

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 Branch County Road Commission		County Branch	
Fiscal Year End December 31, 2007		Opinion Date May 27, 2008		Date Audit Report Submitted to State May 28, 2008			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

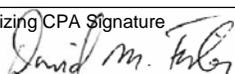
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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) Rehmann Robson			Telephone Number 517-787-6503	
Street Address 675 Robinson Road			City Jackson	State MI
			Zip 49203	
Authorizing CPA Signature 		Printed Name David M. Fisher, CPA		License Number 10337

**BRANCH COUNTY ROAD
COMMISSION**
(a Component Unit of Branch County)



Coldwater, Michigan

FINANCIAL STATEMENTS

For The Year Ended December 31, 2007



REHMANN ROBSON

Certified Public Accountants

BRANCH COUNTY ROAD COMMISSION
(a Component Unit of Branch County)

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

May 27, 2008

Members of the Board of County
Road Commissioners
County of Branch, Michigan
Coldwater, Michigan

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 the major fund of the **Branch County Road Commission** as of December 31, 2007, and the respective changes in financial position thereof and the budgetary comparison for the general fund 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 Branch County Road Commissions' 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 pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 which collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Branch County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Branch County Road Commission, we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2007.

Financial Highlights

The Branch County Road Commission met the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34 beginning with fiscal year end December 31, 2003.

Net assets may, over time, enable governmental agencies to determine their overall fiscal position. As shown on the Branch County Road Commission Net Asset chart below, the Road Commission's assets exceeded liabilities by \$29,991,959 at the end of the fiscal year. There was an increase of \$1,084,310 in net assets during 2007.

The general operating fund had a decrease in fund balance for the year of \$433,124. Total fund balance is \$815,928.

The Road Commission in 2007 had no new debt issued in the form of a lease purchase agreement, and made total scheduled principal payments amounting to \$175,774.

Overview of the Financial Statements

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

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Statements

The *statement of net assets* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of the Commission's overall fiscal position.

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

Both of the component unit financial statements distinguish the function of the Commission which is principally supported by state shared revenues (operating grants). The governmental activities of the Commission include providing construction, repair, maintenance, and snow removal of roads within Branch County.

The government-wide financial statements include only the Commission itself (known as the *Primary government*). The Commission has no legally separate component units for which the Commission is financial accountable. In this report, financial information for the Commission is reported separately from the financial information presented for Branch County which reports the Commission as a component unit.

Fund financial statements. A *fund* is grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Commission is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statement's it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Commission adopts an annual appropriated budget for its fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the commission’s financial statements. The notes to the financial statements are considered to be part of the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Condensed Statement of Net assets:	<u>2006</u>	<u>2007</u>
Current and other asset	\$ 1,652,617	\$ 1,656,469
Capital assets	<u>28,239,050</u>	<u>29,586,597</u>
Total assets	<u>29,891,667</u>	<u>31,243,066</u>
Long-term liabilities outstanding	<u>578,144</u>	<u>840,541</u>
Other liabilities	<u>405,874</u>	<u>410,566</u>
Total liabilities	<u>984,018</u>	<u>1,251,107</u>
Net assets:		
Invested in capital assets	27,955,955	29,479,276
Unrestricted	<u>951,694</u>	<u>512,683</u>
Total net assets	<u>\$28,907,649</u>	<u>\$29,991,959</u>

Condensed Statement of Activities:	<u>2006</u>	<u>2007</u>
Revenue		
Permits	\$ 16,815	\$ 16,005
Federal Sources	397,677	584,864
State Sources	5,291,761	5,601,317
Local Sources	577,702	811,820
Charges for Services	1,074,615	1,200,496
Interest and Rentals	20,652	18,815
Other	<u>112,447</u>	<u>112,416</u>
Total revenue	<u>7,491,669</u>	<u>8,345,733</u>
Expenses		
Public Works	6,674,157	7,251,234
Debt Service - Interest only	<u>11,917</u>	<u>10,189</u>
Total expenses	<u>6,686,074</u>	<u>7,261,423</u>
Increase (decrease) in net assets	805,595	1,084,310
Net assets, beginning of year	<u>28,102,054</u>	<u>28,907,649</u>
Net assets, end of year	<u>\$28,907,649</u>	<u>\$29,991,959</u>

Governmental activities. Governmental activities increased the Commission's net assets by \$1,084,310 during fiscal year 2007, primarily due to the effect of capital outlays exceeding depreciation expense by approximately \$1,377,000.

Fund Level Financial Statements -

As of the end of the current fiscal year, the Commission's governmental funds reported combined ending fund balances of \$815,928 a decrease of \$433,124 during 2007. Approximately 31% of this total amount (\$254,768) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to inventory purchases, which is included as a fund asset. The unreserved fund balance of the general fund of approximately \$255,000 represents 2.9% of total general fund expenditures. There was an excess of expenditures over revenues at the fund level in 2007 due to ongoing expenditures, including fuel and utility costs, exceeding revenues. Michigan Transportation funding has declined slightly over the past few fiscal years, which also contributed to the 2007 results.

General Fund Budgetary Highlights

The Road Commission amended its 2007 budget during the year to reflect an increase in revenues as result of receiving funds for Federal Safety Projects and State Critical Bridge Funds, decreased Michigan Transportation Funds, and higher expenses due to increased fuel and material costs.

Capital Assets and Debt Administration

Capital assets

Capital assets in total, net of accumulated depreciation, increased from \$28,239,050 to \$29,586,597 due primarily to infrastructure additions during the year of approximately \$2,914,000; a new salt shed costing \$845,000 and road equipment purchases of nearly \$334,000. Major equipment items included the purchase of three pickup trucks totaling approximately \$73,000 and an end loader for approximately \$206,000. More detailed information of capital assets can be found in Note 3 in the financial statements following.

Long-term debt

In 2007, Long-term debt was decreased by \$175,774 for payments of scheduled principal on existing installment loans. Total long-term debt was \$410,566 at December 31, 2007. More detailed information of capital assets can be found in Note 4 in the financial statements following.

Economic Factors and Road Fund Budgetary Highlights

During fiscal year, 2008, we do not anticipate an increase in MTF funds due to the stagnant Michigan economy and the reduced weight and gas taxes received for distribution. The higher fuel and utility costs, as well as significant increases in raw materials and equipment, will continue to impact Commission resources.

Also, the reduction in revenue sharing to townships has resulted in less revenue available for construction projects to the Road Commission.

Requests for Information

This financial report is designed to provide a general overview of Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Manager, Branch County Road Commission, 23 E. Garfield Avenue, Coldwater, MI 49036.

BASIC FINANCIAL STATEMENTS

BRANCH COUNTY ROAD COMMISSION

STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

DECEMBER 31, 2007

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash and interest bearing deposits	\$ 171,852	\$ -	\$ 171,852
Accounts receivable			
Motor vehicle highway funds	649,871	-	649,871
State Trunkline Maintenance	242,989	-	242,989
Other	30,597	-	30,597
Inventories			
Road materials	330,004	-	330,004
Equipment material and parts	231,156	-	231,156
Capital assets			
Assets not being depreciated	-	3,383,335	3,383,335
Assets being depreciated, net	-	26,203,262	26,203,262
Total assets	\$ 1,656,469	29,586,597	31,243,066
LIABILITIES			
		-	
Accounts payable	\$ 404,820	-	404,820
Accrued liabilities	82,132	-	82,132
Deferred/unearned revenue	57,173	-	57,173
Short term advances	296,416	-	296,416
Long-term liabilities			
Due within one year	-	122,522	122,522
Due after one year	-	288,044	288,044
Total liabilities	840,541	410,566	1,251,107
Fund Balance/Net Assets			
Fund balance			
Reserved for inventories	561,160	(561,160)	-
Unreserved, undesignated	254,768	(254,768)	-
Total fund balance	815,928	(815,928)	-
Total liabilities and fund balance	\$ 1,656,469		
Net Assets			
Invested in capital assets, net of related debt		29,479,276	29,479,276
Unrestricted		512,683	512,683
Total net assets		\$ 29,991,959	\$ 29,991,959

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

BRANCH COUNTY ROAD COMMISSION

Reconciliation of General Fund Balance Sheet to Statement of Net Assets

DECEMBER 31, 2007

Fund balances - General Fund	\$ 815,928
Amounts reported for <i>governmental activities</i> 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.	29,586,597
Long - term liabilities are not due and payable in the current period and are not reported in the funds:	
Installment lease purchase agreements payable	(107,321)
Certain liabilities, such as compensated absences and accrued interest, are not due and payable in the current period and therefore are not reported in the funds:	
Deduct - compensated absences payable	<u>(303,245)</u>
Net assets of governmental activities	<u><u>\$ 29,991,959</u></u>

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

BRANCH COUNTY ROAD COMMISSION

**STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE**

FOR THE YEAR ENDED DECEMBER 31, 2007

	General Operating Fund	Adjustments	Statement of Activities
	<u> </u>	<u> </u>	<u> </u>
EXPENDITURES/EXPENSES			
Current:			
Public works	\$ 8,590,585	\$ (1,339,351)	\$ 7,251,234
Debt service:			
Principal	175,774	(175,774)	-
Interest	12,498	(2,309)	10,189
	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENDITURES/EXPENSES	<u>8,778,857</u>	<u>(1,517,434)</u>	<u>7,261,423</u>
 PROGRAM REVENUES			
Charges for services	2,115,737	-	2,115,737
Operating grants and contributions	5,626,317	-	5,626,317
Capital grants and contributions	584,864	-	584,864
	<u> </u>	<u> </u>	<u> </u>
TOTAL PROGRAM REVENUES	<u>8,326,918</u>	<u>-</u>	<u>8,326,918</u>
 NET PROGRAM REVENUES			1,065,495
 GENERAL REVENUES			
Interest earned	18,815	-	18,815
	<u> </u>	<u> </u>	<u> </u>
NET CHANGE IN FUND BALANCE	(433,124)	433,124	
 CHANGES IN NET ASSETS			1,084,310
 FUND BALANCE/NET ASSETS,			
Beginning of year	<u>1,249,052</u>	<u>-</u>	<u>28,907,649</u>
 FUND BALANCE/NET ASSETS, End of year	<u><u>\$ 815,928</u></u>	<u><u>\$ 433,124</u></u>	<u><u>\$ 29,991,959</u></u>

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

BRANCH COUNTY ROAD COMMISSION

Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2007

Net change in fund balance - General Fund \$ (433,124)

Amounts reported for *governmental activities* in the statement of activities
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 and reported as depreciation expense.

Add - capital outlay additions not being depreciated	52,570
Add - capital outlay additions being depreciated	4,072,916
Deduct - depreciation expense	(2,748,845)
Deduct - loss on disposition of capital assets	(29,094)

Installment lease contract proceeds provide current financial resources to governmental
funds, but issuing debt increases long-term liabilities in the statement of net assets.
Repayment of debt principal is an expenditure in the funds but not in the statement
of activities:

Add: lease purchase installment payments	175,774
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Some expenses reported in the statement of activities do not require the use of current
financial resources and therefore are not reported as expenditures in the funds:

Deduct: increase in compensated absences	(8,196)
Add: decrease in accrued interest payable	2,309

Change in net assets of governmental activities	<u><u>\$ 1,084,310</u></u>
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The accompanying notes are an integral part of these financial statements.

BRANCH COUNTY ROAD COMMISSION

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2007

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
REVENUE				
Permits	\$ 18,000	\$ 15,500	\$ 16,005	\$ 505
Intergovernmental:				
Federal sources	1,200,000	1,362,000	584,864	(777,136)
State sources	4,375,000	4,416,200	5,601,317	1,185,117
Local sources	600,000	812,000	811,820	(180)
Charges for services	1,504,000	1,410,000	1,200,496	(209,504)
Interest and rentals	15,000	18,000	18,815	815
Transfer from primary government	25,000	25,000	25,000	-
Other	550,000	630,000	87,416	(542,584)
TOTAL REVENUE	8,287,000	8,688,700	8,345,733	(342,967)
EXPENDITURES				
Current:				
Primary heavy maintenance	2,900,000	1,900,000	1,978,670	78,670
Local heavy maintenance	900,000	940,000	906,225	(33,775)
Primary maintenance	1,900,000	2,800,000	2,760,810	(39,190)
Local maintenance	1,100,000	1,200,000	1,108,646	(91,354)
Trunkline maintenance	1,250,000	1,350,000	1,419,396	69,396
Equipment - net	(350,000)	(500,000)	(465,327)	34,673
Administrative - net	400,000	450,000	382,582	(67,418)
Capital outlay - net	(130,000)	460,000	554,849	94,849
Debt service	235,000	161,500	188,272	26,772
Other	250,000	10,000	(55,266)	(65,266)
TOTAL EXPENDITURES	8,455,000	8,771,500	8,778,857	7,357
REVENUES UNDER EXPENDITURES	(168,000)	(82,800)	(433,124)	(350,324)
OTHER FINANCING SOURCES				
Proceeds from installment lease	200,000	150,000	-	(150,000)
NET CHANGE IN FUND BALANCES	32,000	67,200	(433,124)	(500,324)
FUND BALANCE, Beginning of year	1,249,052	1,249,052	1,249,052	-
FUND BALANCE, End of year	\$ 1,281,052	\$ 1,316,252	\$ 815,928	\$ (500,324)

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

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Branch County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Reporting Entity

The Branch County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of Branch, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity”, for determining the reporting entity includes having significant financial or operational relationships. Based on the above criteria, these financial statements present the Branch County Road Commission, a discretely presented component unit of Branch County, and include the Road Commission’s General Operating Fund.

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

Basis of Presentation

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 primary government. *Governmental activities* are supported by charges for services and intergovernmental revenues.

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. Internally dedicated resources are reported as general revenues rather than as program revenues.

As permitted by GASB Statement No. 34, the Road Commission uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. The general fund is considered to be a major fund for financial reporting purposes.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are 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 (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible 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 not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

Budgetary Data

The governmental fund is under formal budgetary control. The budget shown in the financial statements was adopted on a basis consistent with generally accepted accounting principles (GAAP), which is the modified accrual basis used to reflect actual results, and consists only of those amounts contained in the formal budget as originally adopted or as amended by the Board of County Road Commissioners. The budget for the General Operating Fund is adopted on a functional basis, and in accordance with the Uniform Budgeting and Accounting Act as prescribed by the State of Michigan.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting, which is the same basis as the financial statements. Excess expenditures over budget at this level are disclosed on the Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – for the general fund.

Available revenues and underspending in other functional categories were used to offset overexpenditures in the general fund.

Inventory

Inventory consists of various operating parts, supplies, and road material, and the cost is recognized using the consumption method (inventories recorded as expenditures when they are used). Inventories are stated at average cost determined on a first-in, first-out method, except for road materials, which are determined on the average cost method, and are not in excess of fair value.

Fund Balance Reservations

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation.

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items), are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and with an estimated 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 donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (statement of general fund revenues, expenditures and changes in fund balance) and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Depreciation is recorded over the estimated useful lives (ranging from five to forty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

<u>Asset Category</u>	<u>Useful Life in Years</u>
Buildings and improvements	40
Equipment	5 to 10
Infrastructure	8 to 50

Deferred Compensation Plan

The Road Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Road Commission's financial statements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Significant bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

Under existing general Road Commission rules and regulations and its Labor Agreement, all regular full-time employees are eligible for paid leave in varying amounts based on number of years of service completed by each employee as of the preceding calendar year.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

2. CASH DEPOSITS AND INVESTMENTS

Deposits

At December 31, 2007, the amount of the Road Commission's deposits were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Petty cash	\$ 500	\$ -
Checking account – insured Held by Branch County *	-	36,860
Cash – bank money markets	<u>171,352</u>	<u>170,893</u>
	<u>\$ 171,852</u>	<u>\$ 207,753</u>

* Deposits of the Road Commission held by Branch County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

Investments

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the Road Commission to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the listing of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Road Commission has no investments at December 31, 2007.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on investment credit risk. The Road Commission has no investments at December 31, 2007.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. As of December 31, 2007, \$36,860 of the Road Commission's bank balance was entirely insured by the Federal Deposit Insurance Corporation. Deposits in the amount of \$170,893 held by Branch County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Road Commission does not have a policy for investment custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Road Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. The Road Commission has no investments at December 31, 2007.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	BALANCE - JANUARY 1, 2007	ADDITIONS	DELETIONS	BALANCE - DECEMBER 31, 2007
Capital assets not being depreciated:				
Land and improvements	\$ 49,980	\$ 10,393	\$ -	\$ 60,373
Land improvements - infrastructure	3,280,785	42,177		3,322,962
Total capital assets not being depreciated	3,330,765	52,570	-	3,383,335
Capital assets being depreciated:				
Depletable assets	626,798	-	-	626,798
Buildings	1,256,708	852,961	-	2,109,669
Equipment:				
Road	6,841,145	333,706	220,283	6,954,568
Shop	229,660	2,975	-	232,635
Office	101,162	11,814	-	112,976
Engineers	13,659	-	-	13,659
Yard and storage	819,800	-	-	819,800
Infrastructure	49,380,760	2,871,460	31,024	52,221,196
Subtotal	59,269,692	4,072,916	251,307	63,091,301
Accumulated depreciation and depletion				
Depletable assets	538,438	3,100	-	541,538
Buildings	920,321	39,609	-	959,930
Equipment:				
Road	5,523,820	519,992	191,189	5,852,623
Shop	213,856	7,702	-	221,558
Office	80,652	9,050	-	89,702
Engineers	7,320	1,590	-	8,910
Yard and storage	622,794	46,863	-	669,657
Infrastructure	26,454,205	2,120,940	31,024	28,544,121
Total accumulated depreciation and depletion	34,361,407	2,748,846	222,213	36,888,039
Total capital assets being depreciated - net	24,908,285	1,324,070	29,094	26,203,262
Governmental activities capital assets - net	\$ 28,239,050	\$ 1,376,640	\$ 29,094	\$ 29,586,597

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT

Long-term debt of the Road Commission consists of the following:

	Balance January 1, 2007	Increases	Decreases	Balance December 31, 2007	Due Within One Year
Installment lease					
purchase agreements	\$283,095	\$ -	\$ 175,774	\$ 107,321	\$ 74,522
Compensated absences	295,049	8,196	-	303,245	48,000
Totals	\$578,144	\$ 8,196	\$ 175,774	\$ 410,566	\$ 122,522

Lease Purchase Agreements

The Road Commission entered into one purchase agreement for certain equipment secured by the related equipment. Payment terms are as follows:

	Annual Payments	Interest Rate	Final Payment
2007 - 3 Trucks	\$33,435 to \$78,978	3.8%	7/09

Accrued Sick and Vacation

After the first year of employment, employees can earn one week of vacation. Thereafter employees earn one additional day of vacation per year, until a limit of four weeks is reached. Vacation leave may be accumulated up to a maximum of 1 week over the annual allotment, as of the employee's anniversary date.

Sick leave is earned at the rate of 12 days per year; a maximum of 62.5 days may be accumulated.

Excess sick leave earned above 62.5 days is then converted into personal days. Personal days can be accumulated up to a maximum of 12 days and are paid off on the employee's anniversary date.

Vacation, sick, and personal pay is payable in full when employment ceases.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The annual requirement to amortize the debt outstanding as of December 31, 2007, excluding sick and vacation leave payable, is as follows:

Year Ended December 31,	Lease Purchase		
	Principal	Interest	Total
2008	\$ 74,522	\$ 4,456	\$ 78,978
2009	<u>32,799</u>	<u>636</u>	<u>33,435</u>
Totals	<u>\$ 107,321</u>	<u>\$ 5,092</u>	<u>\$ 112,413</u>

5. DEFINED BENEFIT PENSION PLAN

The Road Commission contributes to the Branch County Pension Plan, which is a single-employer public employee's retirement system that covers all employees of the County, including Road Commission employees. The Plan is funded through the purchase of an Immediate Participation Guarantee (IPG) Group Annuity Contract with the John Hancock Mutual Life Insurance Company. Branch County's policy is to fund pension costs based on an actuarially determined rate of payroll. The portion of the Plan's actuarial accrued liability attributable solely to the Road Commission is not determinable. The Road Commission contributed \$167,523 to the Plan through the County for the year ended December 31, 2007.

A complete disclosure on the Branch County Pension Plan is presented within the County of Branch Comprehensive Annual Financial Report.

6. RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for property, fleet, umbrella, errors and omissions, and dishonesty bond. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for workers' compensation insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

7. CONTINGENCIES

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit. Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

8. SINGLE AUDIT

Governmental and certain other entities which expend \$500,000 or more of direct federal dollars are subject to a single audit in accordance with the OMB Circular A-133. The Road Commission expended \$584,864 of federal dollars, of which \$446,712 was passed through and administered by the Michigan Department of Transportation. The passed through monies will be included in the State of Michigan's single audit.

9. ECONOMIC DEPENDENCY

The Branch County Road Commission receives a substantial amount of its revenues from federal and state grants. A significant reduction in the level of this support, if this were to occur, could have an effect on the Branch County Road Commission's ability to continue its activities.

10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Road Commission provides postemployment health care benefits, in accordance with labor contracts and personnel policy. The Road Commission pays for health insurance from age 62 to 65. Currently, 5 retirees meet those eligibility requirements. Additionally, the Road Commission pays \$75 per month for association employees toward retirees' health insurance premiums after age 65. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due on a pay as you go basis. During the year, expenditures of \$59,637 for 5 individuals were recognized for postemployment health care.

The Governmental Accounting Standards Board has recently released Statement No. 45, "Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions." The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008. Management is currently assessing the impact of this new accounting standard on the Road Commission's financial statements for future reporting periods.

* * * * *

OPERATING FUND SCHEDULES

BRANCH COUNTY ROAD COMMISSION

DETAIL SCHEDULE OF REVENUE BUDGET AND ACTUAL GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Permits	\$ 15,500	\$ 16,005	\$ 505
Federal sources:			
Surface Transportation Program	1,362,000	\$ 584,864	(777,136)
Total Federal Sources	<u>1,362,000</u>	<u>584,864</u>	<u>(777,136)</u>
State sources:			
Motor Vehicle Highway Funds - Act 51:			
Engineering	5,200	5,233	33
Primary roads allocation	2,500,000	2,520,107	20,107
Local roads allocation	1,350,000	1,361,945	11,945
Primary urban roads	275,000	272,167	(2,833)
Local urban roads	25,000	25,174	174
Other	261,000	1,416,691	1,155,691
Total State Sources	<u>4,416,200</u>	<u>5,601,317</u>	<u>1,185,117</u>
Local sources:			
Township contributions	812,000	811,820	(180)
Total Local Sources	<u>812,000</u>	<u>811,820</u>	<u>(180)</u>
Charges for services:			
Maintenance contract	1,400,000	1,218,056	(181,944)
Salvage sales	10,000	9,829	(171)
Other	-	(27,389)	(27,389)
Total Charges for Services	<u>1,410,000</u>	<u>1,200,496</u>	<u>(209,504)</u>
Interest and rentals	18,000	18,815	815
County appropriation	25,000	25,000	-
Other:			
Other	600,000	-	(600,000)
Gain on equipment disposal	30,000	87,416	57,416
Total Other	<u>630,000</u>	<u>87,416</u>	<u>(542,584)</u>
TOTAL REVENUE	<u>\$ 8,688,700</u>	<u>\$ 8,345,733</u>	<u>\$ (342,967)</u>

BRANCH COUNTY ROAD COMMISSION

DETAIL SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Heavy maintenance:			
Primary roads and structures	\$ 1,900,000	\$ 1,978,670	\$ 78,670
Local roads and structures	940,000	906,225	(33,775)
Total Heavy Maintenance	<u>2,840,000</u>	<u>2,884,895</u>	<u>44,895</u>
Maintenance:			
Primary roads and structures, winter and traffic control	2,800,000	2,760,810	(39,190)
Local roads and structures, winter and traffic control	1,200,000	1,108,646	(91,354)
Total Maintenance	<u>4,000,000</u>	<u>3,869,456</u>	<u>(130,544)</u>
Trunkline:			
Maintenance	1,350,000	1,419,396	69,396
Total Trunkline	<u>1,350,000</u>	<u>1,419,396</u>	<u>69,396</u>
Equipment:			
Direct	1,000,000	1,021,033	21,033
Indirect	350,000	327,685	(22,315)
Operating	350,000	389,423	39,423
Less: Equipment rental	(2,200,000)	(2,203,468)	(3,468)
Total Equipment, net	<u>(500,000)</u>	<u>(465,327)</u>	<u>34,673</u>
Administrative:			
Administration	450,000	382,582	(67,418)
Total Administrative	<u>450,000</u>	<u>382,582</u>	<u>(67,418)</u>
Capital outlay:			
Land improvements, building and equipment	1,200,000	1,211,849	11,849
Less - Equipment retirements	(700,000)	(29,094)	
Less - Depreciation	(40,000)	(627,906)	(587,906)
Total Capital Outlay, net	<u>460,000</u>	<u>554,849</u>	<u>(576,057)</u>
Debt service:			
Principal retirement	150,000	175,774	25,774
Interest and fiscal charges	11,500	12,498	(998)
Total Debt Service	<u>161,500</u>	<u>188,272</u>	<u>26,772</u>
Other:			
Other	10,000	(55,266)	(65,266)
TOTAL EXPENDITURES	<u>\$ 8,771,500</u>	<u>\$ 8,778,857</u>	<u>\$ 7,357</u>

BRANCH COUNTY ROAD COMMISSION

SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>DESIGNATED</u>		<u>UNDESIGNATED</u>	<u>TOTAL</u>
	<u>PRIMARY ROAD FUND</u>	<u>LOCAL ROAD FUND</u>	<u>COUNTY ROAD FUND</u>	
REVENUE				
Permits	\$ -	\$ -	\$ 16,005	\$ 16,005
Intergovernmental:				
Federal sources	584,864	-	-	584,864
State sources	4,212,461	1,388,856	-	5,601,317
Local sources	-	811,820	-	811,820
Charges for services	-	-	1,200,496	1,200,496
Interest and rentals	-	-	18,815	18,815
County appropriation	-	-	25,000	25,000
Other	-	-	87,416	87,416
TOTAL REVENUE	<u>4,797,325</u>	<u>2,200,676</u>	<u>1,347,732</u>	<u>8,345,733</u>
EXPENDITURES				
Preservation - Structural improvements	1,978,670	906,225	-	2,884,895
Maintenance	2,760,810	1,108,646	-	3,869,456
Trunkline			1,419,396	1,419,396
Equipment - net	(227,405)	(125,499)	(112,423)	(465,327)
Administrative - net	268,455	114,127		382,582
Capital outlay - net	-	-	554,849	554,849
Debt principal	-	-	175,774	175,774
Interest and fiscal charges	-	-	12,498	12,498
Other	-	-	(55,266)	(55,266)
TOTAL EXPENDITURES	<u>4,780,530</u>	<u>2,003,499</u>	<u>1,994,828</u>	<u>8,778,857</u>
NET CHANGE IN FUND BALANCES	16,795	197,177	(647,096)	(433,124)
FUND BALANCE, Beginning of year	<u>322,444</u>	<u>-</u>	<u>926,608</u>	<u>1,249,052</u>
FUND BALANCE, End of year	<u><u>\$ 339,239</u></u>	<u><u>\$ 197,177</u></u>	<u><u>\$ 279,512</u></u>	<u><u>\$ 815,928</u></u>



**INDEPENDENT AUDITORS' 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**

May 27, 2008

Members of the Board of County
Road Commissioners
County of Branch, Michigan
Coldwater, Michigan

We have audited the financial statements of the governmental activities and the major fund of the **BRANCH COUNTY ROAD COMMISSION** as of and for the year ended December 31, 2007, and have issued our report thereon dated May 27, 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 Branch County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control over financial reporting.

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 Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control.

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 Road Commission's internal control.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Branch County Road Commission, in a separate letter dated May 27, 2008.

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

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

 an independent member of
BAKER TILLY
INTERNATIONAL

May 27, 2008

The Board of County Road Commissioners of
Branch County Michigan
Coldwater, Michigan

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 *Branch County Road Commission, a component unit of Branch County*, 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 Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated November 29, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on March 18, 2008.

Significant Audit Findings

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 Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 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 estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are 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. 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.

Disagreements 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 Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all 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.

This information is intended solely for the use of the governing body and management of the *Branch County Road Commission* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Lehmann Johnson".

Branch County Road Commission

Comments and Recommendations

For the Year Ended December 31, 2007

In planning and performing our audit of the financial statements of the Branch County Road Commission as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Road Commission's internal control over financial reporting (internal control) 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 's internal control. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control.

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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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 entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph 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 that we consider to be material weaknesses, as defined above.

Other matters

OPEB Liability

The Branch County Road Commission, as well as other governmental units which offer other post employment benefits (health and life insurance benefits to retirees, or "OPEB") are going to require recording the annual cost and liability in the annual financial statements. Up until this new accounting standard is implemented, governmental units, including the Commission, have been on a "pay as you go" or cash basis to reflect these costs in their financial statements. This accounting treatment stays in place for the Commission through the fiscal year ended December 31, 2007. Then, for fiscal year 2008, as a component unit of Branch County, this new reporting standard will require an actuarial report in order to determine funding requirements to force recording of a liability while service is rendered (normal cost), plus an adjustment for past service costs (called amortization of actuarial accrued liability).

Branch County Road Commission

Comments and Recommendations (Concluded)

For the Year Ended December 31, 2007

The amount of the annual "ARC" expense must be recorded on each entity's financial statements. To the extent that this annual "ARC" amount is not currently funded, the under-funding must be reported on the entity's balance sheet as a liability.

This comment is intended as an informational point. Accordingly, the Road Commission should make sure all preparations and forecasts are addressed in 2008 in order to comply with this new standard.

Computer Passwords

We understand that computer passwords at the network and financial accounting software level are not changed on a regular basis. In order to reduce the risk of access to computer files by unauthorized personnel, we recommend that the Road Commission institute a policy that requires passwords to be changed on a regular basis. For the size and complexity of Branch County Road Commission, once every six months would be adequate. The Road Commission may also wish to investigate building into its software automatic expiration of passwords to ensure that they are changed periodically.

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