

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 Clare County Road Commission		County Clare	
Fiscal Year End 9/30/07		Opinion Date 2/15/08		Date Audit Report Submitted to State 3/25/08			

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) James M. Anderson, P.C.			Telephone Number (989) 563-2450		
Street Address P.O. Box 255		City Roscommon		State MI	Zip 48653
Authorizing CPA Signe 		Printed Name James M. Anderson, CPA		License Number 1101017419	

Digitally signed by James M. Anderson, CPA
DN: cn=James M. Anderson, CPA, o=US, ou=James M. Anderson, P.C., email=jma@m33access.com
Date: 2008.03.25 23:03:29 -0400

**CLARE COUNTY ROAD COMMISSION
FINANCIAL REPORT
SEPTEMBER 30, 2007**

CLARE COUNTY

BOARD OF COUNTY ROAD COMMISSIONERS

Donald Armentrout
Commissioner

Michael Duggan
Commissioner

Tim Haskin
Commissioner

Steven R. Stocking
Engineer-Manager

Kim Kimmel
Finance Director

Kathy Duynslager
Board Secretary

CLARE COUNTY ROAD COMMISSION

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James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

February 15, 2008

Board of County Road Commissioners
Clare County Road Commission
Harrison, MI 48625

I have audited the accompanying financial statements of the governmental activities and major fund of the Clare County Road Commission, a component unit of the County of Clare, 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 Road Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major fund of the Clare County Road Commission as of September 30, 2007, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated February 15, 2008, on my consideration of the Clare County Road Commission's internal control over financial reporting and on my 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 my 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

MEMBER MACPA and AICPA

The management's discussion and analysis on pages 3 to 8 and budgetary comparisons on pages 28 and 29 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. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Clare County Road commission's basic financial statements. The supplemental statements 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 Clare County Road Commission. The other information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "James M. Anderson".

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

CLARE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007

Our discussion and analysis of Clare County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the fiscal year ended September 30, 2007. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the road commission's operations in more detail than a government-wide financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two types of statements that present different views of the road Commission:

The first statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities. This is one way to measure the Road Commission's financial health or position.

The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

REPORTING THE ROAD COMMISSION AS A WHOLE

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's 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 current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

CLARE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2007

The two statements, mentioned above, report the road commission's net assets and how they have changed. 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, respectively. To assess the overall health of the road commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the road commission's roads, and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

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

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 its 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 Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE

The road commission's net assets increased 2.45% from \$27,775,159 to \$28,456,817 as of September 30, 2007. The net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) by creditors, grantors, contributors, or laws or regulations of other governments; b) by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used for only the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

CLARE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2007

The investment in capital assets, net of related debt, was \$26,674,491 at September 30, 2006 and \$27,087,883 as of September 30, 2007. The increase in net assets is primarily the result of capitalizing infrastructure of \$2,179,514 and equipment purchases. The restricted net assets increased by \$268,266 during the current year.

Net assets as of year ended September 30, 2007 and September 30, 2006.

	<u>9/30/07</u>	<u>9/30/06</u>	<u>Increase/ Decrease</u>
Current and Other Assets	\$ 2,007,864	\$ 1,794,998	\$ 212,866
Capital Assets (Net)	<u>27,469,408</u>	<u>27,410,028</u>	<u>59,380</u>
Total Assets	<u>29,477,272</u>	<u>29,205,026</u>	<u>272,246</u>
Long-Term Debt Outstanding	396,013	583,502	(187,489)
Other Liabilities	<u>624,442</u>	<u>846,365</u>	<u>(221,923)</u>
Total Liabilities	<u>1,020,455</u>	<u>1,429,867</u>	<u>(409,412)</u>
Net Assets			
Invested in Capital Assets Net of Related Debt	27,087,883	26,674,491	413,392
Restricted	<u>1,368,934</u>	<u>1,100,668</u>	<u>268,266</u>
Total Net Assets	<u>\$28,456,817</u>	<u>\$27,775,159</u>	<u>\$ 681,658</u>

Changes in Net Assets

A summary of changes in net assets follows:

	<u>9/30/07</u>	<u>9/30/06</u>	<u>Increase/ Decrease</u>
Revenues			
Federal Grants	\$ 789,046	\$ 32,770	\$ 756,276
State Grants	4,019,723	3,783,608	236,115
Contributions from Local Units	541,978	1,493,007	(951,029)
Charges for Services	873,905	792,582	81,323
Interest and Rents	67,153	34,069	33,084
Gain on Equipment Disposal	<u>64,282</u>	<u>257,307</u>	<u>(193,025)</u>
Total Program Revenue	<u>6,356,087</u>	<u>6,393,343</u>	<u>(37,256)</u>
Expenditures			
Public Works	5,638,001	5,599,506	38,495
Interest Expense	<u>36,428</u>	<u>54,694</u>	<u>(18,266)</u>
Total Expenditures	<u>5,674,429</u>	<u>5,654,200</u>	<u>20,229</u>
Increase (Decrease) in Net Assets	<u>\$ 681,658</u>	<u>\$ 739,143</u>	<u>\$ (57,485)</u>

CLARE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2007

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.

A summary of changes in the Operating Fund is as follows:

	<u>9/30/07</u>	<u>9/30/06</u>	<u>Increase/ Decrease</u>
Revenues			
Federal Grants	\$ 789,046	\$ 32,770	\$ 756,276
State Grants	4,019,723	3,783,608	236,115
Contributions from Local Units	541,978	1,493,007	(951,029)
Charges for Services	873,905	762,287	111,618
Interest and Rents	43,701	34,069	9,632
Other Revenue	23,452	30,295	(6,843)
Gain on Equipment Disposal	<u>64,282</u>	<u>257,307</u>	<u>(193,025)</u>
Total Program Revenue	<u>6,356,087</u>	<u>6,393,343</u>	<u>(37,256)</u>
Expenditures			
Public Works	5,936,412	6,007,273	(70,861)
Net Capital Outlay	(246,535)	198,163	(444,698)
Debt Service	<u>390,440</u>	<u>457,790</u>	<u>(67,350)</u>
Total Expenditures	<u>6,080,317</u>	<u>6,663,226</u>	<u>(582,909)</u>
Excess of Revenues Over (Under) Expenditures	275,770	(269,883)	545,653
Fund Balance - October 1	<u>1,302,645</u>	<u>1,572,528</u>	<u>(269,883)</u>
Fund Balance - September 30	<u>\$ 1,578,415</u>	<u>\$ 1,302,645</u>	<u>\$ 275,770</u>

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 final amended revenue budget for 2007 was \$191,000 higher than the original budget primarily due to an expected increase in local township contributions.

The final amended expenditure budget for 2007 was \$191,000 higher than the original budget primarily due to an increase in heavy maintenance and an increase in state trunk line maintenance. The actual expenditures incurred during 2007 were less than the final amended budget by \$1,989,683 primarily due to critical bridge projects that were not funded. There were two unfavorable variance in expenditure line items.

CLARE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2007

Capital Assets

As of the respective year ends, the road commission had invested the following in net capital assets:

	<u>9/30/07</u>	<u>9/30/06</u>	<u>Increase/ Decrease</u>
Capital assets not being depreciated:			
Land and improvements	\$ 187,883	\$ 187,883	\$ -0-
Subtotal	<u>187,883</u>	<u>187,883</u>	<u>-0-</u>
Capital assets being depreciated:			
Buildings	1,095,959	1,090,959	5,000
Equipment - Road	5,620,414	5,656,604	(36,190)
Equipment - Shop	149,891	126,030	23,861
Equipment - Office	102,349	99,494	2,855
Equipment - Engineering	39,177	39,177	-0-
Equipment - Yard & Storage	102,663	102,663	-0-
Infrastructure - Bridges	5,765,119	5,729,084	36,035
Infrastructure - Roads	<u>37,656,407</u>	<u>35,512,928</u>	<u>2,143,479</u>
Subtotal	<u>50,531,979</u>	<u>48,356,939</u>	<u>2,175,040</u>
Total Capital Assets	<u>50,719,862</u>	<u>48,544,822</u>	<u>2,175,040</u>
Total Accumulated Depreciation	<u>23,250,454</u>	<u>21,134,794</u>	<u>2,115,660</u>
Total Net Capital Assets	<u>\$27,469,408</u>	<u>\$27,410,028</u>	<u>\$ 59,380</u>
Debt related to capital assets - bonds and installment note		<u>\$ 381,525</u>	

The Road Commission capitalized infrastructure and related assets during the current year in the amount of \$2,179,514. The infrastructure recorded, during 2007 will be depreciated in the following years. The infrastructure is financed through Federal, State and local contributions.

Debt

At the year end, the road commission had \$310,000 in bonds, and \$71,525 in installment notes payable totaling \$381,525. This represents a decrease of \$354,012 from 2006. The bonds are payable over a four year period with a final payment due August 1, 2010. The installment note is scheduled to be paid in full in 2011. Other long-term debt is accrued vacation and sick pay leave.

CLARE COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2007

Economic Factors and Next Year's Budget

The Road Commission as a Whole - Shrinking revenues will impact many of the road commissions' decisions in 2008. Following a 1% decline in the Michigan Transportation Fund (MTF) in 2007, the MTF is expected to be 4% less for 2008. Coupled with inflation at roughly 2% annually, the real purchasing power of the MTF has steadily eroded since the last state gas tax increase in 1997. Cutbacks are anticipated across the board in order to develop a balanced budget.

Federal and State Funded Road Projects - 2008 will be a year for bridges funded through the Federal and State Critical Bridge Program. The Muskegon Road Bridge, postponed from 2007, in Summerfield Township, and the Rodgers Avenue and Brand Avenue Bridges in Arthur Township are scheduled for replacement. State funded road work is repayment of the Beaverton Road overlay completed in the fall of 2007 under the "Local Jobs Today" program.

Township Work - Projects constructed in cooperation with the townships include Maple Grove Road in Surry Township; Jackson Avenue and West Park Drive in Lincoln Township; Ashard Road in Freeman Township; and gravel projects in Winterfield and Frost Townships. Clearing work will occur on Hoover Avenue in Arthur Township. An Intersection Safety Project (warning beacon) is planned for Old State Avenue and Surrey Road.

Capital Assets - The Road Commission purchased a new loader and low boy trailer in 2007. Projected purchases for 2008 include 2 blade trucks, pickups, an emergency generator, and minor equipment such as plows and sanders.

Next Year's Forecast - As outlined above, with real revenue in decline, 2008 will continue to see reductions in all areas. The road commission is unable to provide matching funds for township construction resulting in a waiting list that is growing longer each year. Increasing health care cost and significant contributions to the pension plan indicate a decreasing work force through attrition.

Closing - This financial report is intended to provide our citizens, taxpayers and the general public with a general overview of the road commission's finances and how they are being spent.

CLARE COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

ASSETS

Cash	\$ 603,029
Investments	90,097
Accounts receivable	
Michigan Transportation Fund	617,569
State - Trunkline maintenance	146,549
Due on County Road Agreements	227,410
Sundry Accounts	14,862
Inventories	
Road Materials	125,600
Equipment Parts and Materials	182,748
Capital Assets (Net of Accumulated Depreciation)	<u>27,469,408</u>
Total Assets	<u>29,477,272</u>

LIABILITIES

Current Liabilities:	
Accounts payable	148,487
Accrued liabilities	24,644
Advances from MDOT	256,318
Bonds Payable	180,000
Installment Purchase Agreements Payable	14,993
Non Current Liabilities:	
Bonds Payable	130,000
Installment Purchase Agreements Payable	56,532
Vested Employee Benefits Payable	<u>209,481</u>
Total Liabilities	<u>1,020,455</u>

NET ASSETS

Investment in Capital Fixes Assets	
Net of Related Debt	27,087,883
Restricted for County Roads	<u>1,368,934</u>
Total Net Assets	<u>\$ 28,456,817</u>

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

CLARE COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Program Expenses	
Primary Road Maintenance	\$ 767,620
Local Road Maintenance	1,932,240
State Trunkline Maintenance	857,073
Net Equipment Expense	(70,604)
Net Administrative Expense	270,569
Infrastructure Depreciation	1,873,599
Compensated Absences	7,504
Interest Expense	<u>36,428</u>
Total Program Expenses	<u>5,674,429</u>
Program Revenue	
Federal Grants	789,046
State Grants	4,019,723
Contributions from Local Units	541,978
Charges for Services	873,905
Investment Earnings	<u>67,153</u>
Total Program Revenue	<u>6,291,805</u>
Net Program Revenue	<u>617,376</u>
General Revenue	
Gain on Equipment Disposal	<u>64,282</u>
Total General Revenues	<u>64,282</u>
Change in Net Assets	681,658
Net Assets	
Beginning of Year	<u>27,775,159</u>
End of Year	<u><u>\$ 28,456,817</u></u>

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

CLARE COUNTY ROAD COMMISSION
BALANCE SHEET
SEPTEMBER 30, 2007

	<u>Governmental</u>	<u>Fund Type</u>
	<u>General</u>	<u>Operating</u>
ASSETS		
Imprest cash	\$	250
Cash demand and time deposits		602,779
Investments		90,097
Accounts receivable:		
Due from state		764,118
Due from townships		227,410
Sundry		14,862
Inventories		<u>308,348</u>
Total Assets	\$	<u><u>2,007,864</u></u>
LIABILITIES AND FUND EQUITY		
Accounts payable	\$	148,487
Accrued liabilities		24,644
Advances from governmental units		<u>256,318</u>
Total Liabilities		<u>429,449</u>
Fund Equity:		
Fund Balance:		
Undesignated		<u>1,578,415</u>
Total Fund Equity		<u>1,578,415</u>
Total Liabilities and Fund Equity	\$	<u><u>2,007,864</u></u>

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

CLARE 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	\$ 1,578,415
Amounts reported for governmental activities in the statement of new assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	27,469,408
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	<u>(591,006)</u>
Net assets of governmental activities	<u>\$ 28,456,817</u>

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

CLARE COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
SEPTEMBER 30, 2007

	<u>Operating Fund</u>
Revenues	
Federal Grants	\$ 789,046
State Grants	4,019,723
Contributions From Local Units	541,978
Charges for Services	873,905
Interest and Rents	43,701
Other Revenue	<u>87,734</u>
Total Revenues	<u>6,356,087</u>
Expenditures	
Public Works	5,936,412
Net Capital Outlay	(246,535)
Debt Service	<u>390,440</u>
Total Expenditures	<u>6,080,317</u>
Excess of Revenues Over (Under) Expenditures	275,770
Fund Balance - October 1, 2006	<u>1,302,645</u>
Fund Balance - September 30, 2007	<u><u>\$ 1,578,415</u></u>

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

CLARE 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 \$ 275,770

Amounts reported for governmental activities
 in the statement 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 outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities. 59,380

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the statement of net assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. 354,012

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 governmental funds. (Increase in compensated absences and decrease in interest expense). (7,504)

Change in net assets of governmental activities. \$ 681,658

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

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY AND FUND TYPE - The County Road Commission's financial activity is considered a Governmental Special Revenue Fund Type and a reporting agency of Clare County in accordance with the established criteria in Statement No. 14, "The Financial Reporting Entity", issued by the Governmental Accounting Standards Board.

BASIS OF PRESENTATION - GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (ie., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the Clare County Road Commission. There is only one fund reported in the government-wide financial statements.

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense 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.

BASIS OF PRESENTATION - FUND FINANCIAL STATEMENTS

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.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING - GOVERNMENT-WIDE FINANCIAL STATEMENTS

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. Property taxes are recognized as revenue in the year of which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS/BASIS OF ACCOUNTING – FUND FINANCIAL STATEMENTS

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.

CASH, CASH EQUIVALENTS AND INVESTMENTS

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

INVENTORY

Inventories consisting of equipment parts and supplies of \$182,748 and road materials of \$125,600, are stated at cost based on the first in - first out (FIFO) method. Inventory items are charged to equipment repairs and operations, and to road construction and maintenance as used.

PRE-PAID EXPENSES

Certain payments to vendors reflect cost 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 Clare County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Clare County Road Commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the statement of net assets.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2007

NOTES A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)

DEPRECIATION

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital 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 Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure—Roads	8 to 30 years
Infrastructure—Bridges	12-50 years

LONG-TERM OBLIGATIONS

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

USE OF ESTIMATES

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

BUDGETS AND BUDGETARY ACCOUNTING

The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 621 of 1978, in the preparation and execution of its general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2007

NOTE B - CASH AND INVESTMENTS

Michigan compiled Laws 129.91, authorizes the Road Commission to deposit and invest in the accounts of Federally insured banks, credit unions, 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, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, 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 investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Imprest Cash	\$ 250
Cash demand and time deposits	602,779
Investments	<u>90,097</u>
Total	<u>\$ 693,126</u>

Deposits

At year-end the carrying amount of the County Road Commissions deposits were \$602,779 and the bank balance was \$657,749. According to the Federal Deposit Insurance Corporation, approximately 37% of the total bank balance was covered by federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to municipal money markets.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2007

NOTE B - CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

As of September 30, 2007, the Road Commission had the following investments:

Investments	<u>Reported Amount (Fair Value)</u>
Municipal Investment Fund	<u>\$ 90,097</u>

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual fund does not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amounts that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2007

NOTE C - CAPITAL ASSETS

The following is a summary of changes in the Capital Assets Account Group.

	<u>Balance</u> <u>10/01/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>09/30/07</u>
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 187,883	\$ -0-	\$ -0-	\$ 187,883
Subtotal	<u>187,883</u>	<u>-0-</u>	<u>-0-</u>	<u>187,883</u>
Capital Assets Being Depreciated:				
Buildings	1,090,959	5,000	-0-	1,095,959
Road Equipment	5,656,604	242,773	278,963	5,620,414
Shop Equipment	126,030	30,660	6,799	149,891
Office Equipment	99,494	2,855	-0-	102,349
Engineers Equipment	39,177	-0-	-0-	39,177
Yard & Storage Equipment	102,663	-0-	-0-	102,663
Infrastructure-Bridges	5,729,084	36,035	-0-	5,765,119
Infrastructure-Roads	<u>35,512,928</u>	<u>2,143,479</u>	<u>-0-</u>	<u>37,656,407</u>
Total	<u>48,356,939</u>	<u>2,460,802</u>	<u>285,762</u>	<u>50,531,979</u>
Less Accumulated Depreciation:				
Buildings	691,521	36,537	-0-	728,058
Road Equipment	4,357,516	430,146	241,021	4,546,641
Shop Equipment	101,306	7,181	6,799	101,688
Office Equipment	78,286	8,093	-0-	86,379
Engineers Equipment	24,936	2,100	-0-	27,036
Yard & Storage Equipment	61,640	5,824	-0-	67,464
Infrastructure-Bridges	1,757,857	127,768	-0-	1,885,625
Infrastructure-Roads	<u>14,061,732</u>	<u>1,745,831</u>	<u>-0-</u>	<u>15,807,563</u>
Total	<u>21,134,794</u>	<u>2,363,480</u>	<u>247,820</u>	<u>23,250,454</u>
Net Capital Assets Being Depreciated	<u>27,222,145</u>	<u>97,322</u>	<u>37,942</u>	<u>27,281,525</u>
Total Net Capital Assets	<u>\$27,410,028</u>	<u>\$ 97,322</u>	<u>\$ 37,942</u>	<u>\$27,469,408</u>

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2007

NOTE D - PENSION PLAN

Plan Description - The Clare County Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity qualified under section 401(a) of the Internal Revenue Code, which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 49817.

All full time Road Commission employees are eligible to participate in the system. Benefits vest after ten year of service. Employees who retire at or after age 55 with 30 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.25 percent of the member's five-year final average compensation. The system also provides death and disability benefits which are established by State Statute.

Participating County Road employees are required to contribute 5.0 percent of their annual salary to the system. The County Road is required to contribute the remaining amounts necessary to fund the Michigan Municipal Employee Retirement System using the actuarial basis specified by statute.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2006. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5% annually after retirement.

All entries are based on the actuarial methods and assumption that were used in the December 31, 2006 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

CLARE COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2007

NOTE D - PENSION PLAN (CONTINUED)

GASB 25 INFORMATION (as of 12/31/06)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 5,430,448
Terminated employees not yet receiving benefits	-0-
Non-vested terminated employees	181
Current Employees:	
Accumulated employee contributions including allocated investment income	727,496
Employer financed	<u>2,294,631</u>
Total actuarial accrued liability	8,452,756
Net assets available for benefits, at actuarial value (Market value is \$7,978,223)	<u>7,868,155</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ 584,601</u>

GASB 27 INFORMATION (as of 12/31/06)

Fiscal year beginning	January 1, 2008
Annual required contribution (RC)	\$ 113,748
Amortization factor used - Underfunded Liabilities (29 years)	0.054719
Amortization factor used - Overfunded Liabilities (10 years)	0.119963

CLARE COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2007

NOTE D - PENSION PLAN (CONTINUED)

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2006 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Annual Pension Cost

<u>Year Ended December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 110,880	100%	\$ -0-
2005	123,252	100%	-0-
2006	113,748	100%	-0-

Aggregate Accrued Liabilities - Comparative Schedule

<u>Actuarial Valuation Date December 31</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
2004	\$7,650,590	\$8,159,102	\$ 508,512	94%	\$1,279,896	40%
2005	7,692,090	8,365,351	673,261	92%	1,307,116	52%
2006	7,868,155	8,452,756	584,601	93%	1,238,972	47%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, 2000 and 2004 valuations.

CLARE COUNTY ROAD COMMISSION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2007

NOTE E - 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 F - LONG TERM DEBT

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

CHANGES IN LONG TERM DEBT

	Balance 10/1/06	Additions	Reductions	Balance 09/30/07
General obligation bonds payable	\$ 650,000	\$ -0-	\$ 340,000	\$ 310,000
Installment note payable	85,537	-0-	14,012	71,525
Compensated Absences	201,977	(1) 7,504	-0-	209,481
	\$ 937,514	\$ 7,504	\$ 354,012	\$ 591,006

(1) The change in compensated absences is shown as a net addition.

The general obligation bonds payable is made up of bonds issued on June 1, 1998, September 16, 1999, and October 4, 2000 under Act 143 for the purpose of defraying the costs of several road projects. The bonds were issued in denominations of \$5,000 with rates varying from 4.1 to 7.625%. The bonds mature in \$50,000 increments annually over a 10 year period.

The installment notes payable was entered into on July 10, 2002, for the purchase of land. Principal payments of \$20,000 a year are being made with an interest rate of 7% until it is paid off.

Annual Debt Service Requirements:

Year	Amount
2008	\$ 215,235
2009	116,535
2010	62,000
2011	24,955
Total Payments	418,725
Less Interest & Fees	(37,200)
Net Balance Due	\$ 381,525

CLARE COUNTY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2007

NOTE G - VESTED EMPLOYEE BENEFITS

County Road employees, after six months of service, are credited with 8 hours vacation leave per month, and an additional two to seven days based on years of service exceeding four years. Unused vacation leave is carried forward to the next year but leave time in excess of 240 hours is forfeited. Vacation leave for 2007 amounted to \$194,223.

County Road post-1987 employees earn four hours sick leave per month, and pre-1987 employees earn 8 hours a month. All employees are paid annually for accumulated leave in excess of 360 hours. Upon termination, the accumulated sick leave is paid in full. Sick leave for 2007 amounted to \$15,258.

NOTE H - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the twelve months ended September 30, 2007 the County Road Commission incurred expenditures in certain areas which were in excess of the amounts appropriated as follows:

<u>Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Local Road: Maintenance	\$ 1,810,000	\$ 1,932,240	\$ (122,240)
State Trunkline Maintenance	\$ 850,000	\$ 857,073	\$ (7,073)

The Road Commission does not use encumbrances for budgetary purposes. During the twelve months ended September 30, 2007, the Road Commissioners made one amendment to the General Operating Fund Budget.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2007

NOTE I - RISK MANAGEMENT

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

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

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

The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.

During the twelve months ended September 30, 2007, and the previous two years, there were no settlements which exceeded the respective insurance coverage. In addition, there has been no reduction in insurance coverage from the prior year.

NOTE J - POST EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note D, the Road Commission provides post retirement health care benefits to all employees who retire from the Road Commission on or after attaining age 60 with 10 or more years of service; or, those who retire under a valid disability claim who have reached the age 60. The health care benefits consist of the Road Commission paying the monthly health insurance until the recipient reaches the age of 65. The costs of retirees' health care benefits are recognized as expenditures as claims are paid. For the twelve months ended September 30, 2007, those costs totaled \$42,799.

CLARE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2007

NOTE K - FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation that Road Commissioners report total federal financial assistance for Highway Research, Planning and construction pertaining to their County. However, only the federal financial assistance applicable to negotiated account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by the Michigan Department of Transportation.

The federal aid secondary revenue of \$789,046 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects where work was performed by independent contractors paid for and administered by the Michigan Department of Transportation.

REQUIRED SUPPLEMENTAL INFORMATION

CLARE COUNTY ROAD COMMISSION
STATEMENT OF REVENUES AND OTHER FINANCING
SOURCES- BUDGETARY COMPARISON SCHEDULE
TWELVE MONTHS ENDED SEPTEMBER 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Michigan Transportation Funds:				
Engineering	\$ 10,000	\$ 10,000	\$ 10,000	\$ -0-
Primary road	2,520,000	2,536,000	2,154,723	(381,277)
Local road	1,222,000	1,204,000	1,544,449	340,449
Snow removal	2,000	2,000	2,533	533
Critical Bridge	<u>1,425,000</u>	<u>1,425,000</u>	<u>-0-</u>	<u>(1,425,000)</u>
Subtotal	<u>5,179,000</u>	<u>5,177,000</u>	<u>3,711,705</u>	<u>(1,465,295)</u>
Federal Aid:				
Federal aid secondary	<u>740,000</u>	<u>740,000</u>	<u>789,046</u>	<u>49,046</u>
Subtotal	<u>740,000</u>	<u>740,000</u>	<u>789,046</u>	<u>49,046</u>
State Trunkline Maintenance	900,000	850,000	873,905	23,905
State - Safety Funds	200,000	200,000	-0-	(200,000)
State - Category D	140,000	140,000	237,627	97,627
State Forest Road Funds	70,000	70,000	70,391	391
County Raised Funds:				
Township contributions and other contributions	350,000	578,000	541,978	(36,022)
Other Revenue:				
Gain (Loss) on Sale of Equipment	-0-	-0-	64,282	64,282
Interest, Salvage Sales and Permits	<u>300,000</u>	<u>315,000</u>	<u>67,153</u>	<u>(247,847)</u>
Total Revenue	<u>\$7,879,000</u>	<u>\$8,070,000</u>	<u>\$6,356,087</u>	<u>\$(1,713,913)</u>

CLARE COUNTY ROAD COMMISSION
STATEMENT OF EXPENDITURES - BUDGETARY COMPARISON SCHEDULE
TWELVE MONTHS ENDED SEPTEMBER 30, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Primary Road:				
Heavy maintenance	\$ 3,150,000	\$ 1,700,000	\$ 1,569,292	\$ 130,708
Maintenance	910,000	810,000	767,620	42,380
Local Road:				
Heavy maintenance	430,000	2,250,000	610,222	1,639,778
Maintenance	<u>1,710,000</u>	<u>1,810,000</u>	<u>1,932,240</u>	<u>(122,240)</u>
Subtotal	<u>6,200,000</u>	<u>6,570,000</u>	<u>4,879,374</u>	<u>1,690,626</u>
State Trunkline Maintenance	<u>800,000</u>	<u>850,000</u>	<u>857,073</u>	<u>(7,073)</u>
Equipment Expense - Net:				
Direct	900,000	850,000	766,387	83,613
Indirect	300,000	325,000	498,899	(173,899)
Operating	300,000	375,000	414,211	(39,211)
Less:				
Equipment Rental	<u>(1,600,000)</u>	<u>(1,600,000)</u>	<u>(1,750,101)</u>	<u>150,101</u>
Subtotal	<u>(100,000)</u>	<u>(50,000)</u>	<u>(70,604)</u>	<u>20,604</u>
Administrative Expense - Net:				
Administrative expense	350,000	425,000	364,104	60,896
Less:				
Overhead - State trunkline	(70,000)	(75,000)	(93,074)	18,074
Purchase discounts and Handling Charges	<u>(6,000)</u>	<u>(6,000)</u>	<u>(461)</u>	<u>(5,539)</u>
Subtotal	<u>274,000</u>	<u>344,000</u>	<u>270,569</u>	<u>73,431</u>
Capital Outlay - Net:				
Capital Outlay	525,000	391,000	281,288	109,712
Less:				
Equipment Retirements	-0-	-0-	(37,943)	37,943
Depreciation	<u>(310,000)</u>	<u>(450,000)</u>	<u>(489,880)</u>	<u>39,880</u>
Subtotal	<u>215,000</u>	<u>(59,000)</u>	<u>(246,535)</u>	<u>187,535</u>
Long Term Debt Payment	<u>400,000</u>	<u>360,000</u>	<u>354,012</u>	<u>5,988</u>
Interest Expense	<u>90,000</u>	<u>55,000</u>	<u>36,428</u>	<u>18,572</u>
Total Expenditures	<u>\$ 7,879,000</u>	<u>\$ 8,070,000</u>	<u>\$ 6,080,317</u>	<u>\$1,989,683</u>

SUPPLEMENTAL SCHEDULES

CLARE COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES OF FUND BALANCES
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2007

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>	<u>Totals</u>
Total Revenues and other Financing Sources	\$ 3,377,906	\$ 1,986,799	\$ 991,382	\$6,356,087
Total Expenditures	<u>2,538,492</u>	<u>2,943,798</u>	<u>598,027</u>	<u>6,080,317</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures before Optional Transfers	839,414	(956,999)	393,355	275,770
Optional Transfers	<u>(647,177)</u>	<u>795,789</u>	<u>(148,612)</u>	<u>-0-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	192,237	(161,210)	244,743	275,770
Fund Balance-October 1	<u>235,454</u>	<u>162,406</u>	<u>904,785</u>	<u>1,302,645</u>
Fund Balance-September 30	<u>\$ 427,691</u>	<u>\$ 1,196</u>	<u>\$ 1,149,528</u>	<u>\$1,578,415</u>

CLARE COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2007

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>	<u>Totals</u>
Motor Vehicle Highway Funds:				
Engineering	\$ 5,700	\$ 4,300	\$ -0-	\$ 10,000
Primary road	2,154,723	-0-	-0-	2,154,723
Local road	-0-	1,544,449	-0-	1,544,449
Snow removal	<u>2,533</u>	<u>-0-</u>	<u>-0-</u>	<u>2,533</u>
Subtotal	<u>2,162,956</u>	<u>1,548,749</u>	<u>-0-</u>	<u>3,711,705</u>
Federal Aid:				
Federal Aid Secondary	<u>789,046</u>	<u>-0-</u>	<u>-0-</u>	<u>789,046</u>
Subtotal	<u>789,046</u>	<u>-0-</u>	<u>-0-</u>	<u>789,046</u>
State Trunkline Maintenance	-0-	-0-	873,905	873,905
State - Category D	237,627	-0-	-0-	237,627
State Forest Road Funds	70,391	-0-	-0-	70,391
County Raised Funds:				
Township contributions and other contributions	109,987	431,843	148	541,978
Other Revenue:				
Gain (Loss) on sale of Equipment	-0-	-0-	64,282	64,282
Interest, Salvage Sales and Refunds	<u>7,899</u>	<u>6,207</u>	<u>53,047</u>	<u>67,153</u>
Total Revenue	<u>\$ 3,377,906</u>	<u>\$ 1,986,799</u>	<u>\$ 991,382</u>	<u>\$ 6,356,087</u>

CLARE COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2007

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>	<u>Totals</u>
Primary Road:				
Heavy maintenance	\$ 1,569,292	\$ -0-	\$ -0-	\$1,569,292
Maintenance	767,620	-0-	-0-	767,620
Local Road:				
Heavy maintenance	-0-	610,222	-0-	610,222
Maintenance	<u>-0-</u>	<u>1,932,240</u>	<u>-0-</u>	<u>1,932,240</u>
Subtotal	<u>2,336,912</u>	<u>2,542,462</u>	<u>-0-</u>	<u>4,879,374</u>
State Trunkline Maintenance	<u>-0-</u>	<u>-0-</u>	<u>857,073</u>	<u>857,073</u>
Equipment Expense - Net:				
Direct	150,902	479,681	135,804	766,387
Indirect	98,234	312,261	88,404	498,899
Operating	81,559	259,254	73,398	414,211
Less:				
Equipment Rental	<u>(344,597)</u>	<u>(1,095,387)</u>	<u>(310,117)</u>	<u>(1,750,101)</u>
Subtotal	<u>(13,902)</u>	<u>(44,191)</u>	<u>(12,511)</u>	<u>(70,604)</u>
Administrative Expense - Net:				
Administrative expense	174,382	189,722	-0-	364,104
Less:				
Overhead - State trunkline	(44,576)	(48,498)	-0-	(93,074)
Purchase discounts and Handling charges	<u>(221)</u>	<u>(240)</u>	<u>-0-</u>	<u>(461)</u>
Subtotal	<u>129,585</u>	<u>140,984</u>	<u>-0-</u>	<u>270,569</u>
Capital Outlay - Net:				
Capital Outlay	-0-	-0-	281,288	281,288
Less:				
Equipment Retirements	-0-	-0-	(37,942)	(37,942)
Depreciation	<u>-0-</u>	<u>-0-</u>	<u>(489,881)</u>	<u>(489,881)</u>
Subtotal	<u>-0-</u>	<u>-0-</u>	<u>(246,535)</u>	<u>(246,535)</u>
Long Term Debt Payment	<u>77,883</u>	<u>276,129</u>	<u>-0-</u>	<u>354,012</u>
Interest Expense	<u>8,014</u>	<u>28,414</u>	<u>-0-</u>	<u>36,428</u>
Total Expenditures	<u>\$ 2,538,492</u>	<u>\$ 2,943,798</u>	<u>\$ 598,027</u>	<u>\$6,080,317</u>



James M. Anderson, P.C.

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**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**

February 15, 2008

Board of County Road Commissioners
Clare County Road Commission
Harrison, MI 48625

I have audited the component unit financial statements of the governmental activities and major fund of the Clare County Road Commission, a Special Revenue Fund of the County of Clare, Michigan, as of and for the twelve months ended September 30, 2007, and have issued my report thereon dated February 15, 2008. I conducted my 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 my audit, I considered the Clare County Road Commission's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Clare County Road Commission's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Clare County Road Commission's internal control over financial reporting.

My 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, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

MEMBER MACPA and AICPA

Financial Statement Preparation

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the Road Commission's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). As is the case with most small and medium-sized entities, the Road Commission has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statement and footnotes as part of its external financial reporting process. Accordingly, the Road Commission's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot, by definition, be considered a part of the government's internal controls. This condition was caused by the Road Commission's determination that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Road Commission to perform this task internally.

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I 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 Clare County Road Commission's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of the Clare County road Commission, in a separate letter dated February 15, 2008.

This report is intended solely for the information and use of the Board of County Road Commissioners, management, and the Michigan Department of Transportation, and is not intended to be and should not be used by anyone other than these specified parties.



JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

**CLARE COUNTY ROAD COMMISSION
REPORT TO MANAGEMENT
SEPTEMBER 30, 2007**



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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February 15, 2008

Board of County Road Commissioners
Clare County Road Commission
Harrison, MI 48625

In planning and performing my audit of the financial statements of the Clare County Road Commission as of and for the year ended September 30, 2007, I considered the Road Commissions accounting, operational, and internal control procedures to determine the nature and extent of my audit testing for the purpose of expressing an opinion on the financial statements of the Road Commission and not to provide assurance on the procedures themselves.

I did however, during the course of my audit, become aware of certain matters that are opportunities for enhancing those procedures or controls. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated February 15, 2008 on the financial statements of the Clare County Road Commission.

I have already discussed these comments and suggestions with the Clare County Road Commission personnel, and I will be pleased to discuss them in further detail at your convenience, and/or to perform any additional studies of these matters, should you so desire.

A handwritten signature in blue ink that reads "James M. Anderson".

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

BLUE CROSS REIMBURSEMENTS

Currently, reimbursements for blue cross are billed on a hand ledger system which is not reflected on the general ledger until the actual payment is received. I recommend that the billing and related accounts receivable be maintained on the computerized accounting system. This will allow for an accurate and up to date reporting and create a better internal control governing the activity.



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February 15, 2008

Board of County Road Commissioners
Clare County Road Commission
Harrison, MI 48625

I have audited the financial statements of the governmental activity and major fund of the Clare County Road Commission for the year ended September 30, 2007, and have issued my report thereon dated February 15, 2008. Professional standards require that I provide you with the following information related to my audit.

My Responsibility Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in my engagement letter dated January 14, 2008, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because I did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me.

As part of my audit, I considered the internal control of the Clare County Road Commission. Such considerations were solely for the purpose of determining my 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, I performed tests of the Clare County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Clare County Road Commission are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. I noted no transactions entered into by the Clare County Road Commission during the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, or 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 an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Clare County Road Commission financial reporting process (that is, cause future financial statements to be materially misstated). In my judgment, none of the adjustments I proposed, whether recorded or unrecorded by the Clare County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on Clare County Road Commission's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to my satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my 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 governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing my audit.

This information is intended solely for the use of management and the Board of Road Commissioners and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "James M. Anderson".

James M. Anderson, P.C.
Certified Public Accountant