

GLADWIN COUNTY ROAD COMMISSION

(A Component Unit of Gladwin County, Michigan)

Financial Statements

For the Year Ended December 31, 2007



SMITH & KLACZKIEWICZ, PC
CPA'S AND CONSULTANTS

GLADWIN COUNTY ROAD COMMISSION
(A Component Unit of Gladwin County)

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SMITH & KLACZKIEWICZ, PC

CPA'S AND CONSULTANTS

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A VETERAN OWNED BUSINESS

INDEPENDENT AUDITORS' REPORT

Members of the Board of County
Road Commissioners
County of Gladwin, Michigan
Gladwin, Michigan

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Gladwin County Road Commission**, as of December 31, 2007, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2008, on our consideration of the **Gladwin County Road Commission'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 3 through 11 are not a required part of the basic financial statements but is 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 **Gladwin County Road Commission's** basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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.

Smith + Klayhenwicz PC

Saginaw, Michigan
June 6, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Gladwin County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2007. The annual report consists of a series of financial statements. The Statements of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

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

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

Note that Gladwin County government-wide financial statements are not herein presented because the Road Commission is a component unit of the county. The county presents their financial statements elsewhere and in a manner partially resembling private-sector business in its government-wide financial statements in compliance with GASB Statement No. 34.

Government-wide Statements

The *statement of net assets* presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

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

The component unit financial statements are principally supported by state shared revenues (operating grants). The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within Gladwin County.

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

The government-wide financial statements can be found on pages 12 and 14 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 Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Fund).

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

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-

wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

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

The Road Commission adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund can be found on pages 16 and 17 of this report.

The Road Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements can be found on pages 18 through 27 of this report.

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

Government-wide Financial Analysis

The Road Commission's net assets increased approximately 24% or \$2,944,017, from \$12,226,868 to \$15,170,885 for the year ended December 31, 2007. The net assets and change in net assets are summarized below.

Gladwin County Road Commission Net Assets:

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Current and other assets	\$ 4,024,271	\$ 3,241,957	\$ 782,314
Capital assets	15,371,754	12,904,426	2,467,328
Total assets	<u>19,396,025</u>	<u>16,146,383</u>	<u>3,249,642</u>
Current liabilities	1,898,364	1,712,517	185,847
Long-term liabilities	2,326,776	2,206,998	119,778
Total liabilities	<u>4,225,140</u>	<u>3,919,515</u>	<u>305,625</u>
Net assets:			
Invested in capital assets, net of related debt	13,174,708	10,984,769	2,189,939
Unrestricted	<u>1,996,177</u>	<u>1,242,099</u>	<u>754,078</u>
Total net assets	<u>\$ 15,170,885</u>	<u>\$ 12,226,868</u>	<u>\$ 2,944,017</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Gladwin County Road Commission, assets exceeded liabilities by \$15,170,885 at the close of the most recent fiscal year.

By far the largest portion of the Gladwin County Road Commission's net assets 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. Although the Gladwin County Road Commission'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 capital assets themselves cannot be used to liquidate these liabilities.

Governmental Activities

A summary of changes in net assets for the years ended December 31, 2007 and 2006 follows:

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Program revenue			
Charges for services	\$ 2,520,674	\$ 1,971,948	\$ 548,726
Operating grants and contributions			
State transportation funds	3,247,408	3,285,724	(38,316)
Capital grants and contributions			
Federal and state sources	502,291	746,796	(244,505)
General revenue			
Taxes	1,444,471	1,368,023	76,448
Interest and rents	92,276	59,303	32,973
Gain on sale of equipment disposal	65,132	101,871	(36,739)
Total revenue	<u>7,872,252</u>	<u>7,533,665</u>	<u>338,587</u>
Expenses			
Public works	<u>4,928,235</u>	<u>4,844,969</u>	<u>83,266</u>
Increase (decrease) in net assets	<u><u>\$ 2,944,017</u></u>	<u><u>\$ 2,688,696</u></u>	<u><u>\$ 255,321</u></u>

Governmental activities increased the Gladwin County Road Commission's net assets by \$2,944,017. The key elements of this increase are as follows:

- There was a 28% increase in charges for services from the prior year due mainly to non-recurring projects performed on Township roads and the State trunkline in 2007.
- There was a 33% decrease in capital grants and contributions from the prior year, due to decreases in non-recurring maintenance projects funded with State and Federal sources.
- There was a 56% increase in revenue from interest and rents in the current year.
- Purchases of capital assets were greater than disposals of capital assets and depreciation expense.

A summary of changes on the Operating fund is as follows:

	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual for the Year Ended December 31, 2006
Revenues					
Taxes	\$ 1,439,214	\$ 1,444,414	\$ 1,444,471	\$ 57	\$ 1,368,022
Permits and licences	12,000	13,700	14,275	575	16,685
Federal sources	715,075	439,000	439,219	219	656,796
State sources	3,265,924	3,310,386	3,310,480	94	3,375,724
Contributions	1,294,972	1,339,200	1,339,350	150	1,257,911
Charges for services	619,122	1,166,800	1,167,049	249	697,353
Interest and rentals	45,000	91,000	92,276	1,276	59,303
Other revenue	-	72,278	72,702	424	101,871
Total revenue	7,391,307	7,876,778	7,879,822	3,044	7,533,665
Expenditures					
Primary road maintenance	1,278,959	1,437,700	1,436,940	760	2,143,874
Local road maintenance	4,458,407	4,582,900	4,582,557	343	4,310,843
State trunkline maintenance	586,122	646,650	646,627	23	510,870
State trunkline non-maint.	30,000	508,800	508,781	19	175,590
Equipment expense (net)	(325,000)	(240,510)	(240,814)	304	29,786
Administrative expense (net)	233,000	355,083	355,182	(99)	367,154
Capital outlay (net)	(420,000)	(39,569)	(39,532)	(37)	(449,579)
Debt principal payments	88,883	98,650	98,643	7	277,389
Other	1,450,866	171,475	172,578	(1,103)	112,371
Total expenditures	7,381,237	7,521,179	7,520,962	217	7,478,298
Revenue over (under) expenditures	10,070	355,599	358,860	3,261	55,367
Other financing sources					
Installment purchase proceeds	-	204,609	204,609	-	-
Net change in fund balance	10,070	560,208	563,469	3,261	55,367
Fund balances, beginning of year	1,562,438	1,562,438	1,562,438	-	1,507,071
Fund balances, end of year	\$ 1,572,508	\$ 2,122,646	\$ 2,125,907	\$ 3,261	\$ 1,562,438

General Fund Budgetary Highlights

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

The final amended revenue budget for 2007 was \$690,080 greater than the original budget primarily due to changes in projections for revenue contributions, charges for services and installment purchase proceeds. The actual revenue recognized during 2007 was more than the final amended budget by \$3,044.

The final amended expenditure budget for 2007 was \$139,942 greater than the original budget primarily due to changes in projections for maintenance, state trunkline maintenance and non-maintenance, administrative, capital outlay and distributive expenditures. The actual expenditures recognized during 2007 were less than the final amended budget by \$217. There were unfavorable variances in several expenditure line items, as presented on page 17, due mainly to final allocation of distributive expenditures.

Capital Assets and Debt Administration

As of December 31, 2007, the Gladwin County Road Commission had invested \$15,371,754 in capital assets. This amount represents a net increase (including additions and deductions) of \$2,467,328 or 19% as follows:

	<u>2007</u>	<u>2006</u>	Percentage Change 2006/2007
Capital assets not being depreciated			
Land and improvements	\$ 108,225	\$ 108,225	0%
Construction in progress	650,788	-	100%
Subtotal	<u>759,013</u>	<u>108,225</u>	601%
Capital assets being depreciated			
Buildings	3,065,247	3,065,247	0%
Equipment	4,953,641	4,740,593	4%
Infrastructure	13,514,809	10,945,894	23%
Subtotal	<u>21,533,697</u>	<u>18,751,734</u>	15%
Total capital assets	22,292,710	18,859,959	18%
Total accumulated depreciation	<u>(6,920,956)</u>	<u>(5,955,533)</u>	16%
Total net capital assets	<u>\$ 15,371,754</u>	<u>\$ 12,904,426</u>	19%

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

Construction in progress (drainage structure)	\$ 650,788
Various resurfacing of roads	2,568,915
Equipment	<u>394,004</u>
Total Additions	<u>\$ 3,613,707</u>

The Gladwin County Road Commission disposed of equipment during 2007 with a purchase price of \$180,956 and related depreciation of \$173,386 and received proceeds from the sale of capital assets of \$80,272.

Additional information on the Road Commission's capital assets can be found in note C on page 23.

Long-term debt

At the year end, the Gladwin County Road Commission's long-term obligations consisted of outstanding bonds, installment purchase agreements and accrued compensated absences. Major long-term debt activity for the year included entering into two additional installment purchase agreements and paying scheduled principal and interest payments on bonded debt and installment purchase agreements. More detailed information about the Road Commission's long-term liabilities is presented in Note C to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The Board of County Road Commissioners considered many factors when setting the fiscal year 2008 budget. One of the factors is the economy. The Road Commission derives approximately 40% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed. The Road Commission adopted a balanced budget for 2008 that projected a 4% decrease in revenue from fuel taxes. The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Gladwin County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably, and in the best interest of the motoring public and the citizens of Gladwin County.

Requests for Information

This financial report is designed to provide a general overview of the Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk, Gladwin County Road Commission, 301 S. State Street, Gladwin, Michigan 48624.

GLADWIN COUNTY ROAD COMMISSION

STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

DECEMBER 31, 2007

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash and interest bearing deposits	\$ 1,226,709	\$ -	\$ 1,226,709
Accounts receivable			
State trunkline maintenance	140,411	-	140,411
Due on county road agreements	372,077	-	372,077
Michigan Transportation Fund	489,982	-	489,982
Property taxes	1,520,333	-	1,520,333
Due from other governments	1,389	-	1,389
Inventories			
Equipment material and parts	166,550	-	166,550
Road materials	83,692	-	83,692
Deferred expense - federal aid projects	6,128	-	6,128
Unamortized discount on bonds	17,000	-	17,000
Capital assets			
Land and improvements	-	108,225	108,225
Construction in progress	-	650,788	650,788
Property and equipment - net of accumulated depreciation	-	3,066,025	3,066,025
Infrastructure - net of accumulated depreciation	-	11,546,716	11,546,716
Total assets	<u>\$ 4,024,271</u>	<u>15,371,754</u>	<u>19,396,025</u>
LIABILITIES			
Accounts payable	\$ 151,972	-	151,972
Accrued liabilities	49,200	-	49,200
Accrued interest	-	31,983	31,983
Advances			
State trunkline equipment purchase	70,444	-	70,444
State trunkline maintenance	52,222	-	52,222
Deferred revenue	1,521,526	-	1,521,526
Performance deposits	53,000	-	53,000
Long-term liabilities			
Due within one year	-	329,492	329,492
Due after one year	-	1,965,301	1,965,301
Total liabilities	<u>1,898,364</u>	<u>2,326,776</u>	<u>4,225,140</u>
Fund Balance/Net Assets			
Fund balance			
Reserved for inventory	250,242	(250,242)	-
Unreserved:			
Designated for subsequent year's budget	554,608	(554,608)	-
Undesignated	1,321,057	(1,321,057)	-
Total fund balance	<u>2,125,907</u>	<u>(2,125,907)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 4,024,271</u>		
Net Assets:			
Invested in capital assets, net of related debt		13,174,708	13,174,708
Unrestricted		1,996,177	1,996,177
Total net assets		<u>\$ 15,170,885</u>	<u>\$ 15,170,885</u>

The accompanying notes are an integral part of these financial statements

GLADWIN COUNTY ROAD COMMISSION
Reconciliation of General Fund Balance Sheet
to Statement of Net Assets

DECEMBER 31, 2007

Fund balances - General Fund \$ 2,125,907

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - land and improvements	108,225
Add - construction in progress	650,788
Add - property and equipment	8,018,888
Add - infrastructure	13,514,809
Deduct - accumulated depreciation	(6,920,956)

Long-term liabilities, including bonds payable and capital leases payable are not due and payable in the current period and therefore, are not reported in the funds.

Deduct - bonds payable	(1,755,000)
Deduct - accrued interest on bonds	(31,983)
Deduct - installment purchase agreements	(270,964)
Deduct - accrued compensated absences	(268,829)

Net assets of governmental activities \$ 15,170,885

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

GLADWIN COUNTY ROAD COMMISSION

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

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses			
Public works	\$ 3,907,255	\$ 1,020,980	\$ 4,928,235
Capital outlay	3,613,707	(3,613,707)	-
Total expenditures/expenses	<u>7,520,962</u>	<u>(2,592,727)</u>	<u>4,928,235</u>
Program revenue			
Charges for services	2,520,674	-	2,520,674
Operating grants and contributions			
State transportation funds	3,247,408	-	3,247,408
Capital grants and contributions			
Federal and state sources	<u>502,291</u>	-	<u>502,291</u>
Total program revenues	<u>6,270,373</u>	-	<u>6,270,373</u>
Net program revenue			<u>1,342,138</u>
General revenue			
Taxes	1,444,471	-	1,444,471
Interest and rents	92,276	-	92,276
Gain on sale of assets	<u>72,702</u>	<u>(7,570)</u>	<u>65,132</u>
Total general revenue	<u>1,609,449</u>	<u>(7,570)</u>	<u>1,601,879</u>
Total revenue	<u>7,879,822</u>		
Revenue over (under) expenditures	358,860	(358,860)	-
Other financing sources			
Installment purchase proceeds	<u>204,609</u>	<u>(204,609)</u>	-
Revenue and other financing sources over (under) expenditures	<u>563,469</u>		
Changes in net assets	-	2,739,408	2,944,017
Fund balance/net assets:			
Beginning of the year	<u>1,562,438</u>	<u>10,664,430</u>	<u>12,226,868</u>
End of the year	<u>\$ 2,125,907</u>	<u>\$ 13,044,978</u>	<u>\$ 15,170,885</u>

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

GLADWIN COUNTY ROAD COMMISSION
Reconciliation of the General Fund Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2007

Change in fund balance - General Fund	\$ 563,469
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	394,004
Add - construction in progress	650,788
Add - Infrastructure purchases	2,568,915
Deduct - depreciation expense	(1,138,809)

Disposal of capital assets before they are fully depreciated results in the recording of an expense in the statement of activities, but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund.	(7,570)
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Repayment of the principal on long-term debt consumes current financial resources of governmental funds. This transaction, however, does not affect net assets. This amount is the effect of this difference in the treatment of long-term debt.	98,643
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Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the Statement of Net Assets.	(204,609)
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The change in the accrued interest on bonds is reported as an expense in the statement of activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund.	1,015
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The change in the accrued compensated absences is reported as an expense in the statement of activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund.	18,171
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Change in net assets of governmental activities	\$ <u>2,944,017</u>
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The accompanying notes are an integral part of these financial statements.

GLADWIN COUNTY ROAD COMMISSION

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Continued) FOR THE YEAR ENDED DECEMBER 31, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Taxes				
County millage	\$ 1,439,214	\$ 1,444,414	\$ 1,439,231	\$ (5,183)
Other	-	-	5,240	5,240
Permits and licenses	12,000	13,700	14,275	575
Federal sources				
D funds	715,075	438,500	438,540	40
Bridge	-	500	679	179
State sources				
Michigan Transportation funds				
Engineering	10,000	10,000	10,000	-
Allocation	3,192,924	3,155,000	3,155,030	30
Other				
State critical bridge	-	82,236	82,226	(10)
D Funds	-	150	152	2
Economic development funds				
Forest Road (E)	63,000	63,000	63,072	72
Contributions				
City and Villages	1,294,972	1,309,000	1,309,144	144
Townships	-	30,200	30,206	6
Charges for services				
State trunkline maintenance	586,122	637,800	637,938	138
State trunkline non-maintenance	30,000	517,400	517,471	71
Salvage sales	3,000	11,600	11,640	40
Interest and rentals	45,000	91,000	92,276	1,276
Other revenue				
Proceeds on equipment disposals	-	72,278	72,702	424
Total revenue	7,391,307	7,876,778	7,879,822	3,044
Other Financing Sources				
Installment purchase proceeds	-	204,609	204,609	-
Total revenue and other financing sources	7,391,307	8,081,387	8,084,431	3,044

GLADWIN COUNTY ROAD COMMISSION

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

FOR THE YEAR ENDED DECEMBER 31, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Expenditures				
Primary Road				
Heavy maintenance	\$ 660,959	\$ 848,000	\$ 847,213	\$ 787
Maintenance	618,000	589,700	589,727	(27)
Local Road				
Heavy maintenance	2,551,407	2,418,000	2,417,749	251
Maintenance	1,907,000	2,164,900	2,164,808	92
Total maintenance	5,737,366	6,020,600	6,019,497	1,103
State trunkline maintenance	586,122	646,650	646,627	23
State trunkline non-maintenance	30,000	508,800	508,781	19
Equipment expense (net)	(325,000)	(240,510)	(240,814)	304
Administrative expense (net)	233,000	355,083	355,182	(99)
Capital outlay (net)	(420,000)	(39,569)	(39,532)	(37)
Debt principal payments	88,883	98,650	98,643	7
Other				
Distributive Expense	1,360,000	-	-	-
Interest expense	90,866	91,375	92,373	(998)
City of Gladwin	-	80,100	80,205	(105)
Total expenditures	7,381,237	7,521,179	7,520,962	217
Net change in fund balance	10,070	560,208	563,469	3,261
Fund balances, beginning of year	1,562,438	1,562,438	1,562,438	-
Fund balances, end of year	\$ 1,572,508	\$ 2,122,646	\$ 2,125,907	\$ 3,261

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

GLADWIN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The *Gladwin County Road Commission*, referred to as the Road Commission, is a discrete component unit of the County of Gladwin, Michigan. The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Department of State Highways for work done by the County on State trunklines, Federal Transportation funds, and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable.

The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan, to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by taxes, charges for services and intergovernmental revenues.

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

A combined financial statement is provided for the general fund balance sheet and the statement of net assets and the general fund statement of revenues, expenditures and changes in fund balance and the statement of activities. The general fund is considered to be a major fund for financial reporting purposes.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they were levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

GLADWIN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Governmental fund (general fund) financial statements (general fund balance sheet and general fund statement of revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

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

The government reports the following major *governmental* fund:

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

Assets, Liabilities, and Net Assets or Equity

Deposits

Cash and cash equivalents consist of cash on hand, deposits in demand and time deposit accounts, money market deposits, and certificates of deposits with original maturities of less than 90 days.

Inventory

Inventory, consisting of various operating parts, supplies and road material is stated at cost, as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as they are used.

Deferred Expense

Deferred expense consists of amounts owed by the Road Commission in accordance with federal and state aid contracts where the work is to be performed by private contractors paid by the State Department of Transportation. Debit balances result in this account when the Road Commission advances money for these projects in accordance with federal and state aid contracts.

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

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

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

GLADWIN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

Since the year ended December 31, 2004, costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets (roads, bridges, traffic signals and similar items) have been capitalized and are reported as infrastructure capital assets in the Statement of Net Assets. Infrastructure capital assets will continue to be capitalized prospectively. The Road Commission is a phase 3 government and has elected not to retroactively report major general infrastructure assets.

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

Buildings	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Office equipment	4 to 10 years
Engineering equipment	4 to 10 years
Infrastructure – bridges	12 to 50 years
Infrastructure – roads	5 to 30 years
Infrastructure – traffic signals	15 years

Deferred Revenue

Under the modified accrual basis of accounting, amounts that are measurable, but not available to pay liabilities of the current period are classified as deferred revenue. The balance of deferred revenue at year-end consists of property taxes levied for the subsequent fiscal year.

State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. The amount of the adjustments, if any, for the year ended December 31, 2007, has not been determined. Based on past experience, the Road Commission does not believe the adjustment will be a material amount.

Compensated Absences

Vacation and sick leave payable is reported in the General Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Data

The Road Commission's procedures for establishing budgetary data are as follows:

GLADWIN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The Manager submits a proposed budget for the upcoming year to the Board of County Road Commissioners. The budget is reviewed by the Board and a public hearing is held. Prior to the beginning of the year, the budget is adopted and placed in the Board minutes by the Road Commission.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.

Variances at the legal level of control are as disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

NOTE C - DETAILED NOTES ON ALL FUNDS

Deposits

At year-end, the carrying amounts of the Road Commission's deposits were as follows:

	<u>Cash and Cash Equivalents</u>
Cash on hand	\$ 25
Other demand accounts	<u>1,226,684</u>
	<u>\$ 1,226,709</u>

This entire balance is considered to be deposits for disclosure purposes.

Deposit and investment risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks

GLADWIN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997

The Road Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Interest Rate Risk

The Road Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Road Commission's investment policy does not have specific limits in excess of state law on investment credit risk. At year-end, the Road Commission had no investments and was therefore, not exposed to credit risk.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. At year-end, \$986,187 of the Road Commission's bank balance of \$1,279,471 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk

State law limits allowable investments but does not limit concentration of credit risk. The Road Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. At year-end, The Road Commission had no investments and was therefore, not exposed to concentration of credit risk.

GLADWIN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Balance January 1, 2007	Additions	Deductions	Balance December 31, 2007
Capital assets not being depreciated				
Land and improvements	\$ 108,225	\$ -	\$ -	\$ 108,225
Construction in progress	<u>-</u>	<u>650,788</u>	<u>-</u>	<u>650,788</u>
 Total capital assets not being depreciated	 <u>108,225</u>	 <u>650,788</u>	 <u>-</u>	 <u>759,013</u>
 Capital assets being depreciated				
Buildings	3,065,247	-	-	3,065,247
Road equipment	4,414,210	359,241	(180,956)	4,592,495
Garage equipment	121,928	4,300	-	126,228
Sign shop equipment	6,590	-	-	6,590
Yard equipment	56,773	28,479	-	85,252
Office equipment	126,266	1,984	-	128,250
Engineers equipment	14,826	-	-	14,826
Infrastructure – bridges	1,192,995	-	-	1,192,995
Infrastructure – roads	<u>9,752,899</u>	<u>2,568,915</u>	<u>-</u>	<u>12,321,814</u>
 Total capital assets being depreciated	 <u>18,751,734</u>	 <u>2,962,919</u>	 <u>(180,956)</u>	 <u>21,533,697</u>
 Less accumulated depreciation				
Buildings	(658,347)	(82,040)	-	(740,387)
Road equipment	(3,780,398)	(325,782)	173,386	(3,932,794)
Garage equipment	(107,297)	(5,519)	-	(112,816)
Sign shop equipment	(6,590)	-	-	(6,590)
Yard equipment	(13,129)	(8,539)	-	(21,668)
Office equipment	(119,703)	(4,079)	-	(123,782)
Engineers equipment	(14,826)	-	-	(14,826)
Infrastructure – bridges	(83,085)	(28,749)	-	(111,834)
Infrastructure – roads	<u>(1,172,158)</u>	<u>(684,101)</u>	<u>-</u>	<u>(1,856,259)</u>
 Total accumulated depreciation	 <u>(5,955,533)</u>	 <u>(1,138,809)</u>	 <u>173,386</u>	 <u>(6,920,956)</u>
 Net capital assets being depreciated	 <u>12,796,201</u>	 <u>1,824,110</u>	 <u>(7,570)</u>	 <u>14,612,741</u>
 Total net capital assets	 <u>\$ 12,904,426</u>	 <u>\$ 2,474,898</u>	 <u>\$ (7,570)</u>	 <u>\$ 15,371,754</u>

GLADWIN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Long-Term Debt

Long-term liability activity for the year ended December 31, 2007, was as follows:

	<u>Balance January 1, 2007</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance December 31, 2007</u>	<u>Due Within One Year</u>
Installment purchase agreements	\$ 89,657	\$ 204,609	\$ (23,302)	\$ 270,964	\$ 29,943
Bonds payable	1,830,000	-	(75,000)	1,755,000	75,000
Compensated absences	<u>287,341</u>	<u>194,434</u>	<u>(212,946)</u>	<u>268,829</u>	<u>224,549</u>
Total	<u>\$ 2,206,998</u>	<u>\$ 399,043</u>	<u>\$ (311,248)</u>	<u>\$ 2,294,793</u>	<u>\$ 329,492</u>

A summary of outstanding debt as of December 31, 2007 is as follows:

Capital lease payable to KDC Financial, secured by equipment, due in quarterly installments of \$4,112, including interest at 4.50% through February 2010.	\$ 34,998
Capital lease payable to Caterpillar Financial Services Corporation, secured by equipment, due in monthly installments of \$1,607, including interest at 5.85% through February 2012, with a balloon payment of \$100,800 due in February 2012.	150,192
Capital lease payable to Caterpillar Financial Services Corporation, secured by equipment, due in monthly installments of \$617, including interest at 4.00% through April 2009, with a balloon payment of \$80,617 due in May 2009.	85,774
Michigan Transportation Fund Bonds, Series 2004 due in annual installments from 2005 through 2024, including interest at 3.25% to 5.00%.	<u>1,755,000</u>
Subtotal	2,025,964
Accrued vacation and sick leave	<u>268,829</u>
Total	<u>\$ 2,294,793</u>

On the above capital leases, title to the equipment is transferred to the lessor at the end of the lease. The lease payable is recorded at the present value of the future minimum lease payments.

GLADWIN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Annual debt service requirements to maturity for installment purchase agreements and Michigan Transportation Fund bonds are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 104,943	\$ 89,724
2009	183,977	83,937
2010	96,183	78,714
2011	92,846	75,100
2012	188,015	66,587
2013-2017	480,000	271,535
2018-2022	600,000	149,396
2023-2024	<u>280,000</u>	<u>16,250</u>
	<u>\$ 2,025,964</u>	<u>\$ 831,243</u>

The amount of interest expense included as a direct function expense in the Statement of Activities for the year ended December 31, 2007, was \$92,373.

NOTE D - OTHER INFORMATION

Defined Benefit Pension Plan

Pension Plan

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (888) 478-1919.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current rate is 16.70% of annual covered payroll for general employees and 10.32% for Commissioners. Road Commission employees are required to contribute 3% of their first \$4,200 of annual covered payroll and 5% of their annual covered payroll in excess of \$4,200 to the plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2007, the Road Commission's annual pension cost of \$235,204 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2005, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%,

GLADWIN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

(b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 29 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2005	\$ 190,863	100%	\$ -
12/31/2006	188,699	100	-
12/31/2007	235,204	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2004	\$ 8,270,256	\$ 10,452,554	\$ 2,182,298	79%	\$ 1,588,721	137%
12/31/2005	8,438,637	11,178,640	2,740,003	75	1,489,132	184
12/31/2006	8,710,938	11,142,239	2,431,301	78	1,342,266	181

Other Postemployment Benefits

The Road Commission provides healthcare and prescription drug benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 24 retirees are eligible. The Road Commission includes retirees and their spouses in its insured healthcare plan, with no contribution required by any of the participants for previous employees who retired on or after October 31, 2005, in accordance with union contracts. Employees who retire after October 31, 2005 are required to make monthly contributions of \$10 for single coverage, \$20, for 2 person coverage and \$30 for family coverage if the increase in health insurance is more than 7%. The combined monthly contribution from year to year will not exceed \$20 for single coverage, \$40 for 2 person coverage or \$60 for family coverage in accordance with union contracts. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due. During the year, approximately \$259,049 for postemployment healthcare benefits was paid and recorded as an expenditure in the General Fund.

The Road Commission had an actuarial valuation performed as of December 31, 2006, which reported the Road Commission's unfunded accrued liability for postemployment health benefits to be \$7,895,435, assuming a rate of return on the investment of present and future assets of 8.0% and \$12,746,221, assuming a rate of return on the investment of present and future assets of 4.5%.

GLADWIN COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the Road Commission’s year ending December 31, 2009.

Self-Insurance Pool

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

Contingencies

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

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

Federal Award Expenditure / Single Audit

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County.

During the year ended December 31, 2007, the Road Commission recorded expenditures of federal awards in the amount of \$521,597. The entire amount of these expenditures represent Department of Transportation Federal Highway grant proceeds expended on public road improvement projects under Federal Urban and Rural Programs, whereby work was administered by the Michigan Department of Transportation. Due to the work and funding of these projects being performed at the State level, these expenditures will be included in the single audit procedures of the State. No federal awards expenditures were administered by the Gladwin County Road Commission; therefore a single audit for the Road Commission is not required.

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GLADWIN COUNTY ROAD COMMISSION

**GENERAL OPERATING FUND
SCHEDULE OF REVENUES BY COMPONENT**

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>PRIMARY ROAD FUNDS</u>	<u>LOCAL ROAD FUNDS</u>	<u>COUNTY ROAD COMMISSION FUNDS</u>	<u>TOTAL</u>
Revenues				
Taxes				
County millage	\$ -	\$ -	\$ 1,439,231	\$ 1,439,231
Other taxes	-	-	5,240	5,240
Permits and licenses	-	-	14,275	14,275
Federal sources				
Bridge	-	438,540	-	438,540
D funds	679	-	-	679
State sources				
Michigan transportation funds				
Engineering	5,821	4,179	-	10,000
Allocation	1,845,319	1,309,711	-	3,155,030
Other				
State critical bridge	-	82,226	-	82,226
D Funds	152	-	-	152
Economic development funds				
Forest road (E funds)	-	63,072	-	63,072
Contributions from local units				
Townships	-	-	1,309,144	1,309,144
City and Village	-	-	30,206	30,206
Charges for services				
State trunkline maintenance	-	-	637,938	637,938
State trunkline non-maintenance	-	-	517,471	517,471
Salvage sales	-	-	11,640	11,640
Interest and rentals	-	-	92,276	92,276
Other				
Gain on equipment disposals	-	-	72,702	72,702
Total revenues	<u>\$ 1,851,971</u>	<u>\$ 1,897,728</u>	<u>\$ 4,130,123</u>	<u>\$ 7,879,822</u>

GLADWIN COUNTY ROAD COMMISSION

**GENERAL OPERATING FUND
SCHEDULE OF EXPENDITURES BY COMPONENT**

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>PRIMARY ROAD FUNDS</u>	<u>LOCAL ROAD FUNDS</u>	<u>COUNTY ROAD COMMISSION FUNDS</u>	<u>TOTAL</u>
Expenditures				
Preservation / Structural Improvements				
Roads	\$ 847,213	\$ 1,651,815	\$ -	\$ 2,499,028
Structures	-	765,934	-	765,934
Maintenance				
Roads	223,828	1,645,298	-	1,869,126
Structures	47,209	91,471	-	138,680
Winter maintenance	278,182	346,280	-	624,462
Traffic control	40,508	81,759	-	122,267
Total maintenance	1,436,940	4,582,557	-	6,019,497
State trunkline maintenance	646,627	-	-	646,627
State trunkline non-maintenance	508,781	-	-	508,781
Equipment expense (net)	(49,174)	(159,636)	(32,004)	(240,814)
Administrative expense (net)	84,787	270,395	-	355,182
Capital outlay (net)	-	-	(39,532)	(39,532)
Debt principal payments	-	-	98,643	98,643
Interest expense	-	-	92,373	92,373
Other				
City of Gladwin	-	-	80,205	80,205
Total expenditures	<u>\$ 2,627,961</u>	<u>\$ 4,693,316</u>	<u>\$ 199,685</u>	<u>\$ 7,520,962</u>

GLADWIN COUNTY ROAD COMMISSION

**GENERAL OPERATING FUND
SCHEDULE OF CHANGES IN FUND BALANCE BY COMPONENT**

FOR THE YEAR ENDED DECEMBER 31, 2007

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Total revenues	\$ 1,851,971	\$ 1,897,728	\$ 4,130,123	\$ 7,879,822
Total expenditures	2,627,961	4,693,316	199,685	7,520,962
Revenues over (under) expenditures	(775,990)	(2,795,588)	3,930,438	358,860
Other financing sources (uses)				
Installment purchase proceeds	-	-	204,609	204,609
Intrafund transfers	775,990	2,795,588	(3,571,578)	-
Total other financing sources (uses)	775,990	2,795,588	(3,366,969)	204,609
Revenues and other sources over expenditures and other (uses)	-	-	563,469	563,469
Fund balance, beginning of year	-	-	1,562,438	1,562,438
Fund balance, end of year	\$ -	\$ -	\$ 2,125,907	\$ 2,125,907

SMITH & KLACZKIEWICZ, PC

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A VETERAN OWNED BUSINESS

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

Members of the Board of County
Road Commissioners
County of Gladwin, Michigan
Gladwin, Michigan

We have audited the financial statements of the governmental activities and the major fund of the **Gladwin County Road Commission**, a component unit of Gladwin County, as of and for the year ended December 31, 2007, which collectively comprise the Road Commission's basic financial statements and have issued our report thereon dated June 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 material weaknesses.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the following deficiencies to be material weaknesses in internal control over financial reporting.

Compliance and Other Matters

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

We did not audit **Gladwin County Road Commission's** responses and, accordingly, we express no opinion on them.

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

Smith + Klayhenwig PC

Saginaw, Michigan
June 6, 2008

GLADWIN COUNTY ROAD COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES

Finding 2007-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government'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 smaller and medium-sized entities, the Road Commission has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Road Commission's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

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

Effect: As a result of this condition, the Road Commission 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.

View of Responsible Officials: The Road Commission 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 Road Commission 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.

Finding 2007-2 - Recording, Processing and Summarizing Certain Accounting Data (Audit Adjustments)

Criteria: All governments are required to have in place internal controls over recording, processing, and summarizing accounting data (i.e., maintaining internal books and records).

Condition: As is the case with many smaller and medium-sized entities, the Road Commission has historically relied on its independent external auditors to assist in the recording, processing and summarizing of certain accounting data as part of its external financial reporting process. Accordingly, the Road Commission has placed reliance on its *external* auditors, who cannot by definition be considered a part of the Road Commission's *internal* controls.

GLADWIN COUNTY ROAD COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES

Cause: This condition was caused by the Road Commission's decision that it is more cost effective to have the external auditors recommend the necessary adjusting journal entries to its general ledger than to incur the time and expense of obtaining the necessary training and expertise required for the Road Commission to perform this task internally.

Effect: As a result of this condition, the Road Commission lacks internal controls over the recording, processing, and summarizing of certain accounting data, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The Road Commission has evaluated the cost vs. benefit of establishing internal controls over the recording, processing, and summarizing of certain accounting data, and determined that it is in the best interests of the Road Commission to rely on its external auditors to recommend the necessary adjustments.