-	-	-	133,981	323,481
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(1,295)	-	(117)	1,184	-	124,189
FUND BALANCES (DEFICIT), JANUARY 1	125,302	-	463	5,349	-	788,119
FUND BALANCES (DEFICIT), DECEMBER 31	<u>\$ 124,007</u>	<u>\$ -</u>	<u>\$ 346</u>	<u>\$ 6,533</u>	<u>\$ -</u>	<u>\$ 912,308</u>

**Combining Statement of Net Assets
Board of Public Works
December 31, 2007**

	<u>Governmental Activities</u>		<u>Governmental Activities Total</u>	<u>GASB 34 Adjustments</u>	<u>Statement of Net Assets</u>
	<u>Debt Service</u>				
	<u>Brevort Township Sewer</u>	<u>Clark Township Sewer</u>			
ASSETS:					
Current Assets:					
Cash & Equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Leases Receivables	773,000	3,093,000	3,866,000	(3,759,000)	107,000
Prepaid Expenses	-	-	-	36,071	36,071
Total Current Assets	<u>773,000</u>	<u>3,093,000</u>	<u>3,866,000</u>	<u>(3,722,929)</u>	<u>143,071</u>
Non-Current Assets:					
Leases Receivables	-	-	-	3,759,000	3,759,000
Total Assets	<u>\$ 773,000</u>	<u>\$ 3,093,000</u>	<u>\$ 3,866,000</u>	<u>\$ 36,071</u>	<u>\$ 3,902,071</u>
LIABILITIES:					
Current Liabilities:					
Deferred Revenue	\$ 773,000	\$ 3,093,000	\$ 3,866,000	\$ (3,866,000)	\$ -
Accrued Interest	-	-	-	36,071	36,071
Bonds Payable	-	-	-	107,000	107,000
Total Current Liabilities	<u>773,000</u>	<u>3,093,000</u>	<u>3,866,000</u>	<u>(3,722,929)</u>	<u>143,071</u>
Non-Current Liabilities:					
Bonds Payable	-	-	-	3,759,000	3,759,000
Total Liabilities	<u>773,000</u>	<u>3,093,000</u>	<u>3,866,000</u>	<u>36,071</u>	<u>3,902,071</u>
FUND BALANCE/NET ASSETS:					
Unreserved/Unrestricted	-	-	-	-	-
Total Liabilities and Fund Balance	<u>\$ 773,000</u>	<u>\$ 3,093,000</u>	<u>\$ 3,866,000</u>	<u>\$ 36,071</u>	<u>\$ 3,902,071</u>

**Combining Statement of Revenues, Expenditures,
and Changes in Fund Balance
Board of Public Works
For the Year Ended December 31, 2007**

	<u>Governmental Activities</u>				
	<u>Debt Service</u>		Governmental Activities Total	GASB 34 Adjustments	Statement of Net Activities
	Brevort Township Sewer	Clark Township Sewer			
REVENUES:					
Local Sources	\$ 37,513	\$ 240,281	\$ 277,794	\$ (102,000)	\$ 175,794
Total Revenues	<u>37,513</u>	<u>240,281</u>	<u>277,794</u>	<u>(102,000)</u>	<u>175,794</u>
EXPENDITURES:					
Debt Service	<u>37,513</u>	<u>240,281</u>	<u>277,794</u>	<u>(102,000)</u>	<u>175,794</u>
Total Expenditures	37,513	240,281	277,794	(102,000)	175,794
Excess of Revenues Over (Under) Expenditures	-	-	-	-	-
Fund Balances at Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances at End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

**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***

Honorable Chairman and Members of
The Board of Commissioners
County of Mackinac, Michigan
100 S. Marley Street
St. Ignace, MI 49781

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Mackinac, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the County of Mackinac, Michigan's basic financial statements and have issued our report thereon, dated May 27, 2008. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the Mackinac County Road Commission and Mackinac County Housing Commission, discretely presented component units, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mackinac County'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 County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County'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.

Honorable Chairman and Members
of the Board of Commissioners
County of Mackinac, Michigan

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 County'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 County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies described in 07-1 and 04-2 in the accompanying schedule of findings and questioned costs 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 County'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 County of Mackinac, Michigan'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 07-2.

We noted certain matters that we reported to management the County of Mackinac, Michigan's in a separate letter dated May 27, 2008.

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

This report is intended solely for the information and use of management, the Board of Commissioners, others within the County, federal awarding agencies, 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 27, 2008



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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**MEMBER AICPA
DIVISION FOR CPA FIRMS**

MEMBER MACPA

**OFFICES IN
MICHIGAN & WISCONSIN**

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board
County of Mackinac, Michigan
100 S. Marley Street
St. Ignace, MI 49781

Compliance

We have audited the compliance of the County of Mackinac, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County of Mackinac, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Honorable Chairman and Members
of the Board of Commissioners
County of Mackinac, Michigan

Internal Control Over Compliance

The management of the County of Mackinac, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County of Mackinac, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in a County's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

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

This report is intended solely for the information and use of the Board of Commissioners, audit committee, management, federal awarding agencies, pass-through entities and others within the organization 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 27, 2008

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

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U. S. DEPARTMENT OF AGRICULTURE:			
Pass-through programs from the Michigan Department of Natural Resources			
Schools and Road Grants	10.665	N/A	\$ 149,144
U. S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT:			
Direct Award:			
Low Rent Public Housing	14.850	N/A	90,987
Capital Fund	14.872	N/A	56,250
Subtotal direct awards			<u>147,237</u>
Pass-through programs from the Michigan State Housing Development Authority			
Pass-through programs from CLMA - Community Action Agency	14.228	MSC 2005 742 HOA	27,289
Pass-through programs from CLMA - Community Action Agency	14.228	MSC 2007 742 HOA	52,335
Subtotal pass through MSHDA			<u>79,624</u>
Total U.S. Department of Housing & Urban Development			<u>226,861</u>
U. S. DEPARTMENT OF JUSTICE:			
Direct Awards:			
Bullet Proof Vest Grant	16.607	N/A	2,314
Pass-through programs from the Michigan Department of Human Services:			
Juvenile Accountability Incentive Block Grant	16.523	JABGN-07-49001	855
Juvenile Accountability Incentive Block Grant	16.523	JABGN-08-49001	8,126
Subtotal pass through MDHS			<u>8,981</u>
Total U.S. Department of Justice			<u>11,295</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through programs from the Michigan Department of State Police, Emergency Management Division:			
Emergency Management Performance Grants 10/01/06-09/30/07	97.042	2386004867	2,012
Pass-through programs from Houghton County:			
Homeland Security Grant Program	97.067	N/A	13,750
Total U.S. Department of Homeland Security			<u>15,762</u>
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through programs from the Michigan Department of Transportation:			
Contracted Projects (See Note D)	20.205	N/A	3,406,899
Pass-through programs from the Michigan Department of State Police, Emergency Management Division:			
HEMP Grant 2006-2007	20.503	2386004867	700
Total U.S. Department of Transportation			<u>3,407,599</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through programs from the Michigan Department of Human Services:			
Friend of Court Federal Incentive	93.560	FIP20051	15,618
PA CRP Title IV-D - 10/1/06 to 9/30/07	93.563	CS/PA-07-49002	29,477
PA CRP Title IV-D - 10/1/07 to 9/30/08	93.563	CS/PA-08-49002	6,205
FOC CRP Title IV-D - 10/1/06 to 9/30/07	93.563	CS/FOC-07-49001-01	98,584
FOC CRP Title IV-D - 10/1/07 to 9/30/08	93.563	CS/FOC-08-49001-01	35,294
Subtotal - MDHS			<u>185,178</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,995,839</u>

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County of Mackinac, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - COGNIZANT AGENCY

The County has not been assigned a cognizant agency. Therefore, the County is under the general oversight of the U.S. Department of Housing and Urban Development which provided the greatest amount of direct federal funding to the County during 2007.

NOTE C - FEDERAL REVENUES

Federal Revenues per Financial Statement	\$ 344,961
Add: Federal Grants recorded in Trust and Agency	149,144
Less: Federal P.I.L.O.T.	(52,402)
Federal Expenditures of Housing Commission	147,237
Road Commission	<u>3,406,899</u>
Total Federal Expenditures	<u>\$ 3,995,839</u>

NOTE D - FEDERAL GRANTS – ROAD COMMISSION:

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended December 31, 2007, the Federal aid received and expended by the Road Commission was \$3,406,899 for contracted projects. Contracted projects are defined as projects performed by private contractors that are paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the Road Commission, as they are included in MDOT’s single audit.

NOTE E - SUBRECIPIENT AWARDS

Of the federal expenditures presented in the schedule of expenditures of federal awards, federal awards were provided to sub recipients as follows:

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Community Development Block Grant for 2005 Community Action Agency, Inc.	14.228	\$ 27,289
Community Development Block Grant for 2007 Community Action Agency, Inc.	14.228	52,335

Section I – Financial Statement Findings

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of Major Programs

CFDA NUMBERS

Name of Federal Program or Cluster

10.665	Schools and Road Grants from Timber Sales
14.228	Community Action Agency
93.563	Child Support Enforcement
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Significant Deficiencies

*Preparation of the Financial Statements in Accordance
with Generally Accepted Accounting Principles*

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 requires management to prepare annual audit statements in accordance with GASB Statement Number 34. (Audit report format)

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

Condition: Auditor prepares financial statements and annual report in compliance with GASB 34.

Effect: The effect of this condition places a reliance on the independent auditor as part of the County's internal controls over financial reporting.

Cause: Change in application of auditing standards.

Recommendation: The County should consider subcontracting financial statement preparation activities to monitor and report annual financial activity in accordance with GASB Statement Number 34.

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

- Contact Person(s) Responsible for Correction:
Mary Kay Tamlyn, Clerk

Section II – Financial Statement Findings (Continued)

Statutory Compliance

Excess Expenditures Over Appropriations

Finding 07-2

Statement of Condition/Criteria: Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The General Fund budget is adopted at the functional level and the Special Revenue funds are adopted in total. During the year ended December 31, 2007 the County incurred expenditures in certain budgetary funds which were in excess of the amount appropriated as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Special Revenue Fund:			
Hospital Millage	\$ 916,000	\$ 951,776	\$ (35,776)

Effect: The County has not complied with various State Statutes.

Cause of Condition: Failure to amend the budget for the Hospital Millage Fund during the year.

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

Planned Corrective Action: Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

- Contact Person(s) Responsible for Correction:
Mary Kay Tamlyn, Clerk

Section III – Federal Award Findings and Questioned Costs

NONE.

Section II – Financial Statement Findings

Significant Deficiencies – Non-Compliance

Excess Expenditures Over Appropriations

Finding 06-1

Statement of Condition/Criteria: Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The General Fund budget is adopted at the functional level and the Special Revenue funds are adopted in total. During the year ended December 31, 2006 the County incurred expenditures in certain budgetary funds which were in excess of the amount appropriated as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Court House and Grounds	\$ 294,565	\$ 342,644	(47,779)
Juvenile Coordinator	16,073	16,462	(389)
Sheriff	484,577	492,520	(7,943)
Bois Blanc Deputy	42,180	43,640	(1,460)
Veterans Affairs	10,255	12,786	(2,531)
Housing Board	2,200	3,756	(1,556)
Economic Development	1,750	2,188	(438)
Other Health and Welfare	103,575	119,157	(15,582)
Insurance	230,923	265,885	(34,962)
Other	6,225	22,087	(15,862)

Effect: The County has not complied with various State Statutes.

Cause of Condition: Failure to amend the budget for the General Fund during the year.

Recommendation: We recommend that the County and personnel responsible for administering the activities of the various funds of the County, 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.

Management's Response – Corrective Action Plan: Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

Status: Similar instances of noncompliance were noted in current year findings.

Section II – Financial Statement Findings (Continued)

Significant Deficiencies – Internal Control

Detailed Listing of Inmate Reimbursement Receivables

Finding 04-2

Condition/Criteria: The amount due for inmate housing is not recorded on the general ledger and there was no report available indicating what amounts are due. In addition, the same individual that is responsible for the accounts receivable ledger also collect payments, and adjusts accounts, etc.

Effect: A detailed listing of Inmate Reimbursement Receivables in not maintained.

Cause: Unknown.

Recommendation: Although we understand that most of these amounts are uncollectible, to increase controls the County should maintain a detailed listing of the amounts due, billings for the period, and collections. The Board should consider whether it is possible to have someone other than the individuals collecting payments, perform the billings and maintain the accounts receivable ledger.

Management's Response – Corrective Action Plan: A review will be performed by the sheriff of these amounts to determine collectibility. After the review is performed the detailed listing will be updated to correct the above finding.

Status: No change in 2005, 2006, or 2007.



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Members of the Mackinac County
Board of Commissioners
100 S. Marley Street
St. Ignace, MI 49781

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Mackinac, Michigan for the year ended December 31, 2007, and have issued our report thereon dated May 27, 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 OMB Circular A-133

As stated in our engagement letter dated January 3, 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 relive you or management of your responsibilities.

In planning and performing our audit, we considered the County of Mackinac, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County of Mackinac, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County of Mackinac, Michigan's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the County of Mackinac, Michigan's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County of Mackinac, Michigan's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on January 3, 2008.

Significant Accounting Policies

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County of Mackinac, Michigan 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 the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

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 27, 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

Restitution Payable Report (Prior Year)

During our audit procedures we were unable to reconcile the Restitution Payable report maintained by the Circuit Court's office to the balance in the Trust & Agency Fund. We recommend that the report be balanced to the general ledger on a monthly basis.

SEC Rule 15C2-12 Disclosure Requirements (Prior Year)

SEC Rule No. 240.15c2-12 requires issuers of municipal securities in principal amounts of \$1 million or more or whose outstanding aggregate debt exceeds \$10 million to report financial and operational information as well as notice of material events to nationally recognized municipal securities information repositories annually. With the issuance of the bonds for the sewer system, the County is subject to these reporting requirements. We recommend that the County establish a written plan and process to ensure that this report is completed and filed by June 30th of each year.

Prepaid Expenditures (Prior Year)

Currently, there are prepaid expenditures that are not recorded on the general ledger at year end. To provide the most accurate financial information, prepaid expenditures for insurance should be recorded at year end.

Federal Grants

Per correspondence with the Department of Natural Resources CFDA #10.665, "Schools and Roads - Grants to states for timber sales" revenue and expenditures should be reported in the County's basic financial statements and Schedule of Expenditures of Federal Awards. Currently these funds are reported in the trust and agency fund. It is recommended that the County record this grant in a special revenue fund as appropriate and report these amounts on the Schedule of Expenditures of Federal Awards.

GASB Statement 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, with the County of Mackinac required to implement the Statement for the year ended December 31, 2009, GASB Statement 45 will impact the future accounting of post-employment health insurance costs as it relates to the amount the County will be required to pay for these benefits. Beginning in 2009, the County will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The County Board of Commissioners as well as County Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

Interest Receivable – Delinquent Tax Fund

Because the Delinquent Tax Fund is on the full accrual method of accounting, an interest receivable should be accrued for the 2006 and 2005 tax collections.

Fraud Policy

With the implementation of Statement on Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The Board does not have a “fraud policy” which would address fraud or suspected fraud and related board actions. We recommend the Board adopt a fraud policy in compliance with SAS No. 99.

Electronic Banking

State law requires that a policy regarding electronic banking be established and approved by the County. This policy determines who is responsible for activating electronic transactions and the types of transactions which will be made.

Petty Cash

During our tests of controls, we noted that an accommodation check was cashed from petty cash. We recommend the County adopt a policy relating to the cashing of accommodation checks from petty cash. Some organizations prohibit the cashing of accommodation checks, while others will limit the frequency and amount.

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 in implementing the above recommendations, please contact us.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization 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 27, 2008