

Auditing Procedures Report V1.04

Reset Form

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Issued under Public Act 2 of 1968, as amended.

| | | | | | | | |
|---------------------------|-----------------|------------------------------|--------|---------------------------|--------|----------|--------|
| Unit Name | County of Emmet | County | EMMET | Type | COUNTY | MuniCode | 240000 |
| Opinion Date-Use Calendar | 062708 | Audit Submitted-Use Calendar | 063008 | Fiscal Year-Use Drop List | 2007 | | |

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

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

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

| | |
|----------------------------|-------------------------------------------|
| General Fund Revenue: | <input type="text" value="\$21,104,205"/> |
| General Fund Expenditure: | <input type="text" value="\$16,269,595"/> |
| Major Fund Deficit Amount: | <input type="text" value="\$0.00"/> |

| | |
|------------------------------------------------------------|-------------------------------------------|
| General Fund Balance: | <input type="text" value="\$1,887,093"/> |
| Governmental Activities Long-Term Debt (see instructions): | <input type="text" value="\$17,236,223"/> |

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

| | | | | | | | | | |
|--------------------|------------------------------|-----------------------|---------------------|--------------------------|------------|----------|-------|-----------|------------|
| CPA (First Name) | Robert | Last Name | Thompson | Ten Digit License Number | 1101011523 | | | | |
| CPA Street Address | 415 Munson Avenue | City | Traverse City | State | MI | Zip Code | 49686 | Telephone | 2319461722 |
| CPA Firm Name | Dennis, Gartland & Niergarth | Unit's Street Address | 200 Division Street | City | Petoskey | LU Zip | 49770 | | |

County of Emmet, Michigan

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2007

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Management's Discussion and Analysis

As management of the County of Emmet, Michigan (County) we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2007.

We are aware that the Management's Discussion and Analysis should emphasize current year results in comparison with the prior year, however, 2007 is the first year for which GASB 34 data was prepared. 2006 data is not available in this format, therefore comparisons are not possible. A comparative analysis will be provided in future years when prior year information is available.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the County's basic financial statements. These statements are comprised of three components:

- Government wide financial statements
- Fund financial statements
- Notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time increases or decrease in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the government'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 future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government, public safety, an airport, health and welfare, parks and recreation and

judicial. The business-type activities of the County include the Medical Care Facility, Disposal and Recycle Systems, the Fair Committee and Delinquent Tax Revolving Funds.

The government-wide financial statements include not only the County itself (known as the primary government), but also a legally separate Road Commission and a legally separate medical care facility for which the County is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The Government-wide financial statements can be found on pages 8-10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as government activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental 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 governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds 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 governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains several individual governmental funds. Information is presented separately in the Governmental Funds balance sheet and in the Governmental Funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Revenue Sharing Reserve Fund, 2002 Bond Service Fund, Older Persons Fund, Operating Contingency Fund, and Capital Projects Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 11 and 14 of this report.

Proprietary funds. The County maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for the Medical Care Facility, Disposal and Recycle Systems and the Fair Committee. The County's internal service funds are the Delinquent Tax Revolving Funds. They have been included in the business-type activities in the government-wide financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-49 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's progress in funding its obligation to provide pension benefits to its employees. This required supplementary information is included in the notes to the basic financial statements and can be found on page 55 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$71,096,305 at the close of the most recent fiscal year.

A substantial portion of the County's net assets (62 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the County's net assets, \$208,838 or .3 percent, represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year the County is able to report positive balances in all three categories of net assets, both for the government as a whole as well as for its separate governmental and business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget for expenditures were relatively minor, \$120,533 or .8 percent, and can be briefly summarized as follows:

\$96,440 in miscellaneous increases in general government activity
\$297,808 increase in profession service and fuel costs at the Pellston Regional
Airport

Of this increase, \$322,931 was to be funded out of increases in various revenue accounts summarized as follows:

\$272,491 in increased charges for services
\$ 56,500 in increased interest and rentals
\$ 6,060 in increases in various miscellaneous revenues

Capital Assets and Debt Administration

Capital assets. The County's investment in capital assets for its governmental and business-type activities as of December 31, 2007 amounts to \$61,292,560, net of accumulated depreciation. This investment in capital assets includes land, buildings, land improvements, machinery and equipment, airport facilities and motor vehicles.

Major capital asset events during the current fiscal year included the following:

Renovations, at a cost of \$58,988 to date, have begun on the recreation hall at Camp Pet-o-se-ga
Initiated additional improvements, new campground loop and a new bath-house, at Camp Pet-o-se-ga at a cost of \$54,747 which will be supported by a grant
The County traded one parcel of property and \$33,939 for four Department of Natural Resources's property parcels
A new phone system was installed at a cost of \$77,941
The Sheriff's Department added five vehicles and sold four at a net cost of \$98,860

Additional information on the County's capital assets can be found in Note F on pages 36-38 of this report.

Long-Term Debt. At the end of the current fiscal year the County had total bonded debt outstanding secured by the full faith and credit of the County of \$14,755,000. Of this amount \$1,784,855 is the responsibility of the road commission.

**County's Outstanding Debt
General Obligation**

| | Governmental Activities | |
|-----------------------------------------|--------------------------------|---------------------|
| | <u>2006</u> | <u>2007</u> |
| Primary Government | | |
| General obligation bonds | \$14,571,480 | \$12,970,145 |
| Notes payable | 2,198,054 | 1,938,913 |
| General obligation limited tax notes | 905,000 | 1,995,000 |
| Component Unit | | |
| General obligation bonds | 1,933,520 | 1,784,855 |
| Installment purchase agreements payable | <u>626,775</u> | <u>472,020</u> |
| Total | <u>\$20,234,829</u> | <u>\$19,160,933</u> |

The County's total debt decreased by \$1,073,896 or 5.3 percent during the current fiscal year. The net reduction was attributable to making debt service payments as they came due.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total state equalized valuation. The current debt limitation for the County is \$405,114,170 which is significantly higher than the County's outstanding general obligations debt.

Additional information on the County's long-term debt can be found in Note G on pages 39-41.

Factors bearing on the County's future. The County's 2008 budget holds the General Fund operating millage at 4.85. No new programs nor staff additions are contemplated. The County continues to watch its budget very closely.

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the County of Emmet's finances. Questions concerning any of the information should be addressed to the Finance Director, 200 Division Street, Suite G74, Petoskey, Michigan 49770.



Business and Financial Advisors

Our clients' success – our business

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Commissioners
County of Emmet, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, the aggregate remaining funds and component unit information of the **County of Emmet, Michigan** (the "County") as of and for the year ended December 31, 2007, which collectively compose the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Emmet County Road Commission, which represents 100% of the discretely presented component unit information. We also did not audit the financial statements of the Emmet County Medical Care Facility, which is a major proprietary fund. Those financial statements were audited by other auditors whose reports have been furnished to us and our report, insofar as it relates to the amounts included for the Emmet County Road Commission and the Emmet County Medical Care Facility, is based on the reports of the other auditors.

Except as discussed in the following paragraph, 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.

We were unable to form an opinion regarding the amount of the net pension obligation (stated at \$1,390,000) and pension cost (stated at \$392,812) reported in the governmental activities financial statements because of inadequacies in the County's historical accounting records.

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415 Munson Avenue, Post Office Box 947
Traverse City, Michigan 49685-0947
231.946.1722, FAX: 231.946.2762
www.dgncpa.com

In our opinion based on our audit and the reports of other auditors, except for the effects on the governmental activities financial statement of such adjustments, if any, as might have been determined to be necessary had the net pension obligation and pension cost been susceptible to satisfactory audit tests, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, the aggregate remaining funds and component unit information of the County of Emmet, Michigan as of December 31, 2007, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note R to the financial statements, during 2007 the County implemented the financial reporting framework prescribed by Governmental Accounting Standard Board Statement No. 34.

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

The Management's Discussion and Analysis on pages i - vii and the budgetary comparison and retirement plan and trust information on pages 50 through 55 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining financial statements listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Michigan Department of Treasury. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion and based on the reports of other auditors, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Dennis, Gartland & Niergarth

June 27, 2008



Business and Financial Advisors
Our clients' success – our business

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Heidi M. Wendel, CPA

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

Board of Commissioners
County of Emmet, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, the aggregate remaining funds and component unit information of the *County of Emmet, Michigan* (the "County") as of and for the year ended December 31, 2007, which collectively compose the County's basic financial statements, and have issued our report thereon dated June 27, 2008. Except for a scope limitation related to the net pension obligation and cost, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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415 Munson Avenue, Post Office Box 947
Traverse City, Michigan 49685-0947
231.946.1722, FAX: 231.946.2762
www.dgncpa.com

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

We consider the following deficiency in internal control to be a significant deficiency in internal control over financial reporting.

Reporting Financial Data

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the County'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.)

Condition: As is the case with many local governments, the County has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the County'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 County's *internal* controls.

Cause: This condition was caused by the County's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary training and expertise required for the County to perform this task internally.

Effect: As a result of this condition, the County lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

Management's Response: The County has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the County to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County'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 and other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported in a separate audit-related communications dated June 27, 2008.

The County management's response to the findings identified in our audit are described above. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, management, 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.

Dennis, Gartland & Niergarth

June 27, 2008

County of Emmet

STATEMENT OF NET ASSETS

December 31, 2007

| | Primary Government | | | Component Unit |
|----------------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Governmental Activities | Business-type Activities | Total | Road Commission |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and equivalents | \$ 19,129,328 | \$ 7,979,022 | \$ 27,108,350 | \$ 732,747 |
| Accounts and advances receivable | 272,165 | 1,501,349 | 1,773,514 | 732,166 |
| Property taxes receivable | 3,439,621 | 2,189,820 | 5,629,441 | - |
| Inventory | 73,908 | - | 73,908 | 530,059 |
| Due from component units | 153,038 | - | 153,038 | - |
| Due from other governmental units | 295,012 | - | 295,012 | - |
| Prepaid expenditures and deferred charges | <u>247,099</u> | <u>92,794</u> | <u>339,893</u> | <u>-</u> |
| Total current assets | <u>23,610,171</u> | <u>11,762,985</u> | <u>35,373,156</u> | <u>1,994,972</u> |
| Non-current assets | | | | |
| Due from component units | 1,631,816 | - | 1,631,816 | - |
| Bond issue costs | 136,937 | - | 136,937 | - |
| Capital assets | 58,548,984 | 17,561,536 | 76,110,520 | 21,889,133 |
| Less accumulated depreciation | <u>(9,228,050)</u> | <u>(5,589,910)</u> | <u>(14,817,960)</u> | <u>(8,551,779)</u> |
| Total non-current assets | <u>51,089,687</u> | <u>11,971,626</u> | <u>63,061,313</u> | <u>13,337,354</u> |
| Total assets | <u><u>\$ 74,699,858</u></u> | <u><u>\$ 23,734,611</u></u> | <u><u>\$ 98,434,469</u></u> | <u><u>\$ 15,332,326</u></u> |

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

County of Emmet

STATEMENT OF NET ASSETS - Continued

December 31, 2007

| | Primary Government | | | Component Unit |
|-----------------------------------------|----------------------------|-----------------------------|----------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total | Road Commission |
| LIABILITIES AND NET ASSETS | | | | |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Checks in excess of deposits | \$ 163,027 | \$ 15,814 | \$ 178,841 | \$ - |
| Accounts payable | 1,316,397 | 580,815 | 1,897,212 | 111,121 |
| Deposits and advances | 12,050 | 13,472 | 25,522 | 292,733 |
| Deferred revenue | 3,053,111 | 236,043 | 3,289,154 | 228,125 |
| Interest payable | 98,092 | - | 98,092 | 7,176 |
| Contingent loan commitment | - | - | - | 25,056 |
| Escrow payable | - | - | - | 20,014 |
| Installment purchase agreements payable | - | - | - | 160,788 |
| Due to primary government | - | - | - | 153,038 |
| Accrued wages and related liabilities | 591,276 | 461,532 | 1,052,808 | 35,317 |
| Due to other governmental units | - | 175,312 | 175,312 | - |
| | <u>5,233,953</u> | <u>1,482,988</u> | <u>6,716,941</u> | <u>1,033,368</u> |
| Total current liabilities | | | | |
| Noncurrent liabilities | | | | |
| Vested employee benefits | - | - | - | 265,279 |
| Installment purchase agreements payable | - | - | - | 311,232 |
| Due to primary government | - | - | - | 1,631,816 |
| Notes payable | 1,938,913 | 1,995,000 | 3,933,913 | - |
| Net pension obligation | 1,390,000 | - | 1,390,000 | - |
| Compensated absences payable | 365,161 | - | 365,161 | - |
| Bonds payable, net | 14,932,149 | - | 14,932,149 | - |
| | <u>18,626,223</u> | <u>1,995,000</u> | <u>20,621,223</u> | <u>2,208,327</u> |
| Total noncurrent liabilities | | | | |
| Total liabilities | | | | |
| | <u>23,860,176</u> | <u>3,477,988</u> | <u>27,338,164</u> | <u>3,241,695</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of debt | 32,586,809 | 11,971,626 | 44,558,435 | 11,073,304 |
| Restricted for | | | | |
| Capital acquisitions | 1,708,994 | 9,798 | 1,718,792 | - |
| Debt service | 45,120 | - | 45,120 | - |
| Revenue sharing | 9,492,997 | - | 9,492,997 | - |
| Unrestricted | 7,005,762 | 8,275,199 | 15,280,961 | 1,017,327 |
| | <u>50,839,682</u> | <u>20,256,623</u> | <u>71,096,305</u> | <u>12,090,631</u> |
| Total net assets | | | | |
| Total liabilities and net assets | | | | |
| | <u>\$ 74,699,858</u> | <u>\$ 23,734,611</u> | <u>\$ 98,434,469</u> | <u>\$ 15,332,326</u> |

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

County of Emmet

STATEMENT OF ACTIVITIES

For the year ended December 31, 2007

| Functions/Program | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | Component Unit Road Commission |
|-----------------------------------------------|----------------------|-------------------------|------------------------------------------|----------------------------------------|----------------------------------------------------|-----------------------------|----------------------|--------------------------------------|
| | | Charges For Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Total | |
| | | | | | Governmental Activities | Business-type Activities | | |
| Primary Government | | | | | | | | |
| Governmental activities | | | | | | | | |
| Legislative | \$ 161,572 | \$ - | \$ - | \$ - | \$ (161,572) | \$ - | \$ (161,572) | \$ - |
| Judicial | 2,659,006 | 986,321 | 826,701 | - | (845,984) | - | (845,984) | - |
| General government | 3,910,332 | 1,473,130 | 62,088 | - | (2,375,114) | - | (2,375,114) | - |
| Public safety | 5,741,949 | 668,552 | 370,776 | - | (4,702,621) | - | (4,702,621) | - |
| Public works - airport | 3,201,972 | 2,849,964 | 21,093 | 258,416 | (72,499) | - | (72,499) | - |
| Health and welfare | 2,258,361 | 545,732 | 42,877 | - | (1,669,752) | - | (1,669,752) | - |
| Parks and recreation | 768,630 | 3,240 | 276,315 | - | (489,075) | - | (489,075) | - |
| Contributions to other organizations | 2,503,273 | 1,228,587 | - | - | (1,274,686) | - | (1,274,686) | - |
| Other | 657,701 | - | - | - | (657,701) | - | (657,701) | - |
| Interest on long-term debt | 693,498 | - | - | - | (693,498) | - | (693,498) | - |
| Unallocated depreciation | 473,395 | - | - | - | (473,395) | - | (473,395) | - |
| Total governmental activities | <u>23,029,689</u> | <u>7,755,526</u> | <u>1,599,850</u> | <u>258,416</u> | <u>(13,415,897)</u> | <u>-</u> | <u>(13,415,897)</u> | <u>-</u> |
| Business-type activities | | | | | | | | |
| Medical Care Facility | 10,556,712 | 10,588,238 | 12,380 | - | - | 43,906 | 43,906 | - |
| Disposal and Recycle Systems | 2,974,950 | 3,140,310 | 1,707 | - | - | 167,067 | 167,067 | - |
| Delinquent Tax Revolving Fund | 138,302 | 246,866 | - | - | - | 108,564 | 108,564 | - |
| Fair Committee | 165,825 | 152,129 | 51,892 | - | - | 38,196 | 38,196 | - |
| Total business-type activities | <u>13,835,789</u> | <u>14,127,543</u> | <u>65,979</u> | <u>-</u> | <u>-</u> | <u>357,733</u> | <u>357,733</u> | <u>-</u> |
| Total primary government | <u>\$ 36,865,478</u> | <u>\$ 21,883,069</u> | <u>\$ 1,665,829</u> | <u>\$ 258,416</u> | <u>(13,415,897)</u> | <u>357,733</u> | <u>(13,058,164)</u> | <u>-</u> |
| Component Unit | | | | | | | | |
| Road Commission | <u>6,045,186</u> | <u>845,173</u> | <u>4,581,324</u> | <u>2,573,012</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,954,323</u> |
| Total component unit | <u>\$ 6,045,186</u> | <u>\$ 845,173</u> | <u>\$ 4,581,324</u> | <u>\$ 2,573,012</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,954,323</u> |
| General revenues | | | | | | | | |
| Property taxes | | | | | 16,622,663 | - | 16,622,663 | - |
| Unrestricted interest and investment earnings | | | | | 1,091,501 | 820,118 | 1,911,619 | - |
| (Loss) Gain on Equipment Disposal | | | | | (17,094) | - | (17,094) | 42,970 |
| Transfers | | | | | (452,363) | 387,098 | (65,265) | 65,265 |
| Total general revenues and transfers | | | | | <u>17,244,707</u> | <u>1,207,216</u> | <u>18,451,923</u> | <u>108,235</u> |
| Change in net assets | | | | | 3,828,810 | 1,564,949 | 5,393,759 | 2,062,558 |
| Net assets, beginning of year | | | | | <u>47,010,872</u> | <u>18,691,674</u> | <u>65,702,546</u> | <u>10,028,073</u> |
| Net assets, end of year | | | | | <u>\$ 50,839,682</u> | <u>\$ 20,256,623</u> | <u>\$ 71,096,305</u> | <u>\$ 12,090,631</u> |

County of Emmet

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2007

| | General Fund | Revenue Sharing Reserve Fund | 2002 Bond Service Fund | Older Persons Fund | Operating Contingency Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------------|----------------------------|---------------------------------------|------------------------------|----------------------------|----------------------------------|-----------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | | | | |
| Cash and equivalents | \$ 1,502,547 | \$ 9,492,997 | \$ 167,267 | \$ 293,877 | \$ 3,166,791 | \$ 961,076 | \$ 3,544,773 | \$ 19,129,328 |
| Accounts and advances receivable | 248,071 | - | - | - | - | - | 24,094 | 272,165 |
| Property taxes receivable | 709,136 | - | 1,159,666 | 1,213,615 | - | - | 357,204 | 3,439,621 |
| Due from other funds | 31,319 | - | - | - | - | - | - | 31,319 |
| Due from governmental units | 139,120 | - | - | - | - | - | 155,892 | 295,012 |
| Due from component unit | - | - | - | - | - | - | 1,784,854 | 1,784,854 |
| Inventory | 73,908 | - | - | - | - | - | - | 73,908 |
| Prepaid expenditures and deferred charges | 247,099 | - | - | - | - | - | - | 247,099 |
| Total assets | <u>\$ 2,951,200</u> | <u>\$ 9,492,997</u> | <u>\$ 1,326,933</u> | <u>\$ 1,507,492</u> | <u>\$ 3,166,791</u> | <u>\$ 961,076</u> | <u>\$ 5,866,817</u> | <u>\$ 25,273,306</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | | |
| LIABILITIES | | | | | | | | |
| Checks in excess of deposits | \$ 163,027 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 163,027 |
| Accounts payable | 297,754 | - | - | - | - | 849,988 | 168,655 | 1,316,397 |
| Due to other funds | - | - | - | - | - | - | 31,319 | 31,319 |
| Deposits and advances | 12,050 | - | - | - | - | - | - | 12,050 |
| Deferred revenue | - | - | 1,299,565 | 1,353,262 | - | - | 400,284 | 3,053,111 |
| Accrued wages and related liabilities | 591,276 | - | - | - | - | - | - | 591,276 |
| Total liabilities | <u>1,064,107</u> | <u>-</u> | <u>1,299,565</u> | <u>1,353,262</u> | <u>-</u> | <u>849,988</u> | <u>600,258</u> | <u>5,167,180</u> |
| FUND BALANCES | | | | | | | | |
| Reserved for | | | | | | | | |
| Capital projects | - | - | - | - | 208,838 | 111,088 | 1,389,068 | 1,708,994 |
| Debt service | - | - | 27,368 | - | - | - | 17,752 | 45,120 |
| Inventory | 73,708 | - | - | - | - | - | - | 73,708 |
| Prepaid expenditures and deferred charges | 247,099 | - | - | - | - | - | - | 247,099 |
| Long-term receivable | - | - | - | - | - | - | 1,784,854 | 1,784,854 |
| Revenue sharing | - | 9,492,997 | - | - | - | - | - | 9,492,997 |
| Unreserved | 1,566,286 | - | - | 154,230 | 2,957,953 | - | 2,074,885 | 6,753,354 |
| Total fund balances | <u>1,887,093</u> | <u>9,492,997</u> | <u>27,368</u> | <u>154,230</u> | <u>3,166,791</u> | <u>111,088</u> | <u>5,266,559</u> | <u>20,106,126</u> |
| Total liabilities and fund balances | <u>\$ 2,951,200</u> | <u>\$ 9,492,997</u> | <u>\$ 1,326,933</u> | <u>\$ 1,507,492</u> | <u>\$ 3,166,791</u> | <u>\$ 961,076</u> | <u>\$ 5,866,817</u> | <u>\$ 25,273,306</u> |

County of Emmet

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

December 31, 2007

Total Fund Balance - Governmental Funds \$ 20,106,126

Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of net assets, these assets are capitalized and depreciated over their useful lives.

| | |
|-----------------------------|-------------|
| Governmental capital assets | 58,548,984 |
| Accumulated depreciation | (9,228,050) |

Governmental funds report interest when due, whereas in the statement of net assets, interest is accrued on outstanding bonds. (98,092)

Governmental funds report all pension contributions as an expenditure, whereas, in the statement of net assets, a liability has been reported for the cumulative amount by which the Annual Pension Cost exceed contributions. (1,390,000)

Long-term liabilities, including bonds payable, notes payable, and compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.

| | |
|-----------------------------------------------|------------------|
| Governmental general obligation bonds payable | (14,932,149) |
| Unamortized bond issuance costs | 136,937 |
| Governmental notes payable | (1,938,913) |
| Governmental compensated absences | <u>(365,161)</u> |

Net Assets of Governmental Activities \$ 50,839,682

County of Emmet

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

For the year ended December 31, 2007

| | General Fund | Revenue Sharing Reserve Fund | 2002 Bond Service Fund | Older Persons Fund | Operating Contingency Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|---------------------------------------------|---------------------|---------------------------------------|------------------------------|--------------------------|----------------------------------|-----------------------------|--------------------------------|--------------------------------|
| REVENUES | | | | | | | | |
| Taxes | \$ 13,727,573 | \$ - | \$ 1,223,592 | \$ 1,269,221 | \$ - | \$ - | \$ 402,277 | \$ 16,622,663 |
| Licenses and permits | 560,755 | - | - | - | - | - | - | 560,755 |
| Federal grants | 118,322 | - | - | - | - | - | 559,365 | 677,687 |
| State grants | 833,979 | - | - | - | - | 258,416 | 88,184 | 1,180,579 |
| Charges for services | 4,118,800 | - | - | - | - | - | 101,581 | 4,220,381 |
| Fines and forfeits | 43,955 | - | - | - | - | - | - | 43,955 |
| Interest and rentals | 500,726 | 275,969 | 14,364 | 18,806 | 98,249 | - | 183,387 | 1,091,501 |
| Other revenue | 1,200,095 | - | - | 3,133 | - | 2,266 | 1,736,527 | 2,942,021 |
| Total revenues | <u>21,104,205</u> | <u>275,969</u> | <u>1,237,956</u> | <u>1,291,160</u> | <u>98,249</u> | <u>260,682</u> | <u>3,071,321</u> | <u>27,339,542</u> |
| EXPENDITURES | | | | | | | | |
| Current | | | | | | | | |
| Legislative | 161,572 | - | - | - | - | - | - | 161,572 |
| Judicial | 2,148,040 | - | - | - | - | - | 491,516 | 2,639,556 |
| General government | 4,209,671 | - | - | - | - | - | - | 4,209,671 |
| Public safety | 4,541,751 | - | - | - | - | - | 944,695 | 5,486,446 |
| Public works - airport | 2,601,791 | - | - | - | - | - | - | 2,601,791 |
| Health and welfare | 306,862 | - | - | 1,225,798 | - | - | 721,217 | 2,253,877 |
| Parks and recreation | 469,624 | - | - | - | - | - | - | 469,624 |
| Contributions to other organizations | 1,230,397 | - | - | - | - | - | 1,272,876 | 2,503,273 |
| Other | 599,887 | - | - | - | - | - | 13,974 | 613,861 |
| Capital outlay | - | - | - | - | - | 1,418,949 | 523,858 | 1,942,807 |
| Debt service | - | - | 1,091,700 | - | - | - | 1,273,813 | 2,365,513 |
| Total expenditures | <u>16,269,595</u> | <u>-</u> | <u>1,091,700</u> | <u>1,225,798</u> | <u>-</u> | <u>1,418,949</u> | <u>5,241,949</u> | <u>25,247,991</u> |
| REVENUES OVER (UNDER) EXPENDITURES | <u>4,834,610</u> | <u>275,969</u> | <u>146,256</u> | <u>65,362</u> | <u>98,249</u> | <u>(1,158,267)</u> | <u>(2,170,628)</u> | <u>2,091,551</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | | | |
| Operating transfers in | 766,265 | - | - | - | 1,071,928 | 1,267,322 | 3,027,001 | 6,132,516 |
| Operating transfers out | (5,373,294) | (571,928) | (190,000) | - | - | - | (272,559) | (6,407,781) |
| Total other financing sources (uses) | <u>(4,607,029)</u> | <u>(571,928)</u> | <u>(190,000)</u> | <u>-</u> | <u>1,071,928</u> | <u>1,267,322</u> | <u>2,754,442</u> | <u>(275,265)</u> |
| NET CHANGE IN FUND BALANCE | 227,581 | (295,959) | (43,744) | 65,362 | 1,170,177 | 109,055 | 583,814 | 1,816,286 |
| Fund balance, beginning of year | 1,659,512 | 9,788,956 | 71,112 | 88,868 | 1,996,614 | 2,033 | 4,682,745 | 18,289,840 |
| Fund balance, end of year | <u>\$ 1,887,093</u> | <u>\$ 9,492,997</u> | <u>\$ 27,368</u> | <u>\$ 154,230</u> | <u>\$ 3,166,791</u> | <u>\$ 111,088</u> | <u>\$ 5,266,559</u> | <u>\$ 20,106,126</u> |

County of Emmet

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the year ended December 31, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 1,816,286

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 these assets is allocated over their useful lives as depreciation.

| | |
|---------------------------------|-------------|
| Expenditures for capital assets | 1,726,061 |
| Current year depreciation | (1,631,360) |

Proceeds from the sale of assets are revenues in the governmental funds, but it reduces capital assets, net of accumulated depreciation in the statement of net assets and does not affect the statement of activities. (11,586)

Loss on sale of assets (17,094)

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of principal paid on long-term debt. 2,009,141

Interest on long-term debt is recognized as an expenditure when it is due in the governmental funds. However, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. 8,812

Bond issuance cost, net premium accretion and refunding loss amortization, net. (3,840)

Governmental funds report pension expenditures when paid or payable, whereas the statement of activities reports the Annual Pension Cost. (40,000)

Change in compensated absences (27,610)

Change in Net Assets of Governmental Activities \$ 3,828,810

County of Emmet

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

December 31, 2007

| | Business-Type Activities - Enterprise Funds | | | | |
|-------------------------------------------------|---------------------------------------------|-------------------------------------|-----------------------------------|----------------|---------------|
| | Medical Care Facility* | Disposal and Recycle Systems* | Delinquent Tax Revolving Fund* | Fair Committee | Totals |
| ASSETS | | | | | |
| Cash and equivalents | \$ 695,092 | \$ 1,303,045 | \$ 5,888,099 | \$ 92,786 | \$ 7,979,022 |
| Accounts and advances receivable | 1,290,345 | 211,004 | - | - | 1,501,349 |
| Property taxes receivable | - | - | 2,189,820 | - | 2,189,820 |
| Prepaid expenditures and deferred charges | 91,949 | - | - | 845 | 92,794 |
| Total current assets | 2,077,386 | 1,514,049 | 8,077,919 | 93,631 | 11,762,985 |
| Capital assets, net of depreciation | 9,041,160 | 2,866,360 | - | 64,106 | 11,971,626 |
| Total assets | \$ 11,118,546 | \$ 4,380,409 | \$ 8,077,919 | \$ 157,737 | \$ 23,734,611 |
| LIABILITIES AND NET ASSETS | | | | | |
| LIABILITIES | | | | | |
| Checks in excess of deposits | \$ - | \$ 15,814 | \$ - | \$ - | \$ 15,814 |
| Accounts payable | 170,816 | 133,595 | 276,265 | 139 | 580,815 |
| Accrued wages and related liabilities | 461,532 | - | - | - | 461,532 |
| Deferred revenue | 236,043 | - | - | - | 236,043 |
| Deposits and advances | 13,472 | - | - | - | 13,472 |
| Due to other governmental units | 175,312 | - | - | - | 175,312 |
| Notes payable | - | - | 1,995,000 | - | 1,995,000 |
| Total liabilities | 1,057,175 | 149,409 | 2,271,265 | 139 | 3,477,988 |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | 9,041,160 | 2,866,360 | - | 64,106 | 11,971,626 |
| Restricted for capital acquisitions | 9,798 | - | - | - | 9,798 |
| Unrestricted | 1,010,413 | 1,364,640 | 5,806,654 | 93,492 | 8,275,199 |
| Total net assets | 10,061,371 | 4,231,000 | 5,806,654 | 157,598 | 20,256,623 |
| Total liabilities and net assets | \$ 11,118,546 | \$ 4,380,409 | \$ 8,077,919 | \$ 157,737 | \$ 23,734,611 |

* Major funds

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

County of Emmet

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS

For the year ended December 31, 2007

| | Business-Type Activities - Enterprise Funds | | | | |
|---------------------------------------------------------|---------------------------------------------|-------------------------------------|-----------------------------------|-------------------|----------------------|
| | Medical Care Facility* | Disposal and Recycle Systems* | Delinquent Tax Revolving Fund* | Fair Committee | Totals |
| Operating revenue | | | | | |
| Charges for sales and services | \$ 10,588,238 | \$ 3,140,310 | \$ 246,866 | \$ 138,109 | \$ 14,113,523 |
| Operating expenses | | | | | |
| Personnel services | 7,241,548 | 771,738 | - | 17,274 | 8,030,560 |
| Contractual services | 1,745,790 | 1,584,891 | 26,269 | 78,213 | 3,435,163 |
| Supplies | - | 61,392 | - | 5,582 | 66,974 |
| Heat, light and power | - | 86,075 | - | - | 86,075 |
| Prizes and premiums | - | - | - | 51,166 | 51,166 |
| Other | 904,641 | 158,150 | - | 1,247 | 1,064,038 |
| Depreciation | 664,733 | 312,704 | - | 12,343 | 989,780 |
| Total operating expenses | <u>10,556,712</u> | <u>2,974,950</u> | <u>26,269</u> | <u>165,825</u> | <u>13,723,756</u> |
| OPERATING INCOME (LOSS) | <u>31,526</u> | <u>165,360</u> | <u>220,597</u> | <u>(27,716)</u> | <u>389,767</u> |
| Nonoperating revenues (expenses) | | | | | |
| Grants - State | 12,380 | 1,707 | - | 38,420 | 52,507 |
| Rent | - | - | - | 14,020 | 14,020 |
| Contributions, other sources | - | - | - | 13,472 | 13,472 |
| Interest revenue | - | 51,815 | 765,746 | 2,557 | 820,118 |
| Interest expense | - | - | (112,033) | - | (112,033) |
| Total nonoperating revenues | <u>12,380</u> | <u>53,522</u> | <u>653,713</u> | <u>68,469</u> | <u>788,084</u> |
| INCOME BEFORE OPERATING TRANSFERS | <u>43,906</u> | <u>218,882</u> | <u>874,310</u> | <u>40,753</u> | <u>1,177,851</u> |
| Operating transfers in | 210,000 | - | - | - | 210,000 |
| Equity transfer from Emmet County Building Authority | <u>177,098</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>177,098</u> |
| Total operating transfers | 387,098 | - | - | - | 387,098 |
| CHANGE IN NET ASSETS | 431,004 | 218,882 | 874,310 | 40,753 | 1,564,949 |
| Net assets, beginning of year | <u>9,630,367</u> | <u>4,012,118</u> | <u>4,932,344</u> | <u>116,845</u> | <u>18,691,674</u> |
| Net assets, end of year | <u>\$ 10,061,371</u> | <u>\$ 4,231,000</u> | <u>\$ 5,806,654</u> | <u>\$ 157,598</u> | <u>\$ 20,256,623</u> |

* Major funds

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

County of Emmet

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the year ended December 31, 2007

| | Business-Type Activities - Enterprise Funds | | | | |
|---------------------------------------------------------------------|---------------------------------------------|-------------------------------------|--------------------------------------|----------------|---------------|
| | Medical Care Facility* | Disposal and Recycle Systems* | Delinquent Tax Revolving Fund* | Fair Committee | Totals |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Cash received from customers | \$ 10,364,363 | \$ 3,175,314 | \$ 503,518 | \$ 138,109 | \$ 14,181,304 |
| Cash payments to employees and suppliers | (9,948,459) | (2,632,302) | (26,032) | (103,162) | (12,709,955) |
| Cash payments of prizes and premiums | - | - | - | (51,166) | (51,166) |
| | 415,904 | 543,012 | 477,486 | (16,219) | 1,420,183 |
| CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Proceeds from sale of bonds | - | - | 4,800,000 | - | 4,800,000 |
| Repayment of bond principal | - | - | (3,710,000) | - | (3,710,000) |
| Interest paid on bonds | - | - | (112,033) | - | (112,033) |
| Tax collection proceeds | - | - | 1,652,050 | - | 1,652,050 |
| Operating transfers from other funds | 210,000 | - | - | - | 210,000 |
| Patient trust withdrawals | 1,893 | - | - | - | 1,893 |
| Transfers to other funds | - | - | (1,877,598) | - | (1,877,598) |
| Grants and contributions received | - | 1,707 | - | 38,420 | 40,127 |
| | 211,893 | 1,707 | 752,419 | 38,420 | 1,004,439 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Acquisition of capital assets | (88,420) | (241,554) | - | (13,043) | (343,017) |
| Contributions | 12,380 | - | - | 13,472 | 25,852 |
| Net cash provided by rental activities | - | - | - | 14,020 | 14,020 |
| | (76,040) | (241,554) | - | 14,449 | (303,145) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Interest received | - | 51,815 | 765,747 | 2,557 | 820,119 |
| NET INCREASE IN CASH | 551,757 | 354,980 | 1,995,652 | 39,207 | 2,941,596 |
| Cash and equivalents, beginning of year | 143,335 | 948,065 | 3,892,447 | 53,579 | 5,037,426 |
| Cash and equivalents, end of year | \$ 695,092 | \$ 1,303,045 | \$ 5,888,099 | \$ 92,786 | \$ 7,979,022 |

* Major funds

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

County of Emmet

STATEMENT OF FIDUCIARY NET ASSETS

December 31, 2007

| | <u>Pension Trust Funds</u> | <u>Agency Funds</u> |
|--------------------------------------------|------------------------------------|--------------------------|
| ASSETS | | |
| Cash and equivalents | \$ - | \$ 880,340 |
| Investments | 13,815,888 | - |
| Accounts receivable, net | <u>-</u> | <u>101,007</u> |
| Total assets | <u><u>\$13,815,888</u></u> | <u><u>\$ 981,347</u></u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Due to other governmental units | \$ - | \$ 798,108 |
| Due to inmates | - | 180,270 |
| Deposits | <u>-</u> | <u>2,969</u> |
| Total liabilities | <u>-</u> | <u>981,347</u> |
| NET ASSETS | | |
| Reserved for employees' retirement systems | <u><u>\$13,815,888</u></u> | <u><u>\$ -</u></u> |

County of Emmet

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the year ended December 31, 2007

| | Pension Trust Funds |
|------------------------------------------------------|----------------------------|
| ADDITIONS TO NET ASSETS | |
| Employer contributions | \$ 1,101,315 |
| Investment earnings | <u>1,142,806</u> |
| Total additions | <u>2,244,121</u> |
| DEDUCTIONS FROM NET ASSETS | |
| Benefit payments | 1,113,929 |
| Other expenses | <u>58,237</u> |
| Total deductions | <u>1,172,166</u> |
| NET CHANGE IN NET ASSETS | 1,071,955 |
| Net assets available for benefits, beginning of year | <u>12,743,933</u> |
| Net assets available for benefits, end of year | <u><u>\$13,815,888</u></u> |

County of Emmet

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The County of Emmet (the "County") was organized in 1853 and covers an area of 461 square miles divided into 16 townships, 3 villages and 2 cities. The County Seat is located in the City of Petoskey. The County operates under an elected county Board of Commissioners (seven members) and provides services to its residents in many areas including law enforcement, administration of justice, community enrichment and development and human services. The component units discussed below are included in the County's financial reporting entity because of the significance of their operational or financial relationships with the County.

The Financial Reporting Entity

The County's financial statements include the accounts of all County operations. In evaluating the County as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the County may or may not be financially accountable and, as such, be includable within the County's financial statements. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, the County is financially accountable if it appoints a voting majority of an organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the County. Additionally, the County is required to consider other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete.

Based on this criteria, the County has identified the following blended and discretely presented component units requiring inclusion in the County's financial statements and other jointly governed organizations evaluated:

BLENDDED COMPONENT UNIT

Emmet County Building Authority

The Emmet County Building Authority (the "Building Authority") is governed by a three-member Board appointed by the County Board of Commissioners. Although it is legally separate from the County, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the County's public buildings.

NOTES TO FINANCIAL STATEMENTS - Continued

DISCRETELY PRESENTED COMPONENT UNIT

Emmet County Road Commission

The Emmet County Road Commission (the "Road Commission"), which is established pursuant to the County Road Law (MCL 224.1), is governed by a three-member Board of County Road Commissioners appointed by the Emmet County Board of Commissioners. The Road Commission may not issue debt or levy a tax without the approval of the County Board of Commissioners. If approval is granted, the Road Commission's taxes are levied under the taxing authority of the County, as approved by the County electors, and would be included as part of the County's total tax levy as well as reported in the County Road Fund.

The component unit financial statements include the financial data of the Emmet County Road Commission. These financial statements are reported in a discrete manner to emphasize that they are legally separate from the County.

Complete financial statements of the individual component units can be obtained from their respective administrative offices or from the County Clerk's Office at the courthouse.

Administrative Offices

Emmet County Building Authority
County Controller
200 Division
Petoskey, MI 49770

Emmet County Road Commission
2265 East Hathaway Road
Harbor Springs, MI 49470

JOINTLY GOVERNED ORGANIZATIONS

Northwest Michigan Community Health Agency

Antrim, Charlevoix, Emmet and Otsego Counties participate jointly in the operation of the Northwest Michigan Community Health Agency. All of the financial operations of the District Health Agency are reported in the financial statements of Charlevoix County. The funding formula approved by the member counties is based pro-rata on each county's population and equalized valuation to the district's total population and valuation.

A copy of the audit report may be acquired from Northwest Michigan Community Health Agency, 220 West Garfield, Charlevoix, Michigan 49720.

North Country Community Mental Health Services

North Country Community Mental Health Services ("NCCMHS") was created on April 1, 2003, as an independent Mental Health Authority, by the counties of Antrim, Charlevoix, Cheboygan, Emmet, Kalkaska and Otsego under Public Act 290, P.A. 1995. NCCMHS's purpose and power is to comply with and carry out the provisions of the Michigan Mental Health Code in the six county area it serves. It is governed by a 14 member board, with each county commission appointing its pro-rata representation based on population.

NOTES TO FINANCIAL STATEMENTS - Continued

NCCMHS is not a component unit of any other reporting entity. A copy of the audit report may be acquired from North Country Community Mental Health Services Board, One MacDonald Drive, Suite A, Petoskey, MI 49770.

CCE Central Dispatch Authority

The County of Emmet has entered into a joint operating agreement with the bordering counties of Charlevoix and Cheboygan. Under the agreement, the three participating counties have agreed to establish and operate the CCE Central Dispatch Authority ("Dispatch Authority"), a 911 central dispatch service, in the three county area. A member of the County's Board of Commissioners serves on the Board of the Dispatch Authority. Based on a formula specified in the agreement, the County is obligated to fund its portion of the expenditures to operate the Dispatch Authority.

The Dispatch Authority is not a component unit of any other reporting entity. Audited financial statements for the CCE Central Dispatch Authority can be obtained by contacting the CCE Central Dispatch Authority's office, 1694 South US 131 Highway, Petoskey, MI 49770.

Emmet County Department of Human Services

The Department of Human Services ("DHS") Board consists of two members appointed by Emmet County's Board of Commissioners and one member appointed by the governor. The DHS Board meets jointly with the Charlevoix County Department of Human Services Board. The combined financial operation of the Department of Human Services of Emmet and Charlevoix Counties is reported by Charlevoix County. The DHS Board also oversees the operations of the Emmet County Medical Care Facility, which is included with Emmet County's enterprise funds.

Audited financial statements for Charlevoix County, including the Department of Human Services, can be obtained from the Charlevoix County Clerk's office, 203 Antrim Street, Charlevoix, MI 49720.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule, the effect of interfund activity, such as overhead costs, has been eliminated from these statements. The government-wide focus is more on operational efficiency, the sustainability of the County as an entity and the change in the County's net assets resulting from the current year's activities.

In the government-wide statement of net assets, both the governmental and business-type activities are presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The County's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

NOTES TO FINANCIAL STATEMENTS - Continued

The government-wide statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. This statement reduces gross expenses (including depreciation) by related program revenues, which include charges for services, operating grants and capital grants.

The program revenues must be directly associated with the 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 as general revenue.

Fund Financial Statements

The balance sheets; statements of revenues, expenditures/expenses and changes in fund balances/net assets; and statements of cash flows where applicable (i.e., fund financial statements) for the County's governmental, proprietary and fiduciary funds display information about the major and aggregated non-major funds for the various fund types. Major funds are generally those that represent 10% or more of the respective fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the County are prepared in accordance with *Generally Accepted Accounting Principles* ("GAAP"). The County applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The County does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred.

NOTES TO FINANCIAL STATEMENTS - Continued

The governmental funds use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the financial resources measurement focus, only current assets and current liabilities are generally included on governmental fund balance sheets. An exception to this general rule is long-term interfund advances which are recorded on governmental fund balance sheets. The governmental fund operating statements present a summary of sources and uses of available spendable resources. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (generally 60 days). Grants are recognized when grantor eligibility requirements are met. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

The proprietary funds use the accrual basis of accounting and are accounted for on a cost-of-service or "capital maintenance" measurement focus. Under the capital maintenance measurement focus, all assets and liabilities associated with the fund's activities are included on its balance sheet. Under the accrual basis, revenues are recognized when earned and expenses are recognized when they are incurred.

The fiduciary funds are generally maintained on a cash basis which is consistent with the accounting measurement objectives of the funds. Reporting these funds on a cash basis does not have an effect materially different from reporting them on the accrual or modified accrual basis as required by generally accepted accounting principles.

Fund Types and Major Funds

Activities in Major Funds

GOVERNMENTAL FUNDS

General Fund - This fund is used to account for all financial resources except those provided for in other funds. Revenues are primarily derived from property taxes, State and Federal Aid and charges for services to provide for the administration and operation of: (1) general County governmental departments, board and commissions; (2) court systems; (3) law enforcement; and (4) health, welfare and medical assistance. The fund includes the general operating expenditures of the County.

Revenue Sharing Reserve Fund - This fund is used to account for the funding mechanism to serve as a substitute to State revenue sharing payments.

2002 Bond Service Fund - This fund is used to account for the accumulation of resources for, and payment of, bond principal, interest and related costs.

NOTES TO FINANCIAL STATEMENTS - Continued

Older Persons Fund - This fund is used to account for the proceeds of a special tax levy that are restricted to expenditures for programs benefiting seniors.

Operating Contingency Fund - This fund is used to account for the accumulation of resources to be used for unforeseen items or special projects.

Capital Projects Fund - This fund is used to account for the acquisition or construction of major facilities.

PROPRIETARY FUNDS

Medical Care Facility - This fund is used to account for the operations of the County Medical Care Facility. Financing is provided by charges for services, and when necessary, General Fund Operating transfers.

Disposal and Recycle Systems - This fund is used to account for the operations of the County Sanitary Transfer Station and Recycling Center. Financing is primarily provided by charges for services and sale of recyclable materials.

Delinquent Tax Revolving Fund - This fund is used to account for the purchase and subsequent collection of delinquent real property taxes of local units of government.

Activities in Non-Major Funds

GOVERNMENTAL FUNDS

Special Revenue Funds - These funds are used to account for specific revenue (other than special assessments, expendable trusts or major capital projects) derived from State and Federal grants, General Fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

Debt Service Funds - These funds are used to record revenues which are restricted or otherwise provided for the payment of principal and interest on general long-term debt.

Capital Project Funds - These funds are used to account for the acquisition or construction of major facilities other than those financed by Proprietary Fund operations.

PROPRIETARY FUNDS

Enterprise Funds - These funds account for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

NOTES TO FINANCIAL STATEMENTS - Continued

FIDUCIARY FUNDS

Trust and Agency Funds - These funds account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These funds are Pension Trust Funds and Agency Funds.

Budgets and Budgetary Accounting

Budgets are adopted by the County Board of Commissioners for the primary government's General and Special Revenue Funds in accordance with P.A. 621 of 1978, as amended. The Board of Commissioners also adopts spending plans for capital project and enterprise funds, which are not governed by P.A. 621 of 1978, as amended. The Board of County Road Commissioners adopts a budget for the discretely presented component unit. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the functional level and control is exercised at the functional level.

The County does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Cash and Investments

The County pools financial resources of its various funds to facilitate the management of cash and investments. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in bank certificates of deposit and in various interest-bearing securities.

For the purpose of the statement of cash flows, the County considers all highly liquid investments, including all certificates of deposit and all restricted investments, with a maturity of 90 days or less, to be cash equivalents.

Cash deposits are reported at carrying amount which reasonably estimates fair value. Short-term investments are reported at cost, which approximates fair value. Other investments are reported at fair value.

Interfund Transactions and Balances

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Due to/from other funds are short-term interfund balances that occur in the normal course of operations. Advances to/from other funds are long-term interfund financing arrangements.

Operating transfers in and out arise in the normal course of operations from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

NOTES TO FINANCIAL STATEMENTS - Continued

Inventories

The primary government's inventory is stated at the lower-of-cost or market using the first-in, first-out method.

The Emmet County Road Commission's inventory is stated at the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Capital Assets

Property, plant and equipment used in proprietary funds are stated in a manner consistent with the presentation in the government-wide financial statements. Capital assets, which include land, land improvements, buildings and improvements and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The County generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. Expenditures for major renewals and maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. No depreciation is recorded on land or construction in process. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

The estimated useful lives, in years, for depreciable assets are as follows:

| | |
|----------------------------|---------------|
| Land improvements | 15 years |
| Buildings and improvements | 20 - 50 years |
| Equipment and vehicles | 5 - 10 years |
| Airport infrastructure | 7 - 50 years |

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital Assets of Discretely Presented Component Unit

Capital assets include property, plant, equipment and infrastructure assets (e.g., road, bridges and similar items), and are stated at historical costs or estimated historical cost of purchase or construction. Capital assets are defined by Emmet 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. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed or substantially rehabilitated since fiscal years ended June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Emmet County Road Commission has capitalized current year and prior year's infrastructure, as required by GASB Statement No. 34, and has reported the infrastructure assets in the statement of net assets.

NOTES TO FINANCIAL STATEMENTS - Continued

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

| | |
|--------------------------|----------------|
| Land improvements | 5 to 30 years |
| Building | 30 to 50 years |
| Road equipment | 5 to 8 years |
| Shop equipment | 10 years |
| Engineering department | 4 to 10 years |
| Office equipment | 4 to 10 years |
| Infrastructure - roads | 8 to 30 years |
| Infrastructure - bridges | 12 to 50 years |

Property Taxes

The County property tax is levied each July 1 (for general purposes) and December 1 (for special purposes) on the taxable valuation of property located in the County as of the preceding December 31.

It is the County's policy to recognize the summer tax levy in the financial statements as current revenue because these revenues are budgeted and made "available" to fund current operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. For most non-exchange revenues, a sixty day period is used to establish availability; however, for delinquent taxes purchased through the tax revolving funds each spring, availability has been extended to include those taxes collected through the annual delinquent tax settlement.

It is the County's policy to report the winter tax levy in the financial statements as deferred revenue to the extent it will be used to fund future activities and recognize revenues in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of County operations.

Restricted Assets

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as needed.

Certain governmental and proprietary funds and similar component unit assets are restricted for construction funded through long-term debt, passenger facility charges and Federal grant revenues. Net assets restricted for debt service include the excess of assets over certain liabilities restricted for the debt service on revenue bonds. Restricted assets are also reported in various funds for cash deposited in bank accounts legally restricted for specified uses such as the payment of debt service and fiscal fees on long-term debt.

Tax Revolving Funds

The County maintains tax revolving funds for delinquent taxes purchased from each of the taxing units within the County. These purchases are financed by issuing general obligation limited tax notes when necessary. Interest and collection fees earned on the taxes collected and interest earned on investments of each of the funds are restricted to meet the obligations of the notes. When the notes are retired, any remaining money may be transferred to the General Fund.

Compensated Absences

Primary Government. The County's policy is to grant employees 12 leave days per year. Prior to the end of the year, employees are paid for any remaining unused leave days at \$100 per day and are not allowed to carryover days to the next year. Consequently, there is no liability for accumulated unpaid leave.

Employees earn vacation leave benefits on their anniversary date, the amount of which is dependent on their length of employment. Benefits must be used within one year and cannot be carried over. Accordingly, all accrued vacation is recorded as a current liability in the applicable funds.

Component Unit. In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts.

Employees are compensated 100% of their vested vacation leave upon death, retirement or resignation. Sick leave vests upon death or retirement, limited to 50% of their total accumulated sick time up to a maximum of 50 days.

Fund Equity

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reserves of fund equity represent portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. Unrestricted net assets of Proprietary Funds represent the net assets that have not been legally identified by outside parties for specific purposes.

Use of Estimates

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

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE B - BUDGETARY POLICY AND PRACTICE

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended December 31, 2007, the County incurred expenditures in certain budgetary (General and Special Revenue) funds which were in excess of the amounts appropriated as follows:

| <u>Fund/Function</u> | <u>Total Appropriations</u> | <u>Amount of Expenditures</u> | <u>Budget Variance</u> |
|-------------------------|-----------------------------|-------------------------------|------------------------|
| General Fund | | | |
| General government | \$ 4,065,863 | \$ 4,209,671 | \$ 143,808 |
| Public works - airport | 2,366,632 | 2,601,791 | 235,159 |
| Parks and recreation | 440,490 | 469,624 | 29,134 |
| Other | 504,220 | 599,887 | 95,667 |
| Operating transfers out | 3,734,213 | 5,373,294 | 1,639,081 |

NOTE C - DEPOSITS AND INVESTMENTS

The funds of the County are deposited and invested as permitted under Act 20 P.A. 1943, as amended by Act 196 P.A. 1997. Pension trust funds are invested as permitted under Act 314 P.A. 1965, as amended.

At December 31, 2007, the County's cash and investments include the following:

| | <u>Primary Government</u> | | | <u>Component Unit</u> | <u>Total</u> |
|----------------------|---------------------------|----------------------|----------------------------|-----------------------|----------------------|
| | <u>Deposits</u> | <u>Investments</u> | <u>Pension Trust Funds</u> | <u>Deposits</u> | |
| Carrying amounts | | | | | |
| Cash and equivalents | \$ 9,522,265 | \$ 18,466,425 | \$ - | \$ 732,747 | \$ 28,721,437 |
| Investments | - | - | 13,815,888 | - | 13,815,888 |
| | <u>\$ 9,522,265</u> | <u>\$ 18,466,425</u> | <u>\$ 13,815,888</u> | <u>\$ 732,747</u> | <u>\$ 42,537,325</u> |

Deposits

Michigan law permits the County to deposit in the accounts of Federally insured banks, credit unions and savings and loans associations located in Michigan.

Custodial Credit Risk-Deposits

In the event of bank failure, the County's uninsured deposits may not be returned to it. As of December 31, 2007, \$10,264,362 of the Primary Government's deposits were exposed to custodial credit risk, because they were uninsured and uncollateralized.

NOTES TO FINANCIAL STATEMENTS - Continued

Investments

Michigan law permits the County to invest in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit, savings, deposit and money market accounts.
3. Certain commercial paper.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain obligations of the State of Michigan or its political subdivisions.
7. Certain mutual funds.
8. Certain investment pools.

At December 31, 2007, the County's investments consisted of the following:

| <u>Investment Type</u> | <u>Fair Market Value</u> | <u>Current Maturities</u> |
|-------------------------|--------------------------|---------------------------|
| Money Market Funds | \$ 559,288 | \$ 559,288 |
| Certificates of Deposit | 2,750,073 | 2,750,073 |
| MBIA Investment Pool | <u>15,157,064</u> | <u>15,157,064</u> |
| | <u>\$18,466,425</u> | <u>\$ 18,466,425</u> |

Custodial Credit Risk - Investments

The County will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by: Limiting investments to the type of securities allowed by law; and pre-qualifying the financial institution, broker/dealers, intermediaries and advisors with which the County will do business.

Interest Rate Risk

The County will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fail due to changes in market interest rates. In accordance with the County's investment policy, the investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

Concentration of Credit Risk

The County places no limit on the amount the County may invest in any one issuer. More than five percent of the primary government's investments are in Chase money market funds, First Community certificates of deposit, as well as MBIA investment pool. These investments are 3%, 15% and 82%, respectively, of the primary government's total investments. As of December 31, 2007, the County's investment in the MBIA investment pool was unrated as to the overall credit quality of the pool.

NOTES TO FINANCIAL STATEMENTS - Continued

Pension Trust Funds

Michigan law permits the County's investment fiduciary to invest in various investment vehicles. The County is in compliance with Act 314 P.A. 1965, as amended.

At December 31, 2007, the County's Pension Trust Funds consisted of the following:

| <u>Investment Type</u> | <u>Fair Market Value</u> | <u>Current Maturities</u> |
|---------------------------------|--------------------------|---------------------------|
| Money Market Funds | \$ 729,754 | \$ 729,754 |
| Equity Mutual Funds | 8,084,944 | 8,084,944 |
| Balanced Mutual Funds | 963,583 | 963,583 |
| Bond Mutual Funds | 2,821,602 | 2,821,602 |
| Guaranteed Investment Contracts | <u>1,216,005</u> | <u>1,216,005</u> |
| | <u>\$ 13,815,888</u> | <u>\$ 13,815,888</u> |

| <u>Plan</u> | <u>Fair Market Value</u> |
|----------------------|--------------------------|
| Defined Benefit | \$ 6,058,398 |
| Defined Contribution | <u>7,757,490</u> |
| | <u>\$ 13,815,888</u> |

Custodial Credit Risk - Pension Trust Funds

The County's investment fiduciaries will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by: Limiting investments to the type of securities allowed by law; and pre-qualifying the financial institution, broker/dealers, intermediaries and advisors with which the Fiduciary will do business.

Interest Rate Risk

The County's defined benefit plan investment fiduciaries will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fail due to changes in market interest rates, by: Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the plan's cash requirements.

The defined contribution plan is a participant directed plan.

Credit Risk

State law limits investments in commercial paper, corporate bonds and mutual bond funds to a prime or better rating by nationally recognized statistical rating organizations. The County has no investment policy that would further limit its investment choices. As of December 31, 2007, the County's investments in bond mutual funds were rated as follows:

NOTES TO FINANCIAL STATEMENTS - Continued

| <u>Bond Mutual Fund</u> | <u>Fair Market Value</u> | <u>Rating</u> | <u>Rating Organization</u> |
|-------------------------------------|--------------------------|---------------|----------------------------|
| <i>Defined Benefit Plan</i> | | | |
| Fifth Third Total Return Bond Fund | \$ 1,826,507 | AAA | Standard & Poor's |
| Fifth Third Short-Term Bond Fund | 720,200 | AAA | Standard & Poor's |
| Fifth Third High Yield Bond Fund | 131,879 | BB and B | Standard & Poor's |
| <i>Defined Contribution Plan</i> | | | |
| Nationwide Bond Fund | 31,093 | AAA to B | Morningstar |
| Vantagepoint Core Bond Index Fund | 19,205 | AAA to BB | Morningstar |
| Lehman Brothers Duration Bond Trust | 17,028 | AAA to BBB | Morningstar |
| Hartford Total Return Bond Fund | 16,100 | AAA to B | Morningstar |
| Others | <u>59,590</u> | AAA to B | Morningstar |
| Total | <u>\$ 2,821,602</u> | | |

Concentration of Credit Risk

The County places no limit on the amount the County may invest in any one issuer. As of December 31, 2007, more than five percent of the County's Pension Trust Funds are invested in the following:

| <u>Investment</u> | <u>Fair Market Value</u> | <u>Percentage of Total Pension Trust Funds</u> |
|------------------------------------|--------------------------|------------------------------------------------|
| <i>Defined Benefit Plan</i> | | |
| Fifth Third Total Return Bond Fund | \$ 1,826,507 | 13.2 % |
| Fifth Third Short-Term Bond Fund | 720,200 | 5.2 % |
| Fifth Third Quality Growth Fund | 904,825 | 6.5 % |
| <i>Defined Contribution Plan</i> | | |
| Nationwide Fixed Account | 1,037,890 | 7.5 % |

NOTE D - PROPERTY TAXES

2006 Tax Levy

The 2006 taxable valuation of Emmet County amounted to \$2.559 billion, on which ad valorem taxes of 0.5000 mills were levied for 2007 Senior Citizens' programs, 0.4802 mills were levied for 2007 Medical Care Facility renovation debt retirement and 0.1479 mills were levied for 2007 ambulance and emergency medical services.

The December 2006 tax levy raised revenues of \$1.28 million for the 2007 Senior Citizens' programs, \$1.23 million for 2007 Medical Care Facility renovation debt retirement, and \$379,000 for 2007 ambulance and emergency medical services.

NOTES TO FINANCIAL STATEMENTS - Continued

2007 Tax Levy

The 2007 taxable valuation of Emmet County amounted to \$2.712 billion, on which ad valorem taxes of 4.850 allocated mills were levied for 2007 County operating purposes. An extra-voted 0.4990 mills were levied for 2008 Senior Citizens' programs, 0.4792 mills were levied for 2008 Medical Care Facility renovation debt retirement and 0.1476 mills were levied for 2008 ambulance and emergency medical services.

The July 2007 tax levy raised current tax revenues of \$13.15 million for County operations. The December 2007 tax levy generated deferred tax revenue of \$1.35 million for the 2008 Senior Citizens' programs, \$1.30 million for 2008 Medical Care Facility renovation debt retirement and \$400,000 for 2008 ambulance and emergency medical services.

Delinquent

The delinquent taxes receivable recorded in the Delinquent Tax Revolving Fund consist of uncollected real property taxes which became delinquent prior to December 31, 2007, as follows:

| | |
|-----------------------------------------|---------------------|
| 2007 (collected in advance of purchase) | \$ (15,847) |
| 2006 | 1,866,395 |
| 2005 | 318,415 |
| 2004 | 7,466 |
| 2003 | 9,383 |
| 2002 | 3,660 |
| 2001 | <u>348</u> |
| Total delinquent taxes receivable | <u>\$ 2,189,820</u> |

NOTE E - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables are as follows:

| <u>Fund</u> | <u>Interfund Receivables</u> | <u>Fund</u> | <u>Interfund Payables</u> |
|-----------------|----------------------------------|-----------------|-------------------------------|
| 2003 Bonds Fund | \$ 1,784,854 | Component Unit | \$ 1,784,854 |
| General Fund | <u>31,319</u> | Child Care Fund | <u>31,319</u> |
| Total | <u>\$ 1,816,173</u> | Total | <u>\$ 1,816,173</u> |

The 2003 Bonds Fund receivable and corresponding Component Unit payable relates to the 2003 Series Emmet County Building Authority bonds. A portion of the 2003 Series Building Authority bonds was allocated to the Road Commission. The Road Commission has agreed to pay its pro-rata share of debt service requirements and, therefore, has reflected the debt on its statement of net assets.

NOTES TO FINANCIAL STATEMENTS - Continued

The annual requirements to amortize the Road Commission obligation to the Building Authority, including interest payments of \$443,864, are as follows:

| | |
|-----------|---------------------|
| 2008 | \$ 223,533 |
| 2009 | 197,253 |
| 2010 | 205,553 |
| 2011 | 213,824 |
| 2012 | 221,682 |
| 2013-2017 | <u>1,166,873</u> |
| | <u>\$ 2,228,718</u> |

NOTE F - INVESTMENT IN CAPITAL ASSETS

Investment in capital assets changed as follows during the year ended December 31, 2007:

Governmental Activities

| | <u>Beginning</u> | <u>Capital Acquisitions</u> | <u>Sales and Other Dispositions</u> | <u>Ending</u> |
|--------------------------------------------|----------------------|-----------------------------|-------------------------------------|----------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 11,742,364 | \$ 936,369 | \$ (10,000) | \$ 12,668,733 |
| Construction in progress | <u>-</u> | <u>161,775</u> | <u>-</u> | <u>161,775</u> |
| Subtotal | <u>11,742,364</u> | <u>1,098,144</u> | <u>(10,000)</u> | <u>12,830,508</u> |
| Capital assets being depreciated | | | | |
| Land improvements | 2,388,185 | 9,536 | - | 2,397,721 |
| Buildings and improvements | 24,566,098 | 285,080 | (177,098) | 24,674,080 |
| Equipment | 2,224,263 | 187,314 | - | 2,411,577 |
| Vehicles | 715,615 | 137,083 | (94,191) | 758,507 |
| Airport infrastructure | <u>15,290,589</u> | <u>186,002</u> | <u>-</u> | <u>15,476,591</u> |
| Subtotal | <u>45,184,750</u> | <u>805,015</u> | <u>(271,289)</u> | <u>45,718,476</u> |
| Less accumulated depreciation | | | | |
| Land improvements | (463,091) | (157,633) | - | (620,724) |
| Buildings and improvements | (4,445,561) | (493,515) | - | (4,939,076) |
| Equipment | (832,176) | (265,472) | - | (1,097,648) |
| Vehicles | (431,734) | (119,731) | 75,511 | (475,954) |
| Airport infrastructure | <u>(1,499,639)</u> | <u>(595,009)</u> | <u>-</u> | <u>(2,094,648)</u> |
| Subtotal | <u>(7,672,201)</u> | <u>(1,631,360)</u> | <u>75,511</u> | <u>(9,228,050)</u> |
| Net capital assets being depreciated | <u>37,512,549</u> | <u>(826,345)</u> | <u>(195,778)</u> | <u>36,490,426</u> |
| Governmental activities net capital assets | <u>\$ 49,254,913</u> | <u>\$ 271,799</u> | <u>\$ (205,778)</u> | <u>\$ 49,320,934</u> |

NOTES TO FINANCIAL STATEMENTS - Continued

Disposition of County capital assets of \$177,098 are equity transfers from the Emmet County Building Authority (a Governmental activity) to the Medical Care Facility (an Enterprise Fund).

Business-Type Activities - Enterprise Funds

| | <u>Beginning</u> | Capital Acquisitions and Equity Transfers | Sales and Other Dispositions | <u>Ending</u> |
|-------------------------------------------|----------------------|----------------------------------------------------|------------------------------------|----------------------|
| Land and improvements | \$ 902,981 | \$ 63,710 | \$ - | \$ 966,691 |
| Buildings, structures and improvements | 12,167,322 | 342,513 | - | 12,509,835 |
| Equipment | <u>3,959,629</u> | <u>134,752</u> | <u>(9,371)</u> | <u>4,085,010</u> |
| Total depreciable assets | 17,029,932 | 540,975 | (9,371) | 17,561,536 |
| Less accumulated depreciation | (4,609,501) | (989,780) | 9,371 | (5,589,910) |
| Construction-in-progress | <u>11,488</u> | <u>-</u> | <u>(11,488)</u> | <u>-</u> |
| Total capital assets, net | <u>\$ 12,431,919</u> | <u>\$ (448,805)</u> | <u>\$ (11,488)</u> | <u>\$ 11,971,626</u> |

Depreciation expense was charged to programs of the Primary Government as follows:

Governmental activities

| | |
|-------------------------------|---------------------|
| Public works - airport | \$ 599,551 |
| Parks and recreation | 291,379 |
| Public safety | 247,585 |
| Judicial | 19,450 |
| Unallocated | <u>473,395</u> |
| Total governmental activities | <u>\$ 1,631,360</u> |

Business-type activities

| | |
|--------------------------------|-------------------|
| Medical Care Facility | \$ 664,733 |
| Disposal and Recycle Systems | 312,704 |
| Fair Committee | <u>12,343</u> |
| Total business-type activities | <u>\$ 989,780</u> |

NOTES TO FINANCIAL STATEMENTS - Continued

Component Unit

| | <u>Beginning</u> | <u>Capital Acquisitions</u> | <u>Sales and Other Dispositions</u> | <u>Ending</u> |
|---------------------------------|----------------------|---------------------------------|---------------------------------------------|----------------------|
| Land and land improvements | \$ 878,554 | \$ - | \$ 808,765 | \$ 69,789 |
| Infrastructure improvements | 3,653,634 | - | - | 3,653,634 |
| Equipment | | | | |
| Road | 7,240,167 | 118,260 | 344,796 | 7,013,631 |
| Shop | 202,635 | - | - | 202,635 |
| Office | 112,978 | - | - | 112,978 |
| Engineers | 64,133 | 6,357 | - | 70,490 |
| Yard and storage | 193,606 | - | - | 193,606 |
| Infrastructure - roads | 4,543,446 | 1,588,269 | - | 6,131,715 |
| Depletable assets (gravel pits) | <u>131,801</u> | <u>-</u> | <u>-</u> | <u>131,801</u> |
| Total depreciable assets | 17,020,954 | 1,712,886 | 1,153,561 | 17,580,279 |
| Land and improvements | 37,094 | - | - | 37,094 |
| Infrastructure improvements | 2,478,252 | 984,743 | (808,765) | 4,271,760 |
| Less accumulated depreciation | <u>(7,889,525)</u> | <u>(1,007,050)</u> | <u>344,796</u> | <u>(8,551,779)</u> |
| Total capital assets, net | <u>\$ 11,646,775</u> | <u>\$ 1,690,579</u> | <u>\$ -</u> | <u>\$ 13,337,354</u> |

Depreciation expense was charged to programs of the Emmet County Road Commission as follows:

| | |
|------------------------------|---------------------|
| Equipment expense | \$ 520,364 |
| Administrative | 120,931 |
| Unallocated - infrastructure | <u>365,755</u> |
| Total depreciation expense | <u>\$ 1,007,050</u> |

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE G - LONG-TERM LIABILITIES

A summary of long-term debt transactions for the year ended December 31, 2007 follows:

| | Beginning Balance | New Debt | Net Amortization/ Payments | Ending Balance | Current Portion |
|--------------------------------------------|----------------------|---------------------|----------------------------------|----------------------|---------------------|
| Primary Government | | | | | |
| General obligation bonds | \$ 16,704,918 | \$ - | \$ 1,772,769 | \$ 14,932,149 | \$ 1,875,000 |
| Notes payable | 2,198,054 | - | 259,141 | 1,938,913 | 270,148 |
| General obligation limited tax notes | 905,000 | 4,800,000 | 3,710,000 | 1,995,000 | 1,995,000 |
| Compensated absences* | <u>337,551</u> | <u>27,610</u> | <u>-</u> | <u>365,161</u> | <u>365,161</u> |
| Total primary government | <u>\$ 20,145,523</u> | <u>\$ 4,827,610</u> | <u>\$ 5,741,910</u> | <u>\$ 19,231,223</u> | <u>\$ 4,505,309</u> |
| Component Unit | | | | | |
| Installment purchase agreements payable | \$ 626,775 | \$ - | \$ 154,755 | \$ 472,020 | \$ 160,788 |
| Compensated absences* | <u>210,967</u> | <u>54,312</u> | <u>-</u> | <u>265,279</u> | <u>-</u> |
| Total component unit | <u>\$ 837,742</u> | <u>\$ 54,312</u> | <u>\$ 154,755</u> | <u>\$ 737,299</u> | <u>\$ 160,788</u> |

* Compensated absences new debt represents the net effect of additional vacation days earned and used during the year.

Primary Government

General Long-Term Debt

General Obligation Bonds

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| \$8,050,000 2002 Series Emmet County Building Authority bonds (Medical Care Facility); due in annual installments of \$800,000 to \$1,250,000 through May 2011; interest rate of 3.75% to 3.85%. | \$ 4,550,000 |
| Unaccreted discount | (6,018) |
| \$13,250,000 2003 Series Emmet County Building Authority bonds; due in annual installments of \$825,000 to \$1,355,000 through May 2017; interest rate of 2.0% to 5.0%. | 10,205,000 |
| Unamortized premium | 282,916 |
| Deferred refunding loss | <u>(99,749)</u> |
| Total general obligation bonds | <u>14,932,149</u> |

NOTES TO FINANCIAL STATEMENTS - Continued

Building Authority bonds are secured by Limited Tax Full Faith and Credit General Obligation Contracts of lease which require the County to provide cash rental payments to the Authority in amounts sufficient to pay bond obligations as they become due. Inasmuch as the County is the sole member of the Authority and rental payments correspond exactly with debt service requirements, no effect is given the lease agreement for financial reporting purposes.

Notes Payable

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Land contract payable; secured by property; monthly payments of \$3,290 beginning January 1, 2003, including interest at 4%; final payment due January 1, 2012. | \$ 178,669 |
| Note payable to a bank; secured by property; monthly payments of \$15,323 beginning July 15, 2004, including interest of 4.19%; final payment due July 15, 2014. | 1,056,181 |
| Note payable to a bank; secured by property; monthly payments of \$8,172 beginning July 15, 2004, including interest of 4.19%; final payment due July 15, 2014. | 563,250 |
| Note payable to a bank; secured by property; monthly payments of \$2,043 beginning July 15, 2004, including interest of 4.19%; final payment due July 15, 2014. | <u>140,813</u> |
| Total notes payable | <u>1,938,913</u> |
| <i>Compensated absences</i> | <u>365,161</u> |
| Total general long-term debt | 17,236,223 |

Proprietary Fund Debt

General Obligation Limited Tax Notes

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| \$4.19 million 2006 general obligation limited tax notes; variable principal payments due based on receipt of delinquent taxes with entire balance due by March 1, 2009; interest at a variable rate set with respect to the specified interest index; secured by delinquent property taxes. | <u>1,995,000</u> |
| Total liabilities - primary government | <u>\$ 19,231,223</u> |

NOTES TO FINANCIAL STATEMENTS - Continued

Component Unit

Installment Payable

Installment payable, secured by equipment, payable in monthly installments of \$14,672 including interest of 3.83%.

\$ 472,020

Compensated absences

265,279

Total liabilities - component unit

\$ 737,299

In addition, see Note E for the Road Commission's debt related to its share of the 2003 Series Building Authority Bonds.

Debt Service Requirements

Interest expense on long-term liabilities was \$813,818 and \$95,389 for the primary government and component unit, respectively, for the year ended December 31, 2007. The annual requirements to amortize general obligation, notes payable and component unit debt outstanding as of December 31, 2007, including interest payments of \$2,902,362, \$275,988 and \$26,825, respectively, are as follows:

| Years Ending December 31, | General Obligation | Notes Payable | Total Primary Government | Component Unit |
|------------------------------|-----------------------|---------------------|-----------------------------|-------------------|
| 2008 | \$ 2,433,363 | \$ 345,937 | \$ 2,779,300 | \$ 176,063 |
| 2009 | 2,342,687 | 345,937 | 2,688,624 | 176,063 |
| 2010 | 2,445,857 | 345,937 | 2,791,794 | 146,719 |
| 2011 | 2,496,300 | 345,937 | 2,842,237 | - |
| 2012 | 1,267,474 | 345,937 | 1,613,411 | - |
| 2013-2017 | <u>6,671,681</u> | <u>485,217</u> | <u>7,156,898</u> | <u>-</u> |
| | <u>\$ 17,657,362</u> | <u>\$ 2,214,902</u> | <u>\$ 19,872,264</u> | <u>\$ 498,845</u> |

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NOTE H - INTERFUND TRANSFERS

Operating Transfers

A summary of operating transfers in and out of individual funds and component units follows:

| <u>Fund</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|----------------------------------------------|---------------------|----------------------|
| Transfers among primary government funds | | |
| General | \$ 766,265 | \$ 5,373,294 |
| Emergency Management | 33,613 | - |
| Friend of the Court | 110,000 | - |
| Public Improvement | 160,000 | - |
| Tribal Payment | - | 194,337 |
| Law Library | 14,000 | - |
| Revenue Sharing | - | 571,928 |
| Medical Care Facility | 210,000 | - |
| Child Care | 861,650 | - |
| Soldier's Relief | 25,000 | - |
| S.A.N.E. | 98,222 | - |
| S.A.N.E. Adjudicated | - | 78,222 |
| Operating Contingency | 1,071,928 | - |
| Department of Human Services | 9,700 | - |
| Housing Grant | 55,000 | - |
| Emmet County Building Authority - 2003 Bonds | 1,051,066 | - |
| Medical Care Facility 2002 Bonds | - | 190,000 |
| Park System | 350,000 | - |
| Capital Projects | 1,267,322 | - |
| Fairgrounds Project | 68,750 | - |
| Building Authority Construction Fund | 190,000 | - |
| Emmet County Road Commission | 65,265 | - |
| Total primary government | <u>\$ 6,407,781</u> | <u>\$ 6,407,781</u> |
| Medical Care Facility | \$ 177,098 | \$ - |
| Emmet County Building Authority | - | 177,098 |

NOTE I - COUNTY OF EMMET RETIREMENT PLAN

Plan Description

The County of Emmet Retirement Plan and Trust (the "Plan") is a single employer defined benefit pension plan administered by the County Board of Commissioners. As such, it is reported with the Pension Trust Funds in the County's financial statements.

NOTES TO FINANCIAL STATEMENTS - Continued

The Plan covers employees who are members of the United Steel Workers of America AFL-CIO and other electing employees who met certain age and service requirements as of December 31, 1995, the date after which the County of Emmet Money Purchase Pension Plan and Trust became effective. At December 31, 2007, participants included 101 retirees and beneficiaries currently receiving benefits, 86 inactive or terminated employees entitled to benefits but not yet receiving them and one current active employee. The Plan is closed to new entrants.

The Plan provides retirement and death benefits to Plan members and their beneficiaries, in accordance with the Retirement Plan and Trust Agreement entered into between the County and certain unions, pursuant to the provisions of collective bargaining agreements. Benefit provisions may be amended by the Plan administrator subject to the provisions of the applicable collective bargaining agreements.

Funding Policy

The County is obligated to contribute amounts required to fund the Plan. The funding policy followed by the County Board of Commissioners allows for contributions to be made at the discretion of the Board after taking into consideration such items as: (1) the funded status of the Plan; (2) recent investment performance; and (3) availability of resources from which to contribute. Employees are not permitted to contribute to the Plan.

Annual Pension Cost and Net Pension Obligation

The County's annual pension cost and net pension obligation to the Plan for the current year were as follows:

| | |
|------------------------------------|----------------------------|
| Annual Required Contribution (ARC) | \$ 410,197 |
| Interest on Net Pension Obligation | 53,923 |
| Adjustment to ARC | <u>(71,308)</u> |
| Annual Pension Cost | 392,812 |
| Contributions made | <u>352,812</u> |
| Increase in Net Pension Obligation | 40,000 |
| Net Pension Obligation - Beginning | <u>1,350,000</u> |
| Net Pension Obligation - Ending | <u><u>\$ 1,390,000</u></u> |

Three-Year Trend Information

| <u>Fiscal</u> <u>Year-Ending</u> | <u>Annual</u> <u>Pension</u> <u>Cost ("APC")</u> | <u>Percentage</u> <u>of APC</u> <u>Contributed</u> | <u>Net Pension</u> <u>Obligation</u> |
|-------------------------------------|--------------------------------------------------------|----------------------------------------------------------|-----------------------------------------|
| 2005 | 229,410 | 98.9% | 1,170,000 |
| 2006 | 470,908 | 61.6% | 1,350,000 |
| 2007 | 396,716 | 88.9% | 1,390,000 |

Funded Status and Funding Progress

As of January 1, 2008, the most recent actuarial valuation date, the plan was 68.4% funded. The actuarial accrued liability for benefits was \$8.8 million and the actuarial value of assets was \$6.0 million, resulting in an unfunded actuarial accrued liability ("UAAL") of \$2.8 million. Since the plan has been closed, there is minimal covered payroll and the ratio of the UAAL to covered payroll was 9,526%. The Schedule of Funding Progress, presented as Required Supplemental Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

In the January 1, 2008, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included (a) 6.0 percent investment rate of return and (b) no projected salary increases. The actuarial value of assets was determined using actual market values. The UAAL is being amortized as a level dollar cost. The remaining amortization period at December 31, 2007, was 26 years.

NOTE J - DEFINED CONTRIBUTION (MONEY PURCHASE) PENSION PLAN

The County contributes to a defined contribution retirement plan, administered by the County Board of Commissioners with the International City Management Association Retirement Corporation ("ICMA"), Hartford Funds, Nationwide, John Hancock Funds, FTJ Fund Choice, LLC and the Mutual Trust Life Insurance Company acting as investment fiduciaries. Contributions are determined by an employment agreement requiring employer contributions of 8% of covered payroll.

The County contributed \$748,503 to the plan during the year ended December 31, 2007, equal to 8% of covered payroll.

NOTE K - DEFINED BENEFIT PENSION PLAN - COUNTY ROAD COMMISSION

The Emmet County Road Commission participates in the Michigan Municipal Employees Retirement System. Required pension disclosures are included in separately prepared financial statements for the Road Commission. The unfunded pension benefit obligation for the Road Commission Plan at December 31, 2007 was \$3,477,226. Net assets available for benefits totaled \$8,150,219. The actuarial determined minimum employer contributions were made by the Road Commission.

NOTE L - DEFINED CONTRIBUTION PENSION PLAN - COUNTY ROAD COMMISSION

The Emmet County Road Commission provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by agreement, the County Road Commission contributes 10% of employees' gross earnings and employee contributions for each employee (plus interest allocated to the employee's account) are fully vested. Eligible employees are required to contribute 2% of their earnings.

NOTES TO FINANCIAL STATEMENTS - Continued

The Road Commission's total payroll during the current year was \$1,755,546. The current year contribution was calculated based on covered payroll of \$1,012,104, resulting in an employer contribution of \$101,210 and employee contributions of \$20,242.

NOTE M - POST-EMPLOYMENT BENEFITS - COUNTY ROAD COMMISSION

The Emmet County Road Commission provides post-employment health care benefits to all retired employees and/or their spouse. The benefit includes the provision that a retiree pays 100% of the cost of the premium. The Road Commission remitted \$39,758 for post-employment benefits during 2007 for six participants.

NOTE N - CONTINGENCIES

Grant Programs

The County participates in State and Federally assisted grant programs. The programs are subject to economy and efficiency and program result audits by the grantors or their representatives. The audits of the programs for or including the year ended December 31, 2007 have not yet been conducted. Accordingly, the County's compliance with applicable grant requirements will be established at some future date.

Legal Matters

There are lawsuits pending in which the County is involved. The County estimates that the potential claims against the County not covered by insurance resulting from such litigation would not materially affect the financial position of the County.

Component Unit - Contingent Loan Commitment

During fiscal 2007, the Road Commission executed a loan contract with the Michigan Department of Transportation to assist the Road Commission in financing transportation infrastructure improvements. The contract terms stipulated a loan amount not to exceed \$25,056 at a rate of interest of 4% per annum. The loan funds are restricted to use on specific projects only. Additionally, the agreement grants permission to the Michigan Department of Transportation to convert federal advanced construction funds, when available, to repay the loan principal amounts, with final repayment required by September 30, 2009. If repayment is not paid by that date, the Michigan Department of Treasury is allowed to withhold monies from Michigan Transportation Funds in lieu of repayment.

NOTE O - RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to and destruction of, assets; errors and omissions; injuries to employees; and natural disaster.

NOTES TO FINANCIAL STATEMENTS - Continued

The County participates as a member in the Michigan Municipal Risk Management Authority. The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and auto liability, motor vehicle physical damage and property.

The Authority has entered into reinsurance agreements providing for loss coverage in excess of the amounts to be retained by the Authority and individual members. An individual member's maximum retention on general liability and auto liability is \$75,000. The limits on auto physical damage are \$15,000 per unit and \$30,000 per occurrence. The retention limits for property coverage are subject to a \$1,000 deductible with 10% of the first \$100,000 to be paid by the member. Some members have individual retention levels different than the ones previously stated. In the event a reinsurance company does not meet its obligation to the Authority, responsibility for payment of any unreimbursed claims will be that of the Authority Reinsurance Fund. The Authority has retained certain levels of risk rather than obtaining coverage through reinsurance agreements. The Authority established the Authority Reinsurance Fund in order to participate in the reinsurance agreements. Individual members are provided the same level of coverage previously afforded through a combination of the reinsurance agreements and the Reinsurance Fund.

In addition, the Authority purchases insurance for certain risks not covered by the reinsurance agreements.

The reinsurance agreements discussed above include provisions for minimum annual premiums. As of December 31, 2007, the Authority had met the minimum requirements.

Component Unit

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

The Road Commission continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

NOTE P - JOINT VENTURES

CCE Central Dispatch Authority

In 1993, the County, with Charlevoix and Cheboygan Counties, jointly established the CCE Central Dispatch Authority (the "Dispatch Authority"), which is a Michigan municipal body formed by and on behalf of participating municipalities located within the counties of Charlevoix, Cheboygan and Emmet, through the auspices of the Inter-Governmental Contracts Between Municipalities Act, Urban Cooperation Act and Emergency Telephone Services Enabling Act. The purpose of the Dispatch Authority is to centralize the dispatch of emergency service responders in the three-county area. Dispatch services commenced during June 1996.

The Dispatch Authority is governed by a Board of Directors consisting of nine members; three representing each county. Of each county's representatives, one is a county commissioner appointed by the county, one is a city/village official (mayor, village president, village trustee, city council member or city manager) selected by a majority vote of all the mayors in the county and one is an elected township official selected by a majority vote of the Michigan Townships Association chapter in the county.

Under the terms of the agreement creating the Dispatch Authority, each member county is responsible for providing funding, based on a formula, payable quarterly in advance. Nonpayment may result in termination of the Central Dispatch Service. The funding formula, which will be reviewed every five years, calls for each county to provide 20% of the required funding (total 60% for the three counties), plus their pro-rata share of the remaining 40%, based on telephone lines. The 2007 allocation percentages and amount of total funding for operations are as follows:

| | <u>Total Allocation</u> | |
|------------|-------------------------|---------------------|
| | <u>Percent</u> | <u>Amount</u> |
| Charlevoix | 32.00 % | \$ 405,599 |
| Cheboygan | 31.00 % | 392,924 |
| Emmet | <u>37.00 %</u> | <u>468,974</u> |
| Total | <u>100.00 %</u> | <u>\$ 1,267,497</u> |

Audited financial information for the CCE Central Dispatch Authority as of December 31, 2007 was not available at the time this report was published.

Northwest Michigan Community Health Agency

The Northwest Michigan Community Health Agency (the "Agency") is a Michigan municipal body and an agency of Antrim, Charlevoix, Emmet and Otsego Counties, created under Act 368, Public Acts of 1978. The Agency is a component unit of the County of Charlevoix, Michigan and is used to control the expenditures of revenues from agreements with the State of Michigan, local appropriations and charges for services rendered.

NOTES TO FINANCIAL STATEMENTS - Continued

Member counties' appropriations for the year 2007 were:

| | | |
|------------|----|-----------------------|
| Antrim | \$ | 189,956 |
| Charlevoix | | 214,770 |
| Emmet | | 259,265 |
| Otsego | | <u>158,624</u> |
| | \$ | <u><u>822,615</u></u> |

The following financial information has been obtained from the audited financial statements of the Northwest Michigan Community Health Agency as of and for the year ended December 31, 2007:

| | | |
|----------------------|----|------------|
| Total assets | \$ | 7,038,610 |
| Total net assets | | 4,985,058 |
| Total revenues | | 22,337,809 |
| Total expenditures | | 21,439,773 |
| Change in net assets | | 898,036 |

Department of Human Services

The Departments of Human Services (formerly Family Independence Agencies) of Emmet and Charlevoix Counties were combined as of October 1, 1997. The combined activity is reported in the financial statements of the County of Charlevoix, Michigan.

Emmet County did not contribute to the Department of Human Services during the year ended December 31, 2007.

North Country Community Mental Health Services

North Country Community Mental Health Services ("NCCMHS") was created on April 1, 2003, by the Counties of Antrim, Charlevoix, Cheboygan, Emmet, Kalkaska and Otsego under Public Act 290, P.A. 1995 as successor to the Northern Michigan Community Mental Health Services Board. NCCMHS's purpose and power is to comply with and carry out the provisions of the Michigan Mental Health Code in the six-county area it serves.

Member counties' appropriations for the year ended September 30, 2007 were:

| | | |
|------------|----|-----------------------|
| Antrim | \$ | 145,611 |
| Charlevoix | | 112,446 |
| Cheboygan | | 111,995 |
| Emmet | | 131,335 |
| Kalkaska | | 61,875 |
| Otsego | | <u>94,003</u> |
| | \$ | <u><u>657,265</u></u> |

NOTES TO FINANCIAL STATEMENTS - Continued

The following financial information has been obtained from the audited financial statements of the North Country Community Mental Health Services as of and for the year ended September 30, 2007:

| | |
|----------------------|---------------|
| Total assets | \$ 11,694,541 |
| Total net assets | 6,007,033 |
| Total revenues | 64,044,785 |
| Total expenditures | 64,101,738 |
| Change in net assets | (56,953) |

NOTE Q - RECONCILIATION OF CASH FLOWS

A reconciliation of operating income to net cash provided by operating activities follows:

| | <u>Enterprise Funds</u> |
|----------------------------------------------------------------------------------------|-------------------------|
| Operating income | \$ 389,767 |
| Adjustments to reconcile operating income to net cash provided by operating activities | |
| Depreciation | 989,780 |
| Gain on disposal of assets | (9,371) |
| Change in assets and liabilities | |
| Accounts receivable | (246,969) |
| Other current assets | 7,659 |
| Accounts payable | 302,717 |
| Other accrued liabilities | 4,236 |
| Deferred proportionate share revenue | <u>(17,636)</u> |
| Net cash provided by operating activities | <u>\$ 1,420,183</u> |

NOTE R - ACCOUNTING CHANGE

The Governmental Accounting Standards Board ("GASB") issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, in June 1999. In February 2000, the Michigan Committee on Governmental Accounting and Auditing (MCGAA) published Statement No. 7 to define the required extent of the implementation of GASB No. 34 for financial reporting requirements in Michigan counties and local governments. Prior to the current year, in accordance with Michigan Department of Treasury guidelines, the County's management elected to omit financial statements of the governmental activities and business-type activities and certain information related to infrastructure required by the Governmental Accounting Standards Board ("GASB"). During 2007 the County implemented the financial reporting framework prescribed by GASB Statement No. 34.

REQUIRED SUPPLEMENTARY INFORMATION

County of Emmet

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the year ended December 31, 2007

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances - Positive (Negative) | |
|---------------------------------------|---------------------|---------------------|------------------------|---------------------------------|--------------------------|
| | Original | Final | | Original to Final | Final to Actual Total |
| | | | | | |
| REVENUES | | | | | |
| Taxes | \$ 12,741,617 | \$ 12,744,367 | \$ 13,727,573 | \$ 2,750 | \$ 983,206 |
| Licenses and permits | 657,850 | 584,400 | 560,755 | (73,450) | (23,645) |
| State and Federal grants | 851,779 | 939,569 | 952,301 | 87,790 | 12,732 |
| Charges for services | 2,975,855 | 3,248,346 | 4,118,800 | 272,491 | 870,454 |
| Fines and forfeits | 38,200 | 32,300 | 43,955 | (5,900) | 11,655 |
| Interest and rentals | 589,700 | 646,200 | 500,726 | 56,500 | (145,474) |
| Other revenue | 55,250 | 38,000 | 1,200,095 | (17,250) | 1,162,095 |
| | <u>17,910,251</u> | <u>18,233,182</u> | <u>21,104,205</u> | <u>322,931</u> | <u>2,871,023</u> |
| Total revenues | | | | | |
| EXPENDITURES | | | | | |
| Legislative | 214,800 | 190,405 | 161,572 | 24,395 | 28,833 |
| Judicial | 2,297,002 | 2,240,604 | 2,148,040 | 56,398 | 92,564 |
| General government | 3,969,423 | 4,065,863 | 4,209,671 | (96,440) | (143,808) |
| Public safety | 4,830,134 | 4,805,926 | 4,541,751 | 24,208 | 264,175 |
| Public works - airport | 2,068,824 | 2,366,632 | 2,601,791 | (297,808) | (235,159) |
| Health and welfare | 339,704 | 315,875 | 306,862 | 23,829 | 9,013 |
| Parks and recreation | 412,162 | 440,490 | 469,624 | (28,328) | (29,134) |
| Contributions to other organizations | 1,240,215 | 1,235,932 | 1,230,397 | 4,283 | 5,535 |
| Other | 673,150 | 504,220 | 599,887 | 168,930 | (95,667) |
| | <u>16,045,414</u> | <u>16,165,947</u> | <u>16,269,595</u> | <u>(120,533)</u> | <u>(103,648)</u> |
| Total expenditures | | | | | |
| REVENUES OVER EXPENDITURES | <u>1,864,837</u> | <u>2,067,235</u> | <u>4,834,610</u> | <u>202,398</u> | <u>2,767,375</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Operating transfers in | 1,913,903 | 1,670,168 | 766,265 | (243,735) | (903,903) |
| Operating transfers out | (3,777,383) | (3,734,213) | (5,373,294) | 43,170 | (1,639,081) |
| | <u>(1,863,480)</u> | <u>(2,064,045)</u> | <u>(4,607,029)</u> | <u>(200,565)</u> | <u>(2,542,984)</u> |
| Total other financing sources (uses) | | | | | |
| NET CHANGE IN FUND BALANCES | 1,357 | 3,190 | 227,581 | 1,833 | 224,391 |
| Fund balance, beginning of year | <u>1,531,148</u> | <u>1,659,513</u> | <u>1,659,512</u> | <u>128,365</u> | <u>(1)</u> |
| Fund balance, end of year | <u>\$ 1,532,505</u> | <u>\$ 1,662,703</u> | <u>\$ 1,887,093</u> | <u>\$ 130,198</u> | <u>\$ 224,390</u> |

County of Emmet

BUDGETARY COMPARISON SCHEDULE FOR THE REVENUE SHARING RESERVE FUND

For the year ended December 31, 2007

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances - Positive (Negative) | |
|------------------------------------|---------------------|---------------------|------------------------|---------------------------------|--------------------------|
| | Original | Final | | Original to Final | Final to Actual Total |
| REVENUES | | | | | |
| Interest and rentals | \$ 150,000 | \$ 195,000 | \$ 275,969 | \$ 45,000 | \$ 80,969 |
| OTHER FINANCING USES | | | | | |
| Operating transfers out | (571,928) | (571,928) | (571,928) | - | - |
| NET CHANGE IN FUND BALANCES | (421,928) | (376,928) | (295,959) | 45,000 | 80,969 |
| Fund balance, beginning of year | 9,788,956 | 9,788,956 | 9,788,956 | - | - |
| Fund balance, end of year | <u>\$ 9,367,028</u> | <u>\$ 9,412,028</u> | <u>\$ 9,492,997</u> | <u>\$ 45,000</u> | <u>\$ 80,969</u> |

County of Emmet

BUDGETARY COMPARISON SCHEDULE FOR THE OLDER PERSONS FUND

For the year ended December 31, 2007

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances - Positive (Negative) | |
|------------------------------------|-------------------------|--------------------------|--------------------------|---------------------------------|--------------------------|
| | Original | Final | | Original to Final | Final to Actual Total |
| REVENUES | | | | | |
| Taxes | \$ 1,254,126 | \$ 1,261,142 | \$ 1,269,221 | \$ 7,016 | \$ 8,079 |
| Interest and rentals | 10,000 | 17,000 | 18,806 | 7,000 | 1,806 |
| Other revenue | - | - | 3,133 | - | 3,133 |
| | <u>1,264,126</u> | <u>1,278,142</u> | <u>1,291,160</u> | <u>14,016</u> | <u>13,018</u> |
| EXPENDITURES | | | | | |
| Health and welfare | <u>1,320,127</u> | <u>1,226,421</u> | <u>1,225,798</u> | <u>93,706</u> | <u>623</u> |
| NET CHANGE IN FUND BALANCES | (56,001) | 51,721 | 65,362 | 107,722 | 13,641 |
| Fund balance, beginning of year | <u>88,868</u> | <u>88,868</u> | <u>88,868</u> | - | - |
| Fund balance, end of year | <u><u>\$ 32,867</u></u> | <u><u>\$ 140,589</u></u> | <u><u>\$ 154,230</u></u> | <u><u>\$ 107,722</u></u> | <u><u>\$ 13,641</u></u> |

County of Emmet

BUDGETARY COMPARISON SCHEDULE FOR THE OPERATING CONTINGENCY FUND

For the year ended December 31, 2007

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances - Positive (Negative) | |
|------------------------------------|---------------------|---------------------|------------------------|---------------------------------|--------------------------|
| | Original | Final | | Original to Final | Final to Actual Total |
| REVENUES | | | | | |
| Interest and rentals | \$ 50,000 | \$ 118,056 | \$ 98,249 | \$ 68,056 | \$ (19,807) |
| EXPENDITURES | | | | | |
| Total expenditures | - | - | - | - | - |
| REVENUES OVER EXPENDITURES | 50,000 | 118,056 | 98,249 | 68,056 | (19,807) |
| OTHER FINANCING USES | | | | | |
| Operating transfers in | 472,710 | - | 1,071,928 | (472,710) | 1,071,928 |
| NET CHANGE IN FUND BALANCES | 522,710 | 118,056 | 1,170,177 | (404,654) | 1,052,121 |
| Fund balance, beginning of year | 1,996,614 | 1,996,614 | 1,996,614 | - | - |
| Fund balance, end of year | <u>\$ 2,519,324</u> | <u>\$ 2,114,670</u> | <u>\$ 3,166,791</u> | <u>\$ (404,654)</u> | <u>\$ 1,052,121</u> |

County of Emmet

COUNTY OF EMMET RETIREMENT PLAN AND TRUST SCHEDULE OF FUNDING PROGRESS

For the year ended December 31, 2007

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|-----------------------------|-------------------------------------|-------------------------------------|---------------------------------|--------------------------|---------------------------|---------------------------------------------------------------|
| 1/1/1992 | \$ 3,527,908 | \$ 4,145,164 | \$ 617,256 | 85.11 % | \$ 4,442,773 | 13.89 % |
| 1/1/1993 | 3,773,940 | 5,656,908 | 1,882,968 | 66.71 % | 4,724,531 | 39.86 % |
| 1/1/1994 | 4,189,690 | 6,588,585 | 2,398,895 | 63.59 % | 4,896,604 | 48.99 % |
| 1/1/1995 | 4,395,766 | 7,281,370 | 2,885,604 | 60.37 % | 5,137,238 | 56.17 % |
| 1/1/1996 | 5,049,694 | 6,176,081 | 1,126,387 | 81.76 % | 5,268,607 | 21.38 % |
| 1/1/1997 | 4,681,594 | 5,920,209 | 1,238,615 | 79.08 % | 4,260,799 | 29.07 % |
| 1/1/1998 | 4,769,335 | 6,055,922 | 1,286,587 | 78.75 % | 3,456,388 | 37.22 % |
| 1/1/1999 | 5,276,313 | 6,333,448 | 1,057,135 | 83.31 % | 3,134,483 | 33.73 % |
| 1/1/2000 | 5,892,493 | 6,389,380 | 496,887 | 92.22 % | 2,832,558 | 17.54 % |
| 1/1/2001 | 5,526,986 | 6,755,225 | 1,228,239 | 81.82 % | 336,589 | 364.91 % |
| 1/1/2002 | 5,281,036 | 6,871,857 | 1,590,821 | 76.85 % | 329,011 | 483.52 % |
| 1/1/2003 | 4,670,313 | 7,037,078 | 2,366,765 | 66.37 % | 276,892 | 854.76 % |
| 1/1/2004 | 5,465,506 | 8,978,322 | 3,512,816 | 60.87 % | 244,027 | 1,439.52 % |
| 1/1/2005 | 5,626,657 | 8,964,788 | 3,338,131 | 62.76 % | 71,874 | 4,644.42 % |
| 1/1/2006 | 5,591,468 | 8,950,828 | 3,359,360 | 62.47 % | 71,874 | 4,673.96 % |
| 1/1/2007 | 5,862,664 | 8,849,222 | 2,986,558 | 66.25 % | 29,306 | 10,190.94 % |
| 1/1/2008 | 6,050,689 | 8,842,244 | 2,791,555 | 68.43 % | 29,306 | 9,525.54 % |

County of Emmet

**COUNTY OF EMMET RETIREMENT PLAN AND TRUST
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

For the year ended December 31, 2007

| <u>Years Ended December 31,</u> | <u>Annual Required Contribution</u> | <u>Actual Contribution</u> | <u>Percentage Contributed</u> |
|-------------------------------------|-----------------------------------------|--------------------------------|-----------------------------------|
| 1992 | \$ 215,573 | \$ 120,000 | 55.7 % |
| 1993 | 419,840 | 112,500 | 26.8 % |
| 1994 | 517,490 | 336,740 | 65.1 % |
| 1995 | 607,271 | 135,000 | 22.2 % |
| 1996 | 292,825 | - | - % |
| 1997 | - | 37,589 | 100.0 % |
| 1998 | 221,189 | 269,530 | 121.9 % |
| 1999 | 26,609 | 130,306 | 489.7 % |
| 2000 | 176,578 | 236,179 | 133.8 % |
| 2001 | 280,466 | 255,464 | 91.1 % |
| 2002 | 516,221 | 286,472 | 55.5 % |
| 2003 | 463,121 | 409,522 | 88.4 % |
| 2004 | 231,116 | 357,491 | 154.7 % |
| 2005 | 241,057 | 226,857 | 94.1 % |
| 2006 | 482,580 | 290,082 | 60.1 % |
| 2007 | 410,197 | 352,812 | 86.0 % |

COMBINING FINANCIAL STATEMENTS

County of Emmet

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

December 31, 2007

| Special Revenue Funds | | | | | | | | | | | | |
|------------------------------------------------|-------------------------|--------------------------|---------------------------|----------------------------------------|--------------------------|-------------------------|--------------------------|-------------------------|--------------------------|-------------------------|----------------------|-------------------------|
| | Emergency Management | Ambulance | Friend of the Court | Brownfield Development Authority | Tribal Payment | Public Improvement | Register of Deeds | Law Library | Child Care | Soldiers' Relief | Veterans' Trust | S.A.N.E. |
| ASSETS | | | | | | | | | | | | |
| Cash and equivalents | \$ - | \$ 43,805 | \$ 508,018 | \$ 56,681 | \$ 401,924 | \$ 59,995 | \$ 135,609 | \$ 16,142 | \$ 616,730 | \$ 15,581 | \$ 878 | \$ 25,131 |
| Accounts and advances receivable | 16,865 | - | - | - | - | - | 4,450 | - | - | - | - | - |
| Property taxes receivable | - | 357,204 | - | - | - | - | - | - | - | - | - | - |
| Due from governmental units | - | - | 62,639 | - | - | - | - | - | 54,842 | - | - | 38,411 |
| Due from component unit | - | - | - | - | - | - | - | - | - | - | - | - |
| Total assets | <u>\$ 16,865</u> | <u>\$ 401,009</u> | <u>\$ 570,657</u> | <u>\$ 56,681</u> | <u>\$ 401,924</u> | <u>\$ 59,995</u> | <u>\$ 140,059</u> | <u>\$ 16,142</u> | <u>\$ 671,572</u> | <u>\$ 15,581</u> | <u>\$ 878</u> | <u>\$ 63,542</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | | | | | | |
| LIABILITIES | | | | | | | | | | | | |
| Accounts payable | \$ 16,865 | \$ - | \$ 1,924 | \$ - | \$ 16,751 | \$ - | \$ - | \$ 917 | \$ 31,385 | \$ 410 | \$ - | \$ 60,468 |
| Due to other funds | - | - | - | - | - | - | - | - | 31,319 | - | - | - |
| Deferred revenue | - | 400,284 | - | - | - | - | - | - | - | - | - | - |
| Total liabilities | <u>16,865</u> | <u>400,284</u> | <u>1,924</u> | <u>-</u> | <u>16,751</u> | <u>-</u> | <u>-</u> | <u>917</u> | <u>62,704</u> | <u>410</u> | <u>-</u> | <u>60,468</u> |
| FUND BALANCES | | | | | | | | | | | | |
| Reserved for | | | | | | | | | | | | |
| Capital projects | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt service | - | - | - | - | - | - | - | - | - | - | - | - |
| Long-term receivable | - | - | - | - | - | - | - | - | - | - | - | - |
| Unreserved | - | 725 | 568,733 | 56,681 | 385,173 | 59,995 | 140,059 | 15,225 | 608,868 | 15,171 | 878 | 3,074 |
| Total fund balances | <u>-</u> | <u>725</u> | <u>568,733</u> | <u>56,681</u> | <u>385,173</u> | <u>59,995</u> | <u>140,059</u> | <u>15,225</u> | <u>608,868</u> | <u>15,171</u> | <u>878</u> | <u>3,074</u> |
| Total liabilities and fund balances | <u>\$ 16,865</u> | <u>\$ 401,009</u> | <u>\$ 570,657</u> | <u>\$ 56,681</u> | <u>\$ 401,924</u> | <u>\$ 59,995</u> | <u>\$ 140,059</u> | <u>\$ 16,142</u> | <u>\$ 671,572</u> | <u>\$ 15,581</u> | <u>\$ 878</u> | <u>\$ 63,542</u> |

County of Emmet

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - Continued

December 31, 2007

| | Special Revenue Funds | | | Debt Service Fund | Capital Project Funds | | | | | Total Other Non-Major Funds |
|--------------------------------------|-------------------------|------------------------------------|------------------|----------------------|--------------------------|-------------------|---------------------------------------|---------------------|------------------------|--------------------------------------|
| | S.A.N.E. Adjudicated | Department of Human Services | Housing Grant | 2003 Bonds | 911 Equipment Fund | Park System | Building Authority Construction | Airport Facility | Fairground Projects | |
| ASSETS | | | | | | | | | | |
| Cash and equivalents | \$ 157,818 | \$ 7,485 | \$ 55,000 | \$ 17,752 | \$ 325,803 | \$ 564,363 | \$ 17,520 | \$ 400,887 | \$ 117,651 | \$ 3,544,773 |
| Accounts and advances receivable | - | - | - | - | - | - | - | 2,779 | - | 24,094 |
| Property taxes receivable | - | - | - | - | - | - | - | - | - | 357,204 |
| Due from governmental units | - | - | - | - | - | - | - | - | - | 155,892 |
| Due from component unit | - | - | - | 1,784,854 | - | - | - | - | - | 1,784,854 |
| | <u>\$ 157,818</u> | <u>\$ 7,485</u> | <u>\$ 55,000</u> | <u>\$ 1,802,606</u> | <u>\$ 325,803</u> | <u>\$ 564,363</u> | <u>\$ 17,520</u> | <u>\$ 403,666</u> | <u>\$ 117,651</u> | <u>\$ 5,866,817</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | | | | |
| LIABILITIES | | | | | | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 30,879 | \$ 9,056 | \$ - | \$ - | \$ 168,655 |
| Due to other funds | - | - | - | - | - | - | - | - | - | 31,319 |
| Deferred revenue | - | - | - | - | - | - | - | - | - | 400,284 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>30,879</u> | <u>9,056</u> | <u>-</u> | <u>-</u> | <u>600,258</u> |
| Total liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>30,879</u> | <u>9,056</u> | <u>-</u> | <u>-</u> | <u>600,258</u> |
| FUND BALANCES | | | | | | | | | | |
| Reserved for | | | | | | | | | | |
| Capital projects | - | - | - | - | 325,803 | 533,484 | 8,464 | 403,666 | 117,651 | 1,389,068 |
| Debt service | - | - | - | 17,752 | - | - | - | - | - | 17,752 |
| Long-term receivable | - | - | - | 1,784,854 | - | - | - | - | - | 1,784,854 |
| Unreserved | 157,818 | 7,485 | 55,000 | - | - | - | - | - | - | 2,074,885 |
| | <u>157,818</u> | <u>7,485</u> | <u>55,000</u> | <u>1,802,606</u> | <u>325,803</u> | <u>533,484</u> | <u>8,464</u> | <u>403,666</u> | <u>117,651</u> | <u>5,266,559</u> |
| Total fund balances | <u>157,818</u> | <u>7,485</u> | <u>55,000</u> | <u>1,802,606</u> | <u>325,803</u> | <u>533,484</u> | <u>8,464</u> | <u>403,666</u> | <u>117,651</u> | <u>5,266,559</u> |
| Total liabilities and fund balances | <u>\$ 157,818</u> | <u>\$ 7,485</u> | <u>\$ 55,000</u> | <u>\$ 1,802,606</u> | <u>\$ 325,803</u> | <u>\$ 564,363</u> | <u>\$ 17,520</u> | <u>\$ 403,666</u> | <u>\$ 117,651</u> | <u>\$ 5,866,817</u> |

County of Emmet

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS

For the year ended December 31, 2007

Special Revenue Funds

| | Emergency Management | Ambulance | Friend of the Court | Brownfield Development Authority | Tribal Payment | Public Improvement | Register of Deeds | Law Library | Child Care | Soldiers' Relief | Veterans' Trust | S.A.N.E. |
|-------------------------------------------------|-------------------------|----------------|---------------------------|----------------------------------------|-------------------|-----------------------|----------------------|------------------|-------------------|---------------------|--------------------|-----------------|
| REVENUES | | | | | | | | | | | | |
| Taxes | \$ - | \$ 376,702 | \$ - | \$ 25,575 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Federal grants | - | - | 319,022 | - | - | - | - | - | - | - | - | 240,343 |
| State grants | - | - | 60,478 | - | - | - | - | - | 15,703 | - | 12,003 | - |
| Charges for services | - | - | 44,800 | - | - | - | 56,781 | - | - | - | - | - |
| Interest and rentals | - | 145 | 13,176 | 669 | 27,510 | 801 | 2,951 | 342 | 12,347 | 198 | - | 271 |
| Other revenue | 88,231 | - | 470 | - | 1,228,587 | 14,075 | - | 3,500 | 111,822 | - | - | 98,115 |
| Total revenues | 88,231 | 376,847 | 437,946 | 26,244 | 1,256,097 | 14,876 | 59,732 | 3,842 | 139,872 | 198 | 12,003 | 338,729 |
| EXPENDITURES | | | | | | | | | | | | |
| Judicial | - | - | 478,227 | - | - | - | - | 13,289 | - | - | - | - |
| Public safety | 107,870 | 377,000 | - | - | - | - | - | - | - | - | - | 437,625 |
| Health and welfare | - | - | - | 8,989 | - | - | - | - | 676,342 | 22,370 | 11,301 | - |
| Contributions to other organizations | - | - | - | - | 1,272,876 | - | - | - | - | - | - | - |
| Other | 13,974 | - | - | - | - | - | - | - | - | - | - | - |
| Capital outlay | - | - | - | - | - | 133,298 | - | - | - | - | - | - |
| Debt service | - | - | - | - | - | - | - | - | - | - | - | - |
| Total expenditures | 121,844 | 377,000 | 478,227 | 8,989 | 1,272,876 | 133,298 | - | 13,289 | 676,342 | 22,370 | 11,301 | 437,625 |
| REVENUES OVER (UNDER) EXPENDITURES | (33,613) | (153) | (40,281) | 17,255 | (16,779) | (118,422) | 59,732 | (9,447) | (536,470) | (22,172) | 702 | (98,896) |
| OTHER FINANCING SOURCES (USES) | | | | | | | | | | | | |
| Operating transfers in | 33,613 | - | 110,000 | - | - | 160,000 | - | 14,000 | 861,650 | 25,000 | - | 98,222 |
| Operating transfers out | - | - | - | - | (194,337) | - | - | - | - | - | - | - |
| Total other financing sources (uses) | 33,613 | - | 110,000 | - | (194,337) | 160,000 | - | 14,000 | 861,650 | 25,000 | - | 98,222 |
| NET CHANGE IN FUND BALANCE | - | (153) | 69,719 | 17,255 | (211,116) | 41,578 | 59,732 | 4,553 | 325,180 | 2,828 | 702 | (674) |
| Fund balance, beginning of year | - | 878 | 499,014 | 39,426 | 596,289 | 18,417 | 80,327 | 10,672 | 283,688 | 12,343 | 176 | 3,748 |
| Fund balance, end of year | <u>\$ -</u> | <u>\$ 725</u> | <u>\$ 568,733</u> | <u>\$ 56,681</u> | <u>\$ 385,173</u> | <u>\$ 59,995</u> | <u>\$ 140,059</u> | <u>\$ 15,225</u> | <u>\$ 608,868</u> | <u>\$ 15,171</u> | <u>\$ 878</u> | <u>\$ 3,074</u> |

County of Emmet

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS - Continued

For the year ended December 31, 2007

| | Special Revenue Funds | | | Debt Service Funds | Capital Project Funds | | | | Total Other Non-Major Funds | |
|-----------------------------------------------|-------------------------|------------------------------------|------------------|-----------------------|--------------------------|-------------------|---------------------------------------|---------------------|--------------------------------------|------------------------|
| | S.A.N.E. Adjudicated | Department of Human Services | Housing Grant | 2003 Bonds | 911 Equipment Fund | Park System | Building Authority Construction | Airport Facility | | Fairground Projects |
| REVENUES | | | | | | | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 402,277 |
| Federal grants | - | - | - | - | - | - | - | - | - | 559,365 |
| State grants | - | - | - | - | - | - | - | - | - | 88,184 |
| Charges for services | - | - | - | - | - | - | - | - | - | 101,581 |
| Interest and rentals | 12,282 | - | - | 74,934 | 13,702 | 11,351 | - | 9,650 | 3,058 | 183,387 |
| Other revenue | 113,688 | - | - | - | - | 3,000 | - | 74,799 | 240 | 1,736,527 |
| | <u>125,970</u> | <u>-</u> | <u>-</u> | <u>74,934</u> | <u>13,702</u> | <u>14,351</u> | <u>-</u> | <u>84,449</u> | <u>3,298</u> | <u>3,071,321</u> |
| Total revenues | | | | | | | | | | |
| EXPENDITURES | | | | | | | | | | |
| Judicial | - | - | - | - | - | - | - | - | - | 491,516 |
| Public safety | - | - | - | - | 22,200 | - | - | - | - | 944,695 |
| Health and welfare | - | 2,215 | - | - | - | - | - | - | - | 721,217 |
| Contributions to other organizations | - | - | - | - | - | - | - | - | - | 1,272,876 |
| Other | - | - | - | - | - | - | - | - | - | 13,974 |
| Capital outlay | - | - | - | - | - | 184,685 | 181,582 | - | 24,293 | 523,858 |
| Debt service | - | - | - | 1,273,813 | - | - | - | - | - | 1,273,813 |
| | <u>-</u> | <u>2,215</u> | <u>-</u> | <u>1,273,813</u> | <u>22,200</u> | <u>184,685</u> | <u>181,582</u> | <u>-</u> | <u>24,293</u> | <u>5,241,949</u> |
| Total expenditures | | | | | | | | | | |
| REVENUES OVER (UNDER) EXPENDITURES | <u>125,970</u> | <u>(2,215)</u> | <u>-</u> | <u>(1,198,879)</u> | <u>(8,498)</u> | <u>(170,334)</u> | <u>(181,582)</u> | <u>84,449</u> | <u>(20,995)</u> | <u>(2,170,628)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | | | | | |
| Operating transfers in | - | 9,700 | 55,000 | 1,051,066 | - | 350,000 | 190,000 | - | 68,750 | 3,027,001 |
| Operating transfers out | (78,222) | - | - | - | - | - | - | - | - | (272,559) |
| | <u>(78,222)</u> | <u>9,700</u> | <u>55,000</u> | <u>1,051,066</u> | <u>-</u> | <u>350,000</u> | <u>190,000</u> | <u>-</u> | <u>68,750</u> | <u>2,754,442</u> |
| Total other financing sources (uses) | | | | | | | | | | |
| NET CHANGE IN FUND BALANCE | 47,748 | 7,485 | 55,000 | (147,813) | (8,498) | 179,666 | 8,418 | 84,449 | 47,755 | 583,814 |
| Fund balance, beginning of year | 110,070 | - | - | 1,950,419 | 334,301 | 353,818 | 46 | 319,217 | 69,896 | 4,682,745 |
| Fund balance, end of year | <u>\$ 157,818</u> | <u>\$ 7,485</u> | <u>\$ 55,000</u> | <u>\$ 1,802,606</u> | <u>\$ 325,803</u> | <u>\$ 533,484</u> | <u>\$ 8,464</u> | <u>\$ 403,666</u> | <u>\$ 117,651</u> | <u>\$ 5,266,559</u> |

County of Emmet

COMBINING BALANCE SHEET - DELINQUENT TAX REVOLVING FUND

December 31, 2007

| | 1998 Taxes | 1999 Taxes | 2000 Taxes | 2001 Taxes | 2002 Taxes | 2003 Taxes | 2004 Taxes | 2005 Taxes | 2006 Taxes | 2007 Taxes | Totals |
|-----------------------------------|---------------|---------------|---------------|-------------------|-------------------|-------------------|-------------------|---------------------|---------------------|-----------------|---------------------|
| ASSETS | | | | | | | | | | | |
| Cash and equivalents | \$ - | \$ - | \$ - | \$ 656,152 | \$ 952,800 | \$ 819,279 | \$ 829,295 | \$ 2,205,710 | \$ 407,790 | \$ 17,073 | \$ 5,888,099 |
| Property taxes receivable | - | - | - | 348 | 3,660 | 9,383 | 7,466 | 318,415 | 1,866,395 | (15,847) | 2,189,820 |
| Total assets | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 656,500</u> | <u>\$ 956,460</u> | <u>\$ 828,662</u> | <u>\$ 836,761</u> | <u>\$ 2,524,125</u> | <u>\$ 2,274,185</u> | <u>\$ 1,226</u> | <u>\$ 8,077,919</u> |
| LIABILITIES AND NET ASSETS | | | | | | | | | | | |
| LIABILITIES | | | | | | | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ 1,315 | \$ 10,907 | \$ 64,970 | \$ 156,680 | \$ 37,063 | \$ 5,330 | \$ - | \$ 276,265 |
| Notes payable | - | - | - | - | - | - | - | - | 1,995,000 | - | 1,995,000 |
| Total liabilities | - | - | - | 1,315 | 10,907 | 64,970 | 156,680 | 37,063 | 2,000,330 | - | 2,271,265 |
| NET ASSETS - UNRESTRICTED | <u>-</u> | <u>-</u> | <u>-</u> | <u>655,185</u> | <u>945,553</u> | <u>763,692</u> | <u>680,081</u> | <u>2,487,062</u> | <u>273,855</u> | <u>1,226</u> | <u>5,806,654</u> |
| Total liabilities and net assets | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 656,500</u> | <u>\$ 956,460</u> | <u>\$ 828,662</u> | <u>\$ 836,761</u> | <u>\$ 2,524,125</u> | <u>\$ 2,274,185</u> | <u>\$ 1,226</u> | <u>\$ 8,077,919</u> |

County of Emmet

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - DELINQUENT TAX REVOLVING FUND

For the year ended December 31, 2007

| | 1998 Taxes | 1999 Taxes | 2000 Taxes | 2001 Taxes | 2002 Taxes | 2003 Taxes | 2004 Taxes | 2005 Taxes | 2006 Taxes | 2007 Taxes | Totals |
|------------------------------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|---------------------|-------------------|-----------------|---------------------|
| Operating revenues | | | | | | | | | | | |
| Charges for sales and services | \$ 22 | \$ 329 | \$ 3,590 | \$ 26 | \$ 34 | \$ 242 | \$ 10,856 | \$ 54,779 | \$ 176,354 | \$ 634 | \$ 246,866 |
| Operating expenses | | | | | | | | | | | |
| Contractual services | - | 3,492 | - | - | - | - | - | - | 22,777 | - | 26,269 |
| OPERATING INCOME (LOSS) | <u>22</u> | <u>(3,163)</u> | <u>3,590</u> | <u>26</u> | <u>34</u> | <u>242</u> | <u>10,856</u> | <u>54,779</u> | <u>153,577</u> | <u>634</u> | <u>220,597</u> |
| Nonoperating revenues (expenses) | | | | | | | | | | | |
| Interest revenue | 5,964 | 7,057 | 13,365 | 27,926 | 41,623 | 35,775 | 122,996 | 292,062 | 218,386 | 592 | 765,746 |
| Interest expense | - | - | - | - | - | - | - | (13,122) | (98,911) | - | (112,033) |
| Total nonoperating revenues | <u>5,964</u> | <u>7,057</u> | <u>13,365</u> | <u>27,926</u> | <u>41,623</u> | <u>35,775</u> | <u>122,996</u> | <u>278,940</u> | <u>119,475</u> | <u>592</u> | <u>653,713</u> |
| INCOME BEFORE OPERATING TRANSFERS | 5,986 | 3,894 | 16,955 | 27,952 | 41,657 | 36,017 | 133,852 | 333,719 | 273,052 | 1,226 | 874,310 |
| Operating transfers (out) in | <u>(322,590)</u> | <u>(217,679)</u> | <u>(686,942)</u> | - | - | - | - | 1,227,211 | - | - | - |
| CHANGE IN NET ASSETS | (316,604) | (213,785) | (669,987) | 27,952 | 41,657 | 36,017 | 133,852 | 1,560,930 | 273,052 | 1,226 | 874,310 |
| Net assets, beginning of year | <u>316,604</u> | <u>213,785</u> | <u>669,987</u> | <u>627,233</u> | <u>903,896</u> | <u>727,675</u> | <u>546,229</u> | <u>926,132</u> | <u>803</u> | <u>-</u> | <u>4,932,344</u> |
| Net assets, end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 655,185</u> | <u>\$ 945,553</u> | <u>\$ 763,692</u> | <u>\$ 680,081</u> | <u>\$ 2,487,062</u> | <u>\$ 273,855</u> | <u>\$ 1,226</u> | <u>\$ 5,806,654</u> |

County of Emmet

COMBINING STATEMENT OF CASH FLOWS - DELINQUENT TAX REVOLVING FUND

For the year ended December 31, 2007

| | 1998 Taxes | 1999 Taxes | 2000 Taxes | 2001 Taxes | 2002 Taxes | 2003 Taxes | 2004 Taxes | 2005 Taxes | 2006 Taxes | 2007 Taxes | Totals |
|--------------------------------------------------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|---------------------|-------------------|------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | | | | | | |
| Cash received from customers | \$ 22 | \$ 329 | \$ 3,590 | \$ 61 | \$ 97 | \$ 61,209 | \$ 164,050 | \$ 91,842 | \$ 181,684 | \$ 634 | \$ 503,518 |
| Cash payments to suppliers | - | - | (3,255) | - | - | - | - | - | (22,777) | - | (26,032) |
| Net cash provided (used) by operating activities | <u>22</u> | <u>329</u> | <u>335</u> | <u>61</u> | <u>97</u> | <u>61,209</u> | <u>164,050</u> | <u>91,842</u> | <u>158,907</u> | <u>634</u> | <u>477,486</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | | | | | | | | | | |
| Proceeds from sale of bonds | - | - | - | - | - | - | - | - | 4,800,000 | - | 4,800,000 |
| Repayment of bond principal | - | - | - | - | - | - | - | (905,000) | (2,805,000) | - | (3,710,000) |
| Interest paid on bonds | - | - | - | - | - | - | - | (13,122) | (98,911) | - | (112,033) |
| Tax collection proceeds | 549 | 8,224 | 492 | 2,151 | 1,514 | 2,095 | 266,071 | 1,355,107 | - | 15,847 | 1,652,050 |
| Operating transfers from (to) other funds | (322,590) | (217,679) | (686,942) | - | - | - | - | 1,227,211 | - | - | - |
| Purchase of taxes | - | - | - | - | - | - | - | - | (1,877,598) | - | (1,877,598) |
| Net cash provided (used) by non-capital financing activities | <u>(322,041)</u> | <u>(209,455)</u> | <u>(686,450)</u> | <u>2,151</u> | <u>1,514</u> | <u>2,095</u> | <u>266,071</u> | <u>1,664,196</u> | <u>18,491</u> | <u>15,847</u> | <u>752,419</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | | | | | |
| Interest received | <u>5,964</u> | <u>7,058</u> | <u>13,365</u> | <u>27,926</u> | <u>41,623</u> | <u>35,775</u> | <u>122,996</u> | <u>292,062</u> | <u>218,386</u> | <u>592</u> | <u>765,747</u> |
| NET INCREASE (DECREASE) IN CASH | (316,055) | (202,068) | (672,750) | 30,138 | 43,234 | 99,079 | 553,117 | 2,048,100 | 395,784 | 17,073 | 1,995,652 |
| Cash and equivalents, beginning of year | <u>316,055</u> | <u>202,068</u> | <u>672,750</u> | <u>626,014</u> | <u>909,566</u> | <u>720,200</u> | <u>276,178</u> | <u>157,610</u> | <u>12,006</u> | <u>-</u> | <u>3,892,447</u> |
| Cash and equivalents, end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 656,152</u> | <u>\$ 952,800</u> | <u>\$ 819,279</u> | <u>\$ 829,295</u> | <u>\$ 2,205,710</u> | <u>\$ 407,790</u> | <u>\$ 17,073</u> | <u>\$ 5,888,099</u> |

County of Emmet

COMBINING STATEMENT OF FIDUCIARY NET ASSETS - PENSION TRUST FUNDS

December 31, 2007

| ASSETS | Money Purchase Plan | Retirement Plan | Total |
|------------------------------------------|----------------------------|----------------------------|-----------------------------|
| Participant directed investments | | | |
| Mutual funds | \$ 7,757,490 | \$ - | \$ 7,757,490 |
| Non-participant directed investments | | | |
| Short term investments | - | 237,690 | 237,690 |
| Equity mutual funds | - | 3,114,894 | 3,114,894 |
| Fixed income mutual funds | - | 2,705,814 | 2,705,814 |
| NET ASSETS AVAILABLE FOR BENEFITS | <u>\$ 7,757,490</u> | <u>\$ 6,058,398</u> | <u>\$ 13,815,888</u> |

County of Emmet

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - PENSION TRUST FUNDS

December 31, 2007

| | Money Purchase Plan | Retirement Plan | Total |
|------------------------------------------------------|---------------------------|--------------------|---------------|
| ADDITIONS TO NET ASSETS | | | |
| Investment income | | | |
| Net appreciation in fair value of investments | | \$ (158,906) | |
| Realized gains (losses) | | 61,229 | |
| Interest and dividends on mutual funds | | 532,005 | |
| Other investment income | | 37,381 | |
| Total investment earnings | \$ 671,097 | 471,709 | \$ 1,142,806 |
| Cash contributions | | | |
| Employer | 748,503 | 352,812 | 1,101,315 |
| Total additions | 1,419,600 | 824,521 | 2,244,121 |
| DEDUCTIONS FROM NET ASSETS | | | |
| Benefit payments | (520,289) | (593,640) | (1,113,929) |
| Other expenses | (15,508) | (42,729) | (58,237) |
| Total deductions | (535,797) | (636,369) | (1,172,166) |
| NET CHANGE IN NET ASSETS | 883,803 | 188,152 | 1,071,955 |
| Net assets available for benefits, beginning of year | 6,873,687 | 5,870,246 | 12,743,933 |
| Net assets available for benefits, end of year | \$ 7,757,490 | \$ 6,058,398 | \$ 13,815,888 |

County of Emmet

COMBINING STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUNDS

December 31, 2007

| | Trust and Agency Fund | Cemetery Fund | Library Penal Fund | Inmate Trust Fund | Total |
|---------------------------------|-----------------------------|------------------|--------------------------|-------------------------|----------------|
| ASSETS | | | | | |
| Cash and equivalents | \$ 682,367 | \$ 410 | \$ 115,713 | \$ 81,850 | \$ 880,340 |
| Accounts receivable, net | 28 | - | - | 100,979 | 101,007 |
| Total assets | \$ 682,395 | \$ 410 | \$ 115,713 | \$ 182,829 | \$ 981,347 |
| LIABILITIES | | | | | |
| Due to other governmental units | \$ 682,395 | \$ - | \$ 115,713 | \$ - | \$ 798,108 |
| Due to inmates | - | - | - | 180,270 | 180,270 |
| Deposits | - | 410 | - | 2,559 | 2,969 |
| Total liabilities | \$ 682,395 | \$ 410 | \$ 115,713 | \$ 182,829 | \$ 981,347 |

PASSENGER FACILITY CHARGE PROGRAM



Business and Financial Advisors
Our clients' success – our business

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

Board of Commissioners
County of Emmet, Michigan

Compliance

We have audited the compliance of the *County of Emmet, Michigan* (the "County") with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the "Guide"), issued by the Federal Aviation Administration ("FAA") for its Passenger Facility Charge Program for the year ended December 31, 2007. Compliance with the requirements of laws and regulations applicable to its Passenger Facility Charge Program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Passenger Facility Charge Program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to its Passenger Facility Charge Program for the year ended December 31, 2007.

Member of



415 Munson Avenue, Post Office Box 947
Traverse City, Michigan 49685-0947
231.946.1722, FAX: 231.946.2762
www.dgncpa.com

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

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

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

Schedule of Expenditures of Passenger Facility Charge Funds

We have audited the financial statements of the governmental activities, business-type activities, each major fund, the aggregate remaining funds and component unit information of the County of Emmet, Michigan, as of and for the year ended December 31, 2007, and have issued our report thereon dated June 27, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively compose the County's basic financial statements. The accompanying schedule of expenditures of passenger facility charge funds is presented for the purposes of additional analysis as required by the Guide and is not a required part of the financial statements. 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.

This report is intended solely for the information and use of the officers, commissioners and management of the County and the Federal Aviation Administration and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

Pellston Regional Airport of Emmet County

SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGE FUNDS

For the year ended December 31, 2007

| <u>Application #</u> | <u>Project Description</u> | <u>Approved For Use</u> | <u>Previously Expended</u> | <u>Year Ended 12/31/07 Reported Expenditures</u> |
|----------------------|--------------------------------------------|-----------------------------|--------------------------------|--------------------------------------------------------------|
| 01-09-C-00-PLN | Acquire snow blower | \$ 30,000 | \$ - | \$ - |
| | Land acquisitions | 15,628 | - | - |
| | Acquire sweeper | 10,000 | 8,287 | - |
| | Wildlife study | 20,000 | 9,116 | - |
| | Perimeter road environmental assessment | <u>6,631</u> | <u>-</u> | <u>-</u> |
| | Subtotal | <u>82,259</u> | <u>17,403</u> | <u>-</u> |
| 04-10-C-00-PLN | Apron expansion to the south | 25,000 | - | - |
| | Terminal area drain improvements | 2,500 | - | - |
| | Plow truck with sander | 5,000 | - | - |
| | Plow truck with sander | 5,000 | - | - |
| | Land acquisition for Ely Road | 2,000 | - | - |
| | Relocate Ely Road | 7,750 | - | - |
| | Acquire sweeper | 1,250 | - | - |
| | Acquire blower | 8,750 | - | - |
| | Acquire front end loader | 3,125 | - | - |
| | Acquire generator | 2,500 | - | - |
| | GA Terminal building expansion | <u>100,000</u> | <u>-</u> | <u>-</u> |
| | Subtotal | <u>162,875</u> | <u>-</u> | <u>-</u> |
| | Total | <u>\$ 245,134</u> | <u>\$ 17,403</u> | <u>\$ -</u> |

Pellston Regional Airport of Emmet County

NOTES TO SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGE FUNDS

NOTE A - SUMMARY OF ACCOUNTING POLICIES

General

The Pellston Regional Airport of Emmet County (the "Airport") is owned and operated by the County of Emmet (the "County") which is a governmental entity operated under an elected seven-member Board of Commissioners.

Defining the Reporting Entity

The County of Emmet is the primary level of government which has oversight responsibility and control over all activities related to the operations of the Airport. The operations of the Airport are included as one of many departments within the County's General Fund. The County also receives Passenger Facility Charge ("PFC") revenue from surcharges levied by airlines on behalf of the County. These revenues, as well as expenses, are accounted for in the Airport Facility Capital Projects Fund and reported in the Schedule of Expenditures of Passenger Facility Charge Funds as prescribed by the Federal Aviation Administration ("FAA").

Use of Estimates in the Preparation of the Schedule of Expenditures of Passenger Facility Charge Funds

The preparation of the Schedule of Expenditures of Passenger Facility Charge Funds, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from these estimates.

Revenue Recognition

Passenger Facility Charge revenues are recognized within the period these charges are collected by air carriers on behalf of the County.

NOTE B - PASSENGER FACILITIES CHARGE RATE

The County received approval from the Federal Aviation Administration to impose a \$3 passenger facility charge per enplanement beginning in 1993 for use on approved projects. The most recent approval permits imposition of the fee over a period of approximately ten years effective June 2002.

NOTE C - UNEXPENDED FUNDS

Accumulated unspent Passenger Facility Charge revenue at December 31, 2007 totaling \$400,887 is held in the County's pooled cash account and has been allocated its respective share of interest earned.

Pellston Regional Airport of Emmet County

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS OF
PASSENGER FACILITY CHARGE FUNDS**

Prior Year

No findings.

Current Year

No findings.

County of Emmet, Michigan

SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
AND SINGLE AUDIT REPORTS

December 31, 2007

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

To the Board of Commissioners
County of Emmet, Michigan

Compliance

We have audited the compliance of the *County of Emmet, Michigan* (the “County”) with the types of compliance requirements described in the U.S. Office of Management and Budget (“OMB”) *Circular A-133 Compliance Supplement* that are applicable to its major Federal program for the year ended December 31, 2007. The County’s major Federal program is identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal programs are the responsibility of the County’s management. Our responsibility is to express an opinion on the County’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program. An audit includes examining, on a test basis, evidence about the County’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County’s compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ended December 31, 2007.

Internal Control Over Compliance

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, each major fund, the aggregate remaining funds and component unit information of the County of Emmet, Michigan, as of and for the year ended December 31, 2007, and have issued our report thereon dated June 27, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively compose the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by *OMB Circular A-133* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Dennis, Gartland & Niergarth

County of Emmet

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2007

| Federal Grantor/Pass-Through Grantor/Program | Federal CFDA Number | Pass-Through Grantor's Number | Federal Expenditures |
|-------------------------------------------------------------|------------------------|----------------------------------|-------------------------|
| Department of Health and Human Services | | | |
| Passed through the Michigan | | | |
| Department of Human Services | | | |
| Child Support Enforcement Program-Prosecuting Attorney | | CS/PA-07-24002 | \$ 52,483 |
| Child Support Enforcement Program-Prosecuting Attorney | | CSPA-08-24002 | 17,492 |
| Child Support Enforcement Program-Friend of the Court | | CS/FOC-07-24001 | 256,383 |
| Child Support Enforcement Program-Friend of the Court | | CSFOC-08-24001 | 62,639 |
| Total Child Support Enforcement Program | 93.563 | | 388,997 |
| Passed through the Michigan | | | |
| Department of Human Services | | | |
| Foster Care - Title IV | 93.658 | PROFC-05-24002 | 661 |
| | | | 389,658 |
| Department of Homeland Security | | | |
| Passed through the Michigan State Police | | | |
| State Domestic Preparedness Equipment Support | | | |
| Program Grant | | | 168 |
| Passed through the Transportation Security Administration | | | |
| Law Enforcement Personnel Reimbursement Agreement | | | |
| | | | 21,093 |
| | 97.004 | | 21,261 |
| Department of Justice | | | |
| Passed through the Michigan Department of Community Health | | | |
| Byrne Formula Grant | | 20071554 | 201,932 |
| Byrne Formula Grant | | 20081025 | 38,411 |
| | 16.579 | | 240,343 |
| United States Coast Guard | | | |
| Passed through the Michigan Department of Natural Resources | | | |
| Boating Safety Financial Assistance Grant | 97.012 | | 26,425 |
| Total Federal expenditures | | | \$ 677,687 |

The attached notes are an integral part of this schedule.

County of Emmet, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2007

- Note 1** The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.
- Note 2** Management has reported that expenditures in this Schedule of Expenditures of Federal Awards reconcile to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.
- Note 3** The financial reports, including claims for advances and reimbursements and amounts claimed or used for matching are timely, complete, accurate and contain information that is supported by the books and records from which the basic financial statements have been prepared.
- Note 4** The proceeds of Federal Grants not administered by the County (including Road and Airport Improvement Grants) are not recognized on this schedule.
- Note 5** A reconciliation of grant disbursements on the Schedule of Expenditures of Federal Awards to Federal sources reported on the financial statements are as follows:

| | |
|--------------------------------------------------------------------|--------------------|
| Grant disbursements per Schedule of Expenditures of Federal Awards | \$ 677,687 |
| Emmet County Road Commission Grants not administered by the County | <u>675,817</u> |
| Federal sources per financial statements | <u>\$1,353,504</u> |

County of Emmet, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2007

Current Year

Section 1 - Summary of Auditor's Results

1. The Audit Report on the County of Emmet, Michigan's financial statements expresses a qualified opinion.
2. There was one significant deficiency in internal control reported as a result of the audit of the financial statements. See Section 2 - Findings in Accordance with Generally Accepted Government Auditing Standards.
3. There were no compliance findings disclosed that were material to the County's financial statements.
4. There were no significant deficiencies relating to the audit of the major Federal Award Programs.
5. The report over compliance for major programs was unqualified.
6. There were no audit findings that are required to be reported.
7. The County's major program was:
 - Child Support Enforcement
(CFDA #93.563)
8. The dollar threshold for distinguishing between Type A and Type B programs was \$300,000.
9. The auditee does qualify as low risk.

Section 2 - Findings in Accordance with Generally Accepted Government Auditing Standards

Finding Number 2007-1

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the County'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.)

County of Emmet, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year Ended December 31, 2007

Condition: As is the case with many local governments, the County has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the County'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 County's *internal* controls.

Cause: This condition was caused by the County's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary resources required for the County to perform this task internally.

Effect: As a result of this condition, the County lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

Management's Response: The County has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best of interests of the County to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Section 3 - Findings and Questioned Costs in Accordance with OMB Circular A-133

No findings.

Prior Year

Finding Number 2006-1

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the County'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.)

Condition: As is the case with many local governments, the County has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the County'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 County's *internal* controls.

County of Emmet, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year Ended December 31, 2007

Cause: This condition was caused by the County's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary resources required for the County to perform this task internally.

Effect: As a result of this condition, the County lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

Management's Response: The County evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it was in the best of interests of the County to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.



Business and Financial Advisors
Our clients' success - our business

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Herdi M. Wendel, CPA

AUDIT-RELATED COMMUNICATIONS

To the Board of Commissioners
County of Emmet

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining funds and component information of the County of Emmet (the "County") for the year ended December 31, 2007 and have issued our report thereon dated June 27, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated October 31, 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 U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Internal Controls

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

We have identified a material weakness in a separate report dated June 27, 2008.

The following additional matters are not considered to be material weaknesses or significant deficiencies in internal control, but are opportunities to strengthen internal controls, reporting and operating efficiency:

Budget Compliance

Relatively minor non-compliance with the Uniform Budgeting Act is disclosed in Note B to the financial statements. We recommend that budgets be amended as necessary to avoid future non-compliance. P.A. 621 of 1978, as amended, does not require general appropriation act of debt, capital projects, enterprise and internal service funds. We would recommend that you approve spending plans instead.

Member of



415 Munson Avenue, Post Office Box 947
Traverse City, Michigan 49685-0947
231.946.1722, FAX: 231.946.2762
www.dgncpa.com

Purchasing Policy

We noted that the purchasing policy does not include specific details on the County's purchasing process. We recommend taking a closer look at the current purchasing policy and expanding if necessary. Of particular note in the process are opportunities to improve the segregation of incompatible duties related to requisitioning/receiving and processing accounts payable/ mailing checks. Management has indicated the purchasing policy will be reviewed.

Approval of Payroll Registers

We have been told that payroll registers are approved, but no documentation verification of the approval is evident. We recommend that the person approving the payroll registers sign off in some manner indicating that they have reviewed the registers. Management has indicated either the human resource director or the payroll clerk will sign off on the approved payroll register in the future.

Changes in Salary and Wage Rates

We noted salary and wage rate changes approved by the Board of Commissioners are not necessarily included in personnel files. We recommend retaining a copy of the minutes in the personnel file, showing approval for these rate changes. Management has indicated that for interim changes and new hires the human resource director will prepare a payroll rate change form which will be added to the employee's file.

Check Signing

The County's policy requires a counter-signature on all checks. However, both signatures are included on a single stamp generally accessible within the Treasurer's office, effectively negating the benefits of their control. We recommend that management reconsider how this policy is being implemented.

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 December 17, 2007.

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County are described in Note A to the financial statements. Except for the items noted below, no new accounting policies were adopted and the application of existing policies was not changed in 2007.

Accounting Change

During 2007 the County implemented the financial reporting framework prescribed by Governmental Accounting Standards Board ("GASB") Statement No. 34.

New Funds

The Department of Human Services Fund and the 2007 Delinquent Tax Revolving Fund were opened during 2007.

We noted no transactions entered into by County during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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. Except as described below, none of management's estimates are considered to be particularly sensitive.

Defined Benefit Pension Plan

The Michigan Constitution requires that public pensions be fully funded to the extent of estimated current service costs. This requirement may be subject to interpretation for your closed plan whose participants generally no longer work for the County. As of December 31, 2007, the County's unfunded actuarial accrued liability is \$2.79 million and the estimated net pension obligation on the government-wide financial statements is \$1.39 million. Therefore, funding of the pension obligation will occur in years subsequent to benefits being earned. As we have recommended in the past, you may wish to consult with your pension advisors and persons familiar with the constitutional requirement to obtain assurances that the County maintains compliance in this area.

Useful Lives of Capital Assets

Management's estimate of the useful lives of capital assets is based on the adopted capitalization policy. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The most sensitive disclosures affecting the financial statements were:

The disclosure of the reporting entity and component units in Note A to the financial statements/Note C - Deposits and Investments/Note I - County of Emmet Retirement Plan.

No 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.

Recorded Adjustments

We proposed a reclassifying entry that restored cash and recorded accounts payable for checks held due to the County not receiving proper support from the grantee.

Unrecorded Adjustments

Unrecorded receivables and deferred revenues within the Friend of the Court Fund.

No 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 June 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 County'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.

Emerging Issues and New Accounting Standards

Other Post-Employment Benefits and Termination Benefits

Employees of governmental organizations may be compensated in a variety of forms in exchange for their services. In addition to salary, many employees earn benefits over their years of services that will not be received until after their employment with the government ends through retirement or other reasons for separation. As the name suggests, other post-employment benefits ("OPEB's") are post-employment benefits other than pensions such as defined benefit health insurance, dental, vision, prescription drug and other health care benefits. Health insurance premium subsidies (in which retirees pay lower premiums as a result of their inclusion in the governmental participant group) are another type of OPEB. It may also include some types of life insurance, legal services and other benefits. Government organizations were exempt from this reporting obligation until the issuance of GASB 45 in June 2006. GASB 45 (effective for the County's year ending December 31, 2008) requires the value of the promise made to provide post-employment benefits must now be actuarially calculated and accrued during the working years of employees and recognized as a financial obligation of the government organization.

Management has determined that retirees do not receive a health insurance premium subsidy and that there are no other potential exposures to OPEB liabilities.

Pension Disclosures effective for December 31, 2008

GASB 50 (effective for the County's year ending December 31, 2008) is intended to improve the transparency and usefulness of financial reporting by government employees by requiring new note disclosures and required supplementary information. These disclosures relate to the funded status of the plan, actuarial method and assumptions used, information on required contribution rates, alternative actuarial valuation disclosures in some cases and methods used to value investments.

We recommend that you confirm with your actuary that the required information will be provided.

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 County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Board of Commissioners
County of Emmet
Page 6

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

Dennis, Gartland & Niergarth

June 27, 2008