

Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Benzie County Road Commission		County Benzie	
Fiscal Year End September 30, 2007		Opinion Date January 3, 2008		Date Audit Report Submitted to State January 18, 2008			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

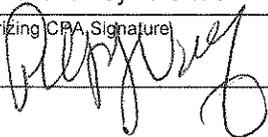
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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

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

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

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

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue			City Kincheloe	State MI
			Zip 49788	
Authorizing CPA Signature 			Printed Name Phillip J. Wolf, CPA	
			License Number 1101017275	

BENZIE COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS

September 30, 2007

BENZIE COUNTY

BOARD OF COUNTY ROAD COMMISSIONERS

W. John Nuske
Vice - Chairman

Robert Rosa
Chairman

Roger Griner
Member

Robert Weaver
Manager

Shannon Evans
Financial Manager/Clerk

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Benzie County Road Commission
Honor, Michigan 49640

We have audited the accompanying financial statements of the governmental activities and major fund, of the Benzie County Road Commission (a component unit of the County of Benzie, Michigan) as of and for the year ended September 30, 2007, which collectively comprise the Road Commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund, of the Benzie County Road Commission as of September 30, 2007, and the respective changes in financial position, 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 January 3, 2008, on our consideration of the Benzie County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on page 3 and budgetary comparisons 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 Benzie County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

January 3, 2008

Management's Discussion and Analysis

Using This Annual Report

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

Reporting the Road Commission as a Whole

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

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

Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 11. The fund financial statements begin on page 28 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

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

The Road Commission as a Whole

The road commission's net assets increased approximately 24% from \$6.4 million to \$7.9 million for the year ended September 30, 2007. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$147 thousand. The primary reason for this was an increase in federal support for road projects. Fuel prices negatively impacted net assets. The investment in capital assets category increased \$1.36 million.

It is important for the reader to realize that the increase in net assets is largely a result of the reporting of infrastructure assets.

Net assets as of the year ended September 30, 2007 and 2006 is as follows:

	<u>Governmental Activities</u> <u>2007</u>	<u>Governmental Activities</u> <u>2006</u>
Current and Other Assets	\$ 2,235,971	\$ 1,631,012
Capital Assets	<u>6,682,836</u>	<u>5,498,083</u>
Total Assets	<u>\$ 8,918,807</u>	<u>\$ 7,129,095</u>
Current Liabilities	\$ 391,551	\$ 254,031
Other Liabilities	<u>657,012</u>	<u>508,626</u>
Total Liabilities	<u>1,048,563</u>	<u>762,657</u>
Net Assets		
Invested in Capital Assets (net of debt)	6,403,377	5,046,151
Restricted	<u>1,466,867</u>	<u>1,320,287</u>
Total Net Assets	<u>\$ 7,870,244</u>	<u>\$ 6,366,438</u>

A summary of changes in net assets for the year ended September 30, 2007 and 2006 is as follows:

	<u>Governmental Activities</u> <u>2007</u>	<u>Governmental Activities</u> <u>2006</u>
Program Revenues		
Charges for Services	\$ 1,095,496	\$ 1,324,022
Operating Grants, Capital Grants and Contributions	3,720,840	3,566,269
General Revenues		
Interest Income	45,137	24,501
Gain on Disposal of Equipment	<u>13,950</u>	<u>51,932</u>
Total Revenues	<u>4,875,423</u>	<u>4,966,724</u>
Program Expenses		
Primary Roads		
Maintenance	1,093,757	1,105,661
Local Roads		
Maintenance	1,044,908	1,071,030
State Trunkline	925,239	720,346
Equipment	75,803	257,692
Administrative	203,355	224,714
Interest Expense and Other	<u>28,555</u>	<u>1,947,992</u>
Total Expenses	<u>3,371,617</u>	<u>5,327,435</u>
Changes in Net Assets	1,503,806	(360,711)
Net Assets - Beginning	<u>6,366,438</u>	<u>6,727,149</u>
Net Assets – Ending	<u>\$ 7,870,244</u>	<u>\$ 6,366,438</u>

The Road Commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2007, the fund balance of the general operations fund increased \$156 thousand as compared to an increase of \$178 thousand in the fund balance for the year ended September 30, 2006 (last year). Total revenues were \$4.9 million, a decrease of \$91 thousand as compared to last year. This change in revenues resulted primarily from a decrease in State grants for operations.

Total expenditures were \$4.8 million, a decrease of \$433 thousand as compared to last year. This change in expenditures is primarily the decrease in preservation activities. The road commission experienced a decrease in local road expenditures as well.

Budgetary Highlights

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

The revenue budget for 2007 was lower than the actual receipts by \$225,378. This was due, in a large part, to the increase in other projects. The Road Commission budgets for the receipt of funds from townships for projects on local roads.

Road Commission expenditures were projected at \$4,603,061 while actual expenditures were \$4,819,810. This resulted in total expenditures over budget by \$216,749. There were several items that account for the variance in the projection of the budget. The largest share of the variance is in the area of local road maintenance. There was a maintenance project that was completed but not budgeted due to time constraints.

Capital Asset and Debt AdministrationCapital Assets

As of September 30, 2007, the road commission had \$6.7 million invested in capital assets as follows:

	<u>2006</u>	<u>2007</u>
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 1,001,344	\$ 1,282,069
Capital Assets Being Depreciated		
Buildings and Improvements	999,475	1,024,578
Road Equipment	4,354,224	4,387,245
Other Equipment	394,275	416,943
Infrastructure and Improvements	<u>3,204,123</u>	<u>4,642,997</u>
Total Capital Assets Being Depreciated	8,952,097	10,471,763
Total Accumulated Depreciation	<u>(4,455,358)</u>	<u>(5,070,996)</u>
Total Net Capital Assets	<u>\$ 5,498,083</u>	<u>\$ 6,682,836</u>

Current year's major additions included the following:

Buildings	\$ 25,103
Various Resurfacing Projects	\$ 1,719,599
Trucks/Equipment	<u>\$ 126,933</u>

Debt

The road commission currently experiences a standard debt status. Notes issued in prior years have been paid currently and a new note was issued for \$100,555 for new trucks. The road commission currently has long-term debt in the amount of \$76,053 which represents compensated absences payable. A loan contract for \$330,000 with the Michigan Department of Transportation was also executed during the year.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2008 budget. One of the factors is the economy, another factor is fuel prices. The road commission derives approximately 58% of its revenues from the fuel tax collected. The State of Michigan's economic downturn and the increase in fuel prices has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed.

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

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Benzie County Road Commission administrative offices at 11318 Main Street, P.O. Box 68, Honor, Michigan.

Basic Financial Statements

Benzie County Road Commission

Statement of Net Assets September 30, 2007

ASSETS

Cash and Equivalents	\$	769,621
Accounts Receivable:		
Michigan Transportation Fund		418,772
State Trunkline Maintenance		84,733
State – Other		36,410
Due From Federal		340,613
Sundry Accounts		153,376
Inventories:		
Road Materials		269,720
Equipment, Parts and Materials		162,726
Capital Assets (Nondepreciable)		1,282,069
Capital Assets (Net of Accumulated Depreciation)		<u>5,400,767</u>
Total Assets	\$	<u>8,918,807</u>

LIABILITIES

Current Liabilities:		
Accounts Payable	\$	60,863
Accrued Liabilities		21,859
Due to State		70,504
Installment Purchase Agreements Payable		238,325
Noncurrent Liabilities:		
Contingent Loan Commitment		307,759
Advances from State		231,616
Vested Employee Benefits		76,503
Installment Purchase Agreements Payable		<u>41,134</u>
Total Liabilities		<u>1,048,563</u>

NET ASSETS

Investment in Capital Assets –		
Net of Related Debt		6,403,377
Restricted for County Road		<u>1,466,867</u>
Total Net Assets	\$	<u>7,870,244</u>

Benzie County Road Commission

Statement of Activities For the Year Ended September 30, 2007

Program Expenses:	
Primary Road Maintenance and Preventive Maintenance	\$ 1,093,757
Local Road Maintenance and Preventive Maintenance	1,044,908
State Trunkline Maintenance	925,239
Net Equipment Expense	75,803
Net Administrative Expense	203,355
Compensated Absences	9,588
Interest Expense	<u>18,967</u>
Total Program Expenses	<u>3,371,617</u>
Program Revenues:	
Charges for Services:	
License and Permits	15,090
Charges for Services	1,080,406
Operating Grants and Contributions:	
Michigan Transportation Funds	2,001,241
Investment Earnings	45,137
Capital Grants and Contributions:	
Federal Grants	685,019
State Grants	741,170
Contributions from Local Units	<u>293,410</u>
Total Program Revenues	<u>4,861,473</u>
Net Program Revenues	<u>1,489,856</u>
General Revenues:	
Gain on Equipment Disposal	<u>13,950</u>
Total General Revenues	<u>13,950</u>
Changes in Net Assets	1,503,806
Net Assets – Beginning of Year	<u>6,366,438</u>
Net Assets – End of Year	<u>\$ 7,870,244</u>

Benzie County Road Commission

Balance Sheet
September 30, 2007

	<u>Governmental</u> <u>Fund Type</u> General <u>Operating Fund</u>
<u>ASSETS</u>	
Cash and Equivalents	\$ 769,621
Accounts Receivable:	
Michigan Transportation Fund	418,772
State Trunkline Maintenance	84,733
State – Other	32,854
Due From Federal	36,410
Sundry Accounts	153,376
Inventories:	
Road Materials	269,720
Equipment, Parts, and Materials	<u>162,726</u>
Total Assets	<u>\$ 1,928,212</u>
<u>LIABILITIES AND FUND EQUITIES</u>	
Liabilities:	
Accounts Payable	\$ 60,863
Accrued Liabilities	21,859
Advances from State	231,616
Due to State	<u>70,504</u>
Total Liabilities	<u>384,842</u>
Fund Equities:	
Fund Balance	
Unreserved and Undesignated	<u>1,543,370</u>
Total Fund Equities	<u>1,543,370</u>
Total Liabilities and Fund Equities	<u>\$ 1,928,212</u>

Benzie County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended September 30, 2007

Total Governmental Fund Balance	\$ 1,543,370
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	6,682,836
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	<u>(355,962)</u>
Net Assets of Governmental Activities	<u>\$ 7,870,244</u>

**Statement of Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended September 30, 2007**

	<u>General Operating Fund</u>
Revenues	
License and Permits	\$ 15,090
Federal Sources	685,019
State Sources	2,742,411
Contributions from Local Units	293,410
Charges for Services	1,003,042
Interest and Rents	45,137
Other Revenue	<u>91,314</u>
Total Revenues	<u>4,875,423</u>
Expenditures	
Public Works	4,876,028
Capital Outlay	(348,213)
Debt Service	<u>291,995</u>
Total Expenditures	<u>4,819,810</u>
Excess of Revenues Over (Under) Expenditures	<u>55,613</u>
Other Financing Sources	
Installment Loan Proceeds	<u>100,555</u>
Total Other Financing Sources	<u>100,555</u>
Excess of Revenues and Other Financing Sources Over Expenditures	156,168
Fund Balance – October 1, 2006	<u>1,387,202</u>
Fund Balance – September 30, 2007	<u>\$ 1,543,370</u>

Benzie County Road Commission

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2007

Net Change in Fund Balance – Total Governmental Funds	\$ 156,168
Amounts reported for governmental activities in the statements are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	1,184,753
Repayment of notes payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. Proceeds from loans provide current resources in the governmental funds but increase liabilities in the statement of net assets. This is the difference in these two accounts.	172,473
Expenses which do not require the use of current financial resources and therefore are not reported in governmental funds for compensated absences.	<u>(9,588)</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,503,806</u>

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

B. Government-Wide and Fund Financial Statements

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

Under the terms of grant agreements, the Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Commission's policy to first apply restricted grant resources to such programs, and then general revenues.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Prepaid Expenses

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

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Benzie County Road Commission as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Depreciation

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

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	3 to 10 years
Infrastructure – Roads	8 to 20 years
Infrastructure – Bridges	12 to 30 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Vacation and Sick Leave)

The maximum accumulation of vacation hours according to the union agreement is 176 hours. Any unused vacation is lost at calendar year end. Employees accrued hours on January 1st each year. Sick leave is payable up to 288 hours at current wages upon retirement only, to a maximum of \$3,000 per employee.

Use of Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Clerk and Manager prepare a budget in accordance with the Act which is adopted by the Board at a public hearing each August. All budgets lapse at fiscal year end. Expenditures in excess of appropriations are reported on Page 27.

NOTE 3 - CASH AND EQUIVALENTS

The cash and equivalents are classified in the following categories:

Imprest Cash	\$ 500
Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	<u>769,121</u>
Total Cash and Equivalents	<u>\$ 769,621</u>

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

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

NOTE 3 - CASH AND EQUIVALENTS (Continued)

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

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

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the Commission’s deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end, \$774,043 of the Commission’s bank balance of \$107,443 was exposed to credit risk because it was uninsured and uncollateralized.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Benzie County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Benzie County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Benzie County Road Commission’s financial statements.

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balances 10/01/06	Additions	Adjustments/ Deductions	Ending Balances 09/30/07
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 12,708	\$ -	\$ -	\$ 12,708
Land Improvements	988,636	280,725	-	1,269,361
Subtotal	1,001,344	280,725	-	1,282,069
<i>Capital Assets Being Depreciated:</i>				
Buildings	999,475	25,103	-	1,024,578
Road Equipment	4,354,224	104,265	71,244	4,387,245
Shop Equipment	48,219	20,331	-	68,550
Office Equipment	44,729	2,337	-	47,066
Engineer’s Equipment	39,636	-	-	39,636
Yard and Storage	261,691	-	-	261,691
Infrastructure	3,204,123	1,438,874	-	4,642,997
Subtotal	8,952,097	1,590,910	71,244	10,471,763

NOTE 5 - CAPITAL ASSETS (Continued)

	Beginning Balances 10/01/06	Additions	Adjustments/ Deductions	Ending Balances 09/30/07
<i>Less Accumulated Depreciation:</i>				
Buildings	\$ 539,091	\$ 72,962	\$ -	\$ 612,053
Road Equipment	3,420,137	399,993	71,244	3,748,886
Shop Equipment	37,723	5,200	-	42,923
Office Equipment	43,277	1,014	-	44,291
Engineer's Equipment	30,604	5,649	-	36,253
Yard and Storage	108,072	15,431	-	123,503
Infrastructure	<u>276,454</u>	<u>186,633</u>	<u>-</u>	<u>463,087</u>
Subtotal	<u>4,455,358</u>	<u>686,882</u>	<u>71,244</u>	<u>5,070,996</u>
Net Capital Assets Being Depreciated	<u>4,496,739</u>	<u>904,028</u>	<u>-</u>	<u>5,400,767</u>
Total Net Capital Assets	<u>\$ 5,498,083</u>	<u>\$ 1,184,753</u>	<u>\$ -</u>	<u>\$ 6,682,836</u>

Depreciation expense was charged to operations as follows:

Primary	\$ 142,224
Local	44,409
Equipment	399,993
Administration	6,663
Other	<u>93,593</u>
Total	<u>\$ 686,882</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT

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

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

Funding Policy – The obligation to contribute and maintain the system for these employees was established by negotiation with the Benzie County Road Commission's competitive bargaining units and requires a contribution based on gross wages by County Road Commission only.

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

Annual Pension Costs – For year ended 2007, the Benzie County Road Commission’s pension cost of \$250,336 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2005, using the age normal cost method. Significant actuarial assumptions used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31 follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial Value of Assets	\$ 2,688,848	\$ 2,830,180	\$ 2,995,004
Actuarial Accrued Liability	5,371,854	5,809,295	6,190,918
Unfunded AAL	2,683,006	2,979,115	3,195,914
Funded Ratio	50%	49%	48%
Covered Payroll	1,227,814	1,133,807	1,107,068
UAAL as a Percentage of Covered Payroll	219%	263%	289%

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 219,200	100%	0
2005	220,216	100%	0
2006	217,681	100%	0

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2007, the federal aid received and expended by the Road Commission was \$685,019 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT’s single audit). Local force account projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more.

NOTE 8 - STATE EQUIPMENT PURCHASE ADVANCE

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

NOTE 9 - LONG-TERM DEBT

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Installment payable to Bank, 4.59% interest rate, payable in monthly installments of \$13,819, secured by equipment.	\$ 353,846	\$ -	\$ 152,780	\$ 201,066	\$ 159,932
Installment payable to Bank, 4.80% interest rate, payable in monthly installments of \$4,406, secured by equipment.	-	100,555	44,876	55,679	55,679
Installment payable to Finance Company, 3.5% interest rate, payable in monthly installments of \$6,475, secured by equipment.	98,086	-	75,372	22,714	22,714
Vested Employee Benefits (net)	<u>66,915</u>	<u>9,588</u>	<u>-</u>	<u>76,503</u>	
TOTAL	<u>\$ 518,847</u>	<u>\$ 110,143</u>	<u>\$ 273,028</u>	<u>\$ 355,962</u>	

Annual debt service requirements:

Installments payable:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Principal	<u>\$ 238,325</u>	<u>\$ 41,134</u>	<u>\$ -</u>	<u>\$ 279,459</u>
Interest	<u>\$ 7,590</u>	<u>\$ 322</u>	<u>\$ -</u>	<u>\$ 7,912</u>

NOTE 10 - POST EMPLOYMENT BENEFITS

The employer provides health insurance retirees who retire under the Employer's MERS plan. Coverage is for a period of five years or until the retiree reaches age 65, whichever event occurs first. The retiree is then responsible for the cost of health insurance for his/her spouse and/or children. After the retiree's eligibility for Employer-paid benefits expires, he/she shall be responsible for the total cost of health insurance. Employer contributions were \$72,354.

For any employee who hired prior to June 30, 1993, he/she will, after reaching age 65, receive a 50% contribution for the Commission toward the cost of health insurance, supplemental to Medicare for the retiree and his/her spouse and/or dependent children. Post-employment benefits paid during 2007 were \$146,425.

NOTE 10 - POST EMPLOYMENT BENEFITS (Continued)

Plan Description. The Commission administers a single-employer defined benefit healthcare plan. The Plan provides healthcare insurance for eligible employees and their spouses through the Commission’s group insurance plan which covers both active and retired members. Benefit provisions are established and may be amended by the Board of County Road Commissioners. The Plan provides for the Commission to contribute various percentages of the cost of health insurance premiums for retirees and their spouses. The Plan does issue a publicly available report.

Annual OPEB Cost and Net OPEB Obligations. The Commission’s annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The Commission has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Commission’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Commission’s net OPEB obligation to the Plan for Plan year ended September 30, 2006.

Annual required contribution	\$ 176,342
Interest on net OPEB obligation	-
Annual OPEB cost	176,342
Contributions made	<u>(176,342)</u>
Increase in net OPEB obligation	-
Net OPEB obligation, beginning of year	<u>2,557,458</u>
Net OPEB obligation, end of year	<u>\$ 2,557,458</u>

The Commission’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ending September 30, 2006 were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
09/30/06	\$ 176,342	35.7%	\$ -
09/30/07	146,425	100.0%	-

As of September 30, 2006, the actuarial accrued liability for benefits was \$2,557,458, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$1,131,554, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 226%.

NOTE 10 - POST EMPLOYMENT BENEFITS (Continued)

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements, presents multi-year trend information indicating whether the actuarial value of plan assets is increasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following simplifying assumptions were made:

Assumptions About Employees and Members: Based on the historical average retirement age of the covered group, active plan members were assumed to retire at various ages between 50 and 60 or the first year thereafter in which the member would qualify for benefits. Marital status as of the calculation date was assumed to continue throughout retirement. Life expectancy was based on mortality tables published in the 1994 Group Annuity Mortality Table. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using specific age-based turnover data.

Assumptions About Healthcare Costs: The 2006 health insurance premiums for retirees were used to calculate the present value of total benefits to be paid. The expected rate of increase in health insurance premiums initially used a select rate of 10%, with reduction to the ultimate rate of 4.5% after ten years.

Other Assumptions and Methods: The inflation rate was assumed to be 4.5%. Based on the historical and expected returns of the Commission's investments, the investment rate of return was assumed to be 6%. The value of Plan assets was set at market value. A simplified version of the entry age actuarial cost method was used in the actuarial valuation. The UAAL is amortized over a thirty-year period as a level percent of projected payroll on an open basis. Payroll was assumed to grow over the long-term at the same rate as inflation.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at September 30, 2007.

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

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

NOTE 12 - CONTINGENT LOAN COMMITMENT

During fiscal 2007, the Commission executed a loan contract with the Michigan Department of Transportation to assist the Commission in financing transportation infrastructure improvements. The contract terms stipulated a loan amount not to exceed \$330,000 at a rate of interest of 4% per annum. The loan funds are restricted to use on specific projects only. Additionally, the agreement grants permission to the Michigan Department of Transportation to convert federal advanced construction funds, when available, to repay the loan principal amounts, with final repayment required by September 30, 2009. If repayment is not paid by that date, the Michigan Department of Treasury is allowed to withhold monies from Michigan Transportation Funds in lieu of repayment. \$307,759 was owed at year end with \$1,104 in interest due.

Required Supplementary Information

Benzie County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues and Other Financing Sources For the Year Ended September 30, 2007

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Licenses and Permits				
Permits	\$ 13,000	\$ 15,200	\$ 15,090	\$ (110)
Federal Sources				
Programs	368,100	685,100	685,019	(81)
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,550,000	1,545,000	1,544,089	(911)
Local Road	880,000	869,000	868,604	(396)
Snow Removal	150,000	151,300	151,240	(60)
Economic Development Fund				
Forest Road	43,000	43,200	43,217	17
Other	-	126,400	125,261	(1,139)
Contributions from Local Units				
Townships	35,300	64,750	64,350	(400)
Other	-	-	229,060	229,060
Charges for Services				
State Trunkline	650,000	955,250	955,229	(21)
Salvage Sales	2,000	7,550	7,537	(13)
Other	-	-	40,276	40,276
Interest and Rents	15,500	46,900	45,137	(1,763)
Other Revenue				
Other	6,339	116,350	77,364	(38,986)
Gain on Equipment Disposal	-	14,000	13,950	(50)
Other Financing Sources				
Installment Proceeds	-	100,600	100,555	(45)
Total Revenue	<u>\$ 3,723,239</u>	<u>\$ 4,750,600</u>	<u>\$ 4,975,978</u>	<u>\$ 225,378</u>

Benzie County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended September 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation	\$ 562,000	1,363,100	\$ 1,361,563	\$ 1,537
Maintenance	725,500	952,690	951,533	1,157
Local Road				
Preservation	14,700	129,600	358,036	(228,436)
Maintenance	1,028,700	1,005,821	1,000,499	5,322
State Trunkline				
Maintenance	705,000	823,650	823,604	46
Nonmaintenance	-	101,650	101,635	15
Equipment Expense – Net	38,300	77,750	75,803	1,947
Administrative Expense – Net	128,200	203,700	203,355	345
Capital Outlay – Net	(531,200)	(347,900)	(348,213)	313
Distributive	1,020,500	-	-	-
Debt Service				
Principal	228,155	274,000	273,028	972
Interest	15,385	19,000	18,967	33
Total Expenditures	3,935,240	4,603,061	<u>\$ 4,819,810</u>	<u>\$ (216,749)</u>
Fund Balance – October 1, 2006	<u>1,387,202</u>	<u>1,387,202</u>		
Total Budget	<u>\$ 5,322,442</u>	<u>\$ 5,990,263</u>		

Other Supplementary Information

Benzie County Road Commission

Analysis of Changes in Fund Balances For the Year Ended September 30, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 2,517,640	\$ 1,278,035	\$ 1,180,303	\$ 4,975,978
Total Expenditures	<u>2,473,390</u>	<u>1,451,846</u>	<u>894,574</u>	<u>4,819,810</u>
Excess of Revenues Over (Under) Expenditures	44,250	(173,811)	285,729	156,168
Optional Transfers In (Out)	<u>(173,811)</u>	<u>173,811</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(129,561)	-	285,729	156,168
Fund Balance – October 1, 2006	<u>609,911</u>	<u>-</u>	<u>777,291</u>	<u>1,387,202</u>
Fund Balance – September 30, 2007	<u>\$ 480,350</u>	<u>\$ -</u>	<u>\$ 1,063,020</u>	<u>\$ 1,543,370</u>

Benzie County Road Commission

Analysis of Revenues For the Year Ended September 30, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ -	\$ -	\$ 15,090	\$ 15,090
Federal Sources				
STP	260,959	-	-	260,959
Other	62,630	-	-	62,630
Enhancement	361,430	-	-	361,430
State Sources				
Michigan Transportation Fund				
Engineering	6,399	3,601	-	10,000
Primary Road	1,544,089	-	-	1,544,089
Local Road	-	868,604	-	868,604
Snow Removal	96,778	54,462	-	151,240
Economic Development Fund				
Forest Road	43,217	-	-	43,217
Rural Primary	46,973	-	-	46,973
Other	78,288	-	-	78,288
Contributions from Local Units				
Townships	-	64,350	-	64,350
Other	-	229,060	-	229,060
Charges for Services				
State Trunkline - Maintenance	-	-	853,594	853,594
- Nonmaintenance	-	-	101,635	101,635
Salvage Sales	-	-	7,537	7,537
Other	-	-	40,276	40,276
Interest and Rents	16,877	-	28,260	45,137
Other Revenue				
Other	-	57,958	19,406	77,364
Gain on Disposals	-	-	13,950	13,950
Other Financing Sources				
Installment Proceeds	-	-	100,555	100,555
Total Revenue	\$ 2,517,640	\$ 1,278,035	\$ 1,180,303	\$ 4,975,978

Benzie County Road Commission

Analysis of Expenditures For the Year Ended September 30, 2007

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road Preservation	\$ 1,361,563	\$ -	\$ -	\$ 1,361,563
Maintenance	951,533	-	-	951,533
Local Road Preservation	-	358,036	-	358,036
Maintenance	-	1,000,499	-	1,000,499
State Trunkline Maintenance	-	-	823,604	823,604
State Trunkline Nonmaintenance	-	-	101,635	101,635
Equipment Expense – Net	23,658	26,592	25,553	75,803
Administrative Expense – Net	136,636	66,719	-	203,355
Capital Outlay – Net	-	-	(348,213)	(348,213)
Debt Service				
Debt Principal Payments	-	-	273,028	273,028
Interest Expense	-	-	18,967	18,967
Total Expenditures	<u>\$ 2,473,390</u>	<u>\$ 1,451,846</u>	<u>\$ 894,574</u>	<u>\$ 4,819,810</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
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DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

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

Board of County Road Commissioners
Benzie County Road Commission
Honor, Michigan 49640

We have audited the financial statements of the governmental activities and major fund, of the Benzie County Road Commission as of and for the year ended September 30, 2007, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated January 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Benzie County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control over financial reporting. We consider the deficiencies described in 07-1 and 07-2 in the accompanying schedule of findings and 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 Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Benzie County Road Commission in a separate letter dated January 3, 2008

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



Anderson, Tackman & Company, PLC
Certified Public Accountants

January 3, 2008

Benzie County Road Commission**Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2007**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Project</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF TRANSPORTATION:				
Pass-Through Programs from the State of Michigan Department of Transportation (MDOT)				
Grace Road from Forrester Road to US 31	20.205	STP 0710(001)	35549	\$ 323,589
Grace Road from Forrester Road to US 31	20.205	STP 0710(004)	88910	<u>361,430</u>
Subtotal MDOT Administered Awards				<u>685,019</u>
Total U.S. Department of Transportation				<u>685,019</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 685,019</u>

Section II – Financial Statement Findings

SIGNIFICANT DEFICIENCIES

Inability of Management to Prepare 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.

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

Condition: Personnel responsible for financial reporting are not monitoring and reporting interim or annual financial activity without auditor intervention.

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

Cause: Unknown.

Recommendation: The Commission should review and implement the necessary education and procedural activities to monitor and report annual financial activity in accordance with generally accepted accounting principles for Governmental Units.

Planned Corrective Action: As a result of limited funding, the Commission does not have resources to fund this process. We intend to re-evaluate once funding becomes available for the additional reporting and monitoring.

- Contact Person(s) Responsible for Correction:
Robert Weaver, Manager

Section II – Financial Statement Findings

NONCOMPLIANCE WITH STATE STATUTES

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 07-2

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

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

During the fiscal year ended September 30, 2007, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 27 of the financial statements.

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

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

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

- Contact Person(s) Responsible for Correction:
Robert Weaver, Manager



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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REPORT TO MANAGEMENT

Members of the Board of County Road Commissioners
Benzie County Road Commission
11318 Main Street
Honor, Michigan 49640

We have audited the basic financial statements of the Benzie County Road Commission for the year ended September 30, 2007, and have issued our report thereon dated January 3, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

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

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

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Benzie County Road Commission are described in Note 1 to the financial statements. We noted no transactions entered into by the Benzie County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, of transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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.

Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Benzie County Road Commission that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements.

Disagreement with Management

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

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 Road's financial statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

Comments and Recommendations

Purchase Orders

All purchase orders should be signed and provided to the Clerk prior to ordering according to good procedure. This procedure would notify the clerk of capital outlay expenditures which must be capitalized in the records.

Reoccurring Billings

Although management reviews significant or stock purchases and indicates approval by initial, reoccurring billings for utilities, small supplies, etc. do not indicate approval by initial. To strengthen controls over disbursements and indicate management authorization of all disbursements, initials should be written on all invoices to avoid duplicate payments and indicate the authorizer of payment.

Check Review

Issued checks require only one signature by board procedure. Additionally, the check signing process allows, at times, individuals to sign checks made to themselves as the payee. To avoid potential conflicts and strengthen the review process of cancelled checks, checks should not be signed by the payee and two signatures should be indicated on all checks.

Auto Use

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

Fraud Policy

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

Certificates of Deposit

MCL 247.662(12) requires that deposits of MTF must be deposited in a separate account payable to the Road Commission. To assure county road funds and investments are under the control of Board of County Road Commissioners, certificates should be issued in the Road Commission name. This would assure that road funds are only used for road commission purposes, held by the County.

Policy and Procedure Manual

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

Limitations in Internal Controls

The perfect internal control system does not exist. Staffing limitations can hamper establishing the necessary segregation of duties, especially for small units in a period of shrinking budgets. The potential for human error is always present and can be limited, but never eliminated. There will always be those that will specifically try to circumvent the system to their benefit regardless of the sufficiency of the internal control. Collusion between employees, officials, vendors, and other third parties can bypass an appropriately designed segregation of duties. Internal controls need to be designed to reduce the risks associated with undetected errors or misappropriation to a manageable level without making day to day operations inefficient and cumbersome or too costly. The cost of implementing a specific control should not exceed the expected benefit of the control. In analyzing the pertinent costs and benefits, management must consider the possible ramifications for the local unit, as a whole, and attempt to identify and weigh the intangible as well as tangible consequences.

GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions (Prior Year)

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 Benzie County Road Commission required to implement the Statement for the year ended September 30, 2009. GASB Statement 45 will impact the future accounting of post-employment health insurance costs as it relates to the amount the Commission will be required to fund these benefits. Beginning in 2009, the Commission 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 the 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.

Status: During fiscal 2007, the Board reported the actuarially accrued liability and implemented a funding plan.

Conclusion

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

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

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC". The signature is written in a cursive, flowing style.

Anderson, Tackman & Company, PLC
Certified Public Accountants

January 3, 2008