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# Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended.

Unit Name	Grand Traverse County Road C <sub>15</sub>	County	GRAND TRAVERSE	Type	OTHER	MuniCode	
Opinion Date	June 19, 2008	Audit Submitted	June 23, 2008	Fiscal Year	December 31, 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 checked="" 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 checked="" type="checkbox"/>	13. Is the audit opinion unqualified?      14. If not, what type of opinion is it? <u>NA</u>
<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 type="checkbox"/>	18. Are there reported deficiencies? <input type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 11,058,143.00
General Fund Expenditure:	\$ 11,762,435.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 2,103,917.00
Governmental Activities Long-Term Debt (see instructions):	\$ 3,779,165.00

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)	Stephen	Last Name	Peacock	Ten Digit License Number	1101021255			
CPA Street Address	107 S. Cass Street	City	Traverse City	State MI	Zip Code	49684	Telephone	+1 (231) 946-3230
CPA Firm Name	Rehmann Robson	Unit's Street Address	1881 LaFranier Road	City	Traverse City	Zip Code	49684	



Grand Traverse County Road Commission  
(A Component Unit of Grand Traverse County)

Traverse City, Michigan

Financial Statements

For the Year Ended December 31, 2007



**REHMANN ROBSON**

*Certified Public Accountants*

**GRAND TRAVERSE COUNTY**  
**BOARD OF COUNTY ROAD COMMISSIONERS**

---

Neil B. Livasy  
Vice – Chairman

Walter “Jay” Hooper  
Chairman

James E. Maitland  
Member

Harold D. Kelly  
Financial Director

Mary A. Gillis  
Manager

Heather Jamison, P.E.  
County Highway Engineer

**GRAND TRAVERSE COUNTY ROAD COMMISSION**  
**(A Component Unit of Grand Traverse County)**

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**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

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## INDEPENDENT AUDITORS' REPORT

June 19, 2008

Members of the Board of County  
Road Commissioners  
County of Grand Traverse, Michigan  
1881 LaFranier Road  
Traverse City, Michigan 49684

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2008 on our consideration of the **Grand Traverse County Road Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the ***Grand Traverse County Road Commission***. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Grand Traverse 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.

### Financial Highlights

- Projects financed with federal financial assistance added approximately \$1,253,732 of infrastructure in 2007. \$1,229,543 of this amount was administered by the Michigan Department of Transportation.

### 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 Grand Traverse 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).

Both of the component unit financial statements distinguish the function of the Road Commission which is 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 Grand Traverse 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 Grand Traverse County which reports the Road Commission as a component unit.

The government-wide financial statements can be found on pages 9 and 12 of this report.

**Fund financial statements.** A *fund* is 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 purpose as defined by GASB Statement #34.

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

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund can be found on pages 13 through 14 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 15 through 26 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 3.0% or \$1,718,424 from \$57,052,703 to \$58,771,127 for the year ended December 31, 2007. The net assets and change in net assets are summarized below.

Grand Traverse County Road Commission Net Assets:

	<u>2006</u>	<u>2007</u>
Current and other assets	\$ 6,181,746	\$ 5,056,247
Capital assets	<u>57,378,356</u>	<u>59,258,875</u>
Total assets	<u>63,560,102</u>	<u>64,315,122</u>
Long-term liabilities outstanding	4,383,862	3,779,165
Other liabilities	<u>2,123,537</u>	<u>1,764,830</u>
Total liabilities	<u>6,507,399</u>	<u>5,543,995</u>
Net assets		
Invested in capital assets, net of related debt	53,268,356	55,698,875
Unrestricted	<u>3,784,347</u>	<u>3,072,252</u>
<b>Total net assets</b>	<b><u>\$ 57,052,703</u></b>	<b><u>\$ 58,771,127</u></b>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Grand Traverse County Road Commission, assets exceeded liabilities by \$58,771,127 at the close of the most recent fiscal year.

By far the largest portion of the Grand Traverse County Road Commission's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. Although the Grand Traverse 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, 2006 and 2007 follows:

	<u>2006</u>	<u>2007</u>
Program revenue		
Charges for service	\$ 925,546	\$ 1,178,085
Operating grants and contributions	8,443,899	7,292,686
Capital grants and contributions	5,561,898	2,545,678
General revenue		
Interest and rents	23,783	41,694
Bond premium	30,426	-
Gain on equipment disposal	<u>398,727</u>	<u>-</u>
<b>Total revenue</b>	<b>15,384,279</b>	<b>11,058,143</b>
Program expenses	<u>9,022,929</u>	<u>9,339,719</u>
<b>Increase in net assets</b>	<b><u>\$ 6,361,350</u></b>	<b><u>\$ 1,718,424</u></b>

Governmental activities increased the Grand Traverse County Road Commission's net assets by \$1,718,424. The key elements of this increase are as follows:

- Operating grant and contribution revenue is expended by the Road Commission for construction and maintenance of roads. Under the full accrual method of accounting these amounts are capitalized as infrastructure additions, therefore, the revenue is not offset by expenditures, causing a significant increase in net assets.

### 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.

## Capital Assets and Debt Administration

As of December 31, 2007, the Grand Traverse County Road Commission had invested \$59,258,875 in capital assets. This amount represents a net increase (including additions and deductions) of \$1,880,520 or 3.3% as follows (in thousands):

	<u>2006</u>	<u>2007</u>
Capital assets not being depreciated		
Land, right of way and construction in progress	\$23,053	\$ 23,896
Capital assets being depreciated		
Buildings and improvements	4,118	4,042
Road equipment	7,749	7,764
Other equipment	2,563	2,576
Infrastructure and improvements	<u>49,317</u>	<u>53,617</u>
Subtotal	<u>63,747</u>	<u>67,999</u>
Total capital assets	86,800	91,895
Total accumulated depreciation	<u>(29,422)</u>	<u>(32,636)</u>
<b>Total net capital assets</b>	<b><u>\$ 57,378</u></b>	<b><u>\$ 59,259</u></b>

Additional information on the Road Commission's capital assets can be found in note III.B. on page 20.

### Long-term debt

The Road Commission currently has long-term debt in the amount of \$3,560,000 which represents primarily bonded construction projects.

Other obligations include accrued vacation and sick pay leave. More detailed information about the Road Commission's long-term liabilities is presented in Note III C to the financial statements.

### Economic Factors and Next Year's Budgets and Rates

The 2008 budget was prepared based on bargaining and nonbargaining employment agreements, the state road commission funding formula and expected construction inflation rates.

## **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 Financial Director, Grand Traverse County Road Commission, 1881 LaFranier Road., Traverse City, Michigan 49686.

**GRAND TRAVERSE COUNTY ROAD COMMISSION**  
**STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET**  
**DECEMBER 31, 2007**

ASSETS	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Cash and cash equivalents	\$ 1,650,730	-	\$ 1,650,730
Accounts receivable			
State trunkline maintenance	172,884	-	172,884
Due on county road agreements	56,416	-	56,416
Motor vehicle highway funds	1,088,590	-	1,088,590
Due from other governments	1,238,456	-	1,238,456
Other	66,897	-	66,897
Inventories			
Equipment material and parts	153,461	-	153,461
Road materials	555,443	-	555,443
Prepaid items	73,370	-	73,370
Capital assets			
Not being depreciated	-	23,895,526	23,895,526
Being depreciated	-	35,363,349	35,363,349
<b>Total assets</b>	<b><u>\$ 5,056,247</u></b>	<b><u>59,258,875</u></b>	<b><u>64,315,122</u></b>
<b>LIABILITIES AND FUND BALANCE / NET ASSETS</b>			
Accounts payable	\$ 244,560	-	244,560
Accrued liabilities	204,895	-	204,895
Accrued interest payable	51,934	-	51,934
Due to state	481,103	-	481,103
Advances			
State trunkline equipment purchase	101,639	-	101,639
State trunkline maintenance	95,917	-	95,917
Deferred/unearned revenue	1,772,282	(1,187,500)	584,782
Long-term liabilities			
Due within one year	-	695,000	695,000
Due after one year	-	3,084,165	3,084,165
<b>Total liabilities</b>	<b><u>2,952,330</u></b>	<b><u>2,591,665</u></b>	<b><u>5,543,995</u></b>
<b>Fund Balance/ net assets</b>			
Fund balance			
Reserved for inventory and prepaid items	782,274	(782,274)	-
Unreserved, undesignated	1,321,643	(1,321,643)	-
<b>Total fund balance</b>	<b><u>2,103,917</u></b>	<b><u>(2,103,917)</u></b>	<b><u>-</u></b>
<b>Total liabilities and fund balance</b>	<b><u>\$ 5,056,247</u></b>		
<b>Net assets</b>			
Investment in capital assets, net of related debt		55,698,875	55,698,875
Unrestricted		3,072,252	3,072,252
<b>Total net assets</b>		<b><u>\$ 58,771,127</u></b>	<b><u>\$ 58,771,127</u></b>

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

**GRAND TRAVERSE COUNTY ROAD COMMISSION**  
**Reconciliation of General Fund Balance Sheet**  
**to Statement of Net Assets**

**DECEMBER 31, 2007**

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**Fund balances - General Fund** **\$ 2,103,917**

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 - capital assets not being depreciated	23,895,526
Add - net capital assets being depreciated	35,363,349

Certain receivables are expected to be collected over several years, and are not available to pay for current year expenditures

Due from townships on bond funding agreements	1,187,500
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(3,560,000)
Deduct - accrued compensated absences	<u>(219,165)</u>

**Net assets of governmental activities** **\$ 58,771,127**

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

# GRAND TRAVERSE COUNTY ROAD COMMISSION

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

FOR THE YEAR ENDED DECEMBER 31, 2007

	General Fund	Adjustments	Statement of Activities
<b>Expenditures/expenses</b>			
Public works	\$ 11,022,670	\$ (1,844,681)	\$ 9,177,989
Capital outlay	28,035	(28,035)	-
Debt service			
Principal	550,000	(550,000)	-
Interest expense	161,730		161,730
<b>Total expenditures/expenses</b>	<b>11,762,435</b>	<b>(2,422,716)</b>	<b>9,339,719</b>
<b>Program revenue</b>			
Charges for services	1,178,085	-	1,178,085
<b>Operating grants and contributions</b>			
State transportation funds	6,990,510	-	6,990,510
Local unit	302,176	-	302,176
<b>Capital grants and contributions</b>			
Federal and state sources	1,793,980	-	1,793,980
Developments	751,698	-	751,698
<b>Total program revenues</b>	<b>11,016,449</b>	-	<b>11,016,449</b>
<b>Net program revenue</b>			<b>1,676,730</b>
<b>General revenue</b>			
Interest and rents	41,694	-	41,694
<b>Total revenue</b>	<b>11,058,143</b>		
Net change in fund balance	(704,292)	704,292	-
Changes in net assets	-	1,718,424	1,718,424
<b>Fund balance/net assets</b>			
Beginning of the year	2,808,209	54,244,494	57,052,703
<b>End of the year</b>	<b>\$ 2,103,917</b>	<b>\$ 56,667,210</b>	<b>\$ 58,771,127</b>

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

**GRAND TRAVERSE 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**

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<b>Net change in fund balance - General Fund</b>	<b>\$ (704,292)</b>
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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	28,035
Add - Infrastructure purchases	5,142,028
Deduct - depreciation expense	(3,223,388)
Deduct - book value of assets disposed in 2007	(66,156)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Deduct: change in deferred revenue	(62,500)
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Repayment of the principal on long-term debt consumes current financial resources of governmental funds. This transaction, however, does not effect net assets. This amount is the effect of this difference in the treatment of long-term debt.	550,000
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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.	<u>54,697</u>
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<b>Change in net assets of governmental activities</b>	<b><u><u>\$ 1,718,424</u></u></b>
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The accompanying notes are an integral part of these financial statements.

# GRAND TRAVERSE COUNTY ROAD COMMISSION

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

**FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>				
<b>Permits and licences</b>	\$ 60,500	\$ 60,500	\$ 60,360	\$ (140)
<b>Federal sources</b>	715,800	1,270,000	1,253,732	(16,268)
<b>State sources</b>				
Michigan Transportation funds				
Engineering	10,000	10,000	10,000	-
Primary road	4,650,000	4,650,000	4,607,716	(42,284)
Local road	2,225,000	2,225,000	2,196,796	(28,204)
Snow removal	185,000	176,000	175,998	(2)
Economic development funds				
Rural primary	5,336,800	500,000	490,579	(9,421)
Forest Road	50,000	50,000	49,669	(331)
<b>Contributions</b>				
Townships	325,100	448,000	302,176	(145,824)
Developments	1,500,000	1,000,000	751,698	(248,302)
Other	51,000	185,000	-	(185,000)
<b>Charges for services</b>				
State trunkline maintenance	840,000	942,000	1,025,604	83,604
State trunkline non-maintenance	40,000	43,000	42,248	(752)
Salvage sales	3,000	3,000	7,720	4,720
Other	20,000	15,000	42,153	27,153
<b>Interest and rentals</b>	36,000	41,000	41,694	694
<b>Other revenue</b>				
Gain on equipment disposals	25,000	25,000	-	(25,000)
<b>Total revenues</b>	<u>\$ 16,073,200</u>	<u>\$ 11,643,500</u>	<u>\$ 11,058,143</u>	<u>\$ (585,357)</u>

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

**GRAND TRAVERSE COUNTY ROAD COMMISSION**

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

**FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Expenditures</b>				
<b>Primary Road</b>				
Construction	\$ 4,468,100	\$ 1,375,000	\$ 1,313,665	\$ 61,335
Heavy maintenance	3,034,200	1,236,000	1,183,072	52,928
Maintenance	2,000,000	2,457,000	2,545,239	(88,239)
<b>Local Road</b>				
Construction	1,500,000	1,000,000	549,010	450,990
Heavy maintenance	2,252,500	2,308,000	2,096,281	211,719
Maintenance	3,000,000	2,766,000	2,797,027	(31,027)
<b>Total maintenance</b>	16,254,800	11,142,000	10,484,294	657,706
<b>Sundry expense</b>	8,000	12,000	1,179	10,821
<b>State trunkline maintenance</b>	840,000	1,200,000	1,220,435	(20,435)
<b>State trunkline non-maintenance</b>	40,000	43,000	42,248	752
<b>Equipment expense (net)</b>	(715,000)	(660,000)	(853,664)	193,664
<b>Administrative expense (net)</b>	670,300	716,000	670,725	45,275
<b>Capital outlay (net)</b>	(247,000)	(564,000)	(514,512)	(49,488)
<b>Debt principal payments</b>	550,000	550,000	550,000	-
<b>Interest expense</b>	165,200	165,200	161,730	3,470
<b>Total expenditures</b>	<u>17,566,300</u>	<u>12,604,200</u>	<u>11,762,435</u>	<u>841,765</u>
Net change in fund balance	(1,493,100)	(960,700)	(704,292)	256,408
Fund balances, beginning of year	2,808,209	2,808,209	2,808,209	-
<b>Fund balances, end of year</b>	<u>\$ 1,315,109</u>	<u>\$ 1,847,509</u>	<u>\$ 2,103,917</u>	<u>\$ 256,408</u>

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

# GRAND TRAVERSE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### A. Reporting Entity

The *Grand Traverse County Road Commission*, referred to as the Road Commission, is a discrete component unit of the County of Grand Traverse, 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.

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *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 and the statement of net assets and the general fund and the statement of activities. The general fund is considered to be a major fund for financial reporting purposes.

# GRAND TRAVERSE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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

The government-wide financial statements (the 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 are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 180 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.

### D. Assets, Liabilities, and Net Assets or Equity

#### 1. Deposits

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

# GRAND TRAVERSE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### 2. Inventory

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

### 3. Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets). 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.

Accounting standards require major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years since June 30, 1980 be inventoried and capitalized. The Road Commission has capitalized and reported the infrastructure assets on the statement of net assets.

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.

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.

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	Composite 20 years
Infrastructure – roads	Composite 20 years

# GRAND TRAVERSE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### 4. 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. Management estimates each year for the anticipated back charges but the final amount of 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 from the estimated accrual.

### 5. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation, sick and personal pay benefits depending on the date of hire. All accrued vacation, sick and personal pay benefits are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

The maximum accumulation of vacation hours is 176 hours for union employees and 240 hours for administrative personnel. An excess of the maximum is lost on the anniversary date of hire, except for a limited number of employees which expires on a winter anniversary date. Employees accrue vacation time between 4 and 15 hours per month based on a scale of longevity. Effective December 1, 1990, each regular union employee is provided with 56 hours of short term leave benefit. Administrative employees receive 8 hours per month of sick leave benefit. Each employee receives payment for leave not used as of December 1<sup>st</sup> of each year. Sick leave benefits prior to December 1, 1990, can be used as well.

## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. Budgetary Data

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

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, over 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Financial Director prepares a budget in accordance with the Act which is adopted by the Board at a public hearing each December. All budgets lapse at year end.

# GRAND TRAVERSE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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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.

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and Investments

##### Deposits

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

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$ 100,000	\$ 100,000
Uninsured - collateralized	<u>1,550,730</u>	<u>1,597,010</u>
<b>Total</b>	<b><u>\$ 1,650,730</u></b>	<b><u>\$ 1,697,010</u></b>

*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.

##### Investments

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

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution

# GRAND TRAVERSE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the 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 12/31/97

### **B. Capital Assets**

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

	<b>Balance January 1, 2007</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31, 2007</b>
Capital assets not being depreciated				
Land and improvements	\$ 1,021,299	\$ -	\$ -	\$ 1,021,299
Land / right-of-way	19,117,061	755,335	-	19,872,396
Construction in progress	<u>2,914,560</u>	<u>209,972</u>	<u>(122,701)</u>	<u>3,001,831</u>
Total capital assets not being depreciated	<u>23,052,920</u>	<u>965,307</u>	<u>(122,701)</u>	<u>23,895,526</u>
Capital assets being depreciated				
Buildings	4,117,491	-	(75,173)	4,042,318
Road equipment	7,748,757	14,972	-	7,763,729
Shop equipment	232,513	6,001	-	238,514
Office equipment	347,837	4,636	-	352,473
Engineers equipment	294,837	2,426	-	297,263
Yard and storage	1,688,190	-	-	1,688,190
Infrastructure – bridges	954,792	31,098	-	985,890
Infrastructure – roads	<u>48,362,618</u>	<u>4,268,324</u>	<u>-</u>	<u>52,630,942</u>
Total capital assets being depreciated	<u>63,747,035</u>	<u>4,327,457</u>	<u>(73,173)</u>	<u>67,999,319</u>

# GRAND TRAVERSE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

	<u>Balance January 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2007</u>
Less accumulated depreciation				
Buildings	\$ 434,649	\$ 82,350	\$ (9,017)	\$ 507,981
Road equipment	6,991,006	346,755	-	7,337,761
Shop equipment	160,703	13,460	-	174,163
Office equipment	285,243	13,000	-	298,243
Engineers equipment	244,483	12,233	-	256,716
Yard and storage	586,191	74,749	-	660,940
Infrastructure – bridges	697,266	49,294	-	746,560
Infrastructure – roads	<u>20,022,058</u>	<u>2,631,547</u>	<u>-</u>	<u>22,653,605</u>
Total accumulated depreciation	<u>29,421,599</u>	<u>3,223,388</u>	<u>(9,017)</u>	<u>32,635,969</u>
Net capital assets being depreciated	<u>34,325,436</u>	<u>1,104,069</u>	<u>(66,156)</u>	<u>35,363,349</u>
<b>Total net capital assets</b>	<b><u>\$ 57,378,356</u></b>	<b><u>\$ 2,069,376</u></b>	<b><u>\$ (188,857)</u></b>	<b><u>\$ 59,258,875</u></b>

### C. Long-Term Debt

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

	<u>1/1/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/07</u>	<u>Due within one year</u>
MTF bond payable	\$ 4,110,000	\$ -	\$ 550,000	\$ 3,560,000	\$ 680,000
Compensated absences	<u>273,862</u>	<u>-</u>	<u>54,697</u>	<u>219,165</u>	<u>15,000</u>
<b>Total</b>	<b><u>\$ 4,383,862</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 604,697</u></b>	<b><u>\$ 3,779,165</u></b>	<b><u>\$ 695,000</u></b>

	<u>1/1/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/07</u>
<b><u>Bonds payable</u></b>				
Michigan Transportation Fund Bonds Payable – Series 1993, principal due in variable annual installments, variable semi-annual interest payments at rate 5.3% to 3.75%, due August 2008.	\$ 360,000	\$ -	\$ 175,000	\$ 185,000
Michigan Transportation Fund Bonds Payable – Series 2001, principal due in variable annual installments, variable semi-annual interest payments at rate 4.0% to 4.375%, due August 2011.	1,250,000	-	250,000	1,000,000

# GRAND TRAVERSE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

	<u>1/1/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/07</u>
Michigan Transportation Fund Bond Payable – Series 2007, principal due in variable annual installments, semi-annual interest payments at rate 4.0% 5.0% due October 2016.	\$ 2,500,000	\$ -	\$ 125,000	\$ 2,375,000
<b>Total bonds payable</b>	<b><u>\$4,110,000</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 550,000</u></b>	<b><u>\$ 3,560,000</u></b>

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 680,000	\$ 146,263	\$ 826,263
2009	500,000	117,513	617,513
2010	500,000	96,888	596,888
2011	505,000	76,138	581,138
2012	260,000	55,000	315,000
2013-2016	1,115,000	113,200	1,228,200
	<b><u>\$ 3,560,000</u></b>	<b><u>\$ 605,002</u></b>	<b><u>\$ 4,165,002</u></b>

#### IV. OTHER INFORMATION

##### A. Defined Benefit Pension Plan

###### Pension Plan

The Road Commission's defined benefit pension plan provides retirement and disability benefits 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.

# GRAND TRAVERSE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Funding Policy

The Road Commission is required to contribute at an actuarially determined rate. 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 \$165,255 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%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% 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	\$122,453	100%	\$ -
12/31/2006	152,088	100	-
12/31/2007	165,255	100	-

# GRAND TRAVERSE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### Schedule of Funding Progress

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
12/31/2004	\$7,536,897	\$8,920,104	\$1,383,207	84.0%	\$764,059	181%
12/31/2005	7,504,460	9,001,986	1,497,526	83.4	779,727	192
12/31/2006	7,619,448	9,211,183	1,591,735	82.7	714,176	222

### **Defined Contribution Pension Plan**

The Grand Traverse County Road Commission provides pension benefits to all of its full-time employees through a defined contribution plan. It is administered by ICMA. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Administrative employees are eligible to participate from the date of employment. Union employees are eligible after one year as established by agreement. The County Road Commission contributes 9% of administrative and 8% of union personnel gross earnings, respectively plus match employee contributions in an amount equal to 3% administrative and 2% union. Contributions for each employee (plus interest allocated to the employee's account) are vested 20%, 40%, 60%, 80% and 100% in years two through six, respectively. Plan provisions and contribution requirements are established and may be amended by the Board of County Road Commissioners.

During the fiscal year the Road Commission contributed \$196,194 and employees contributed \$43,312.

### **B. Post Employment Benefits**

In addition to the pension benefits, the County Road Commission provides post-employment health care insurance benefits to all retired employees or their surviving spouse. The benefits are provided in accordance with articles of the union agreement, which includes the provision that upon retirement, the commission contributes the full premium per month for health coverage per retiree. Total employees receiving these benefits are 12 early retirees, 22 retirees and 7 surviving spouses. Total cost for the year was \$138,527.

# GRAND TRAVERSE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### **C. Self-Insurance Pool**

The 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 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 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.

### **D. 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.

### **E. 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 2007, the Road Commission of Grand Traverse County expended federal awards in the amount of \$1,253,732. Of this amount \$1,229,543 represents 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 this project being performed at the State level, these expenditures will be included in the single audit procedures of the State and excluded from the Road Commission's single audit.

# GRAND TRAVERSE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### F. Leases

The Commission has executed five noncancellable operating leases with Caterpillar Financial Services Corporation, payable in monthly installment amounts. Leases mature in 2011. Future lease commitments amount to \$82,172. Lease expense for the year ended December 31, 2007 was \$72,162.

Commitments over the next five years are as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 57,462
2009	10,225
2010	10,225
2011	4,260

### G. Related Party Transaction

During 2007, the Road Commission entered into an agreement with Great Northern Benefits to provide health insurance benefits through Priority Health. A member of the board is a principal at this company. During the year, insurance premiums paid to Priority Health amounted to \$841,339. The board member has abstained in all votes related to the agreement between the Road Commission and Great Northern Benefits.

### V. SUBSEQUENT EVENT

In June 2008, the Board of Commissioners for the Road Commission authorized the issuance of \$4 million of Michigan Transportation Fund Bonds, Series 2008. Grand Traverse County has agreed to assume responsibility for one-half of the debt service on this issue.

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**GRAND TRAVERSE COUNTY ROAD COMMISSION**

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

**FOR THE YEAR ENDED DECEMBER 31, 2007**

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
<b>Revenues</b>				
Permits and licenses	\$ -	\$ -	\$ 60,360	\$ 60,360
Federal sources				
Surface transportation program	1,207,103	46,629	-	1,253,732
State sources				
Michigan transportation funds				
Engineering	6,800	3,200	-	10,000
Urban	485,337	227,707	-	713,044
Allocation	4,122,379	1,969,089	-	6,091,468
Snow removal	-	175,998	-	175,998
Economic development funds				
Rural primary (D funds)	490,579	-	-	490,579
Forest road (E funds)	-	49,669	-	49,669
Contributions from local units				
Townships	302,176	-	-	302,176
Other	158,367	593,331	-	751,698
Charges for services				
State trunkline maintenance	-	-	1,025,604	1,025,604
State trunkline non-maintenance	-	-	42,248	42,248
Salvage sales	-	-	7,720	7,720
Other	-	-	42,153	42,153
Interest and rentals	-	-	41,694	41,694
<b>Total revenues</b>	<b>\$ 6,772,741</b>	<b>\$ 3,065,623</b>	<b>\$ 1,219,779</b>	<b>\$ 11,058,143</b>

**GRAND TRAVERSE COUNTY ROAD COMMISSION**

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

**FOR THE YEAR ENDED DECEMBER 31, 2007**

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
<b>Expenditures</b>				
Construction				
Roads	\$ 1,313,665	\$ 549,010	\$ -	\$ 1,862,675
Heavy maintenance				
Roads	1,183,072	2,096,281	-	3,279,353
Maintenance				
Roads	2,545,239	2,797,027	-	5,342,266
State trunkline maintenance	-	-	1,220,435	1,220,435
State trunkline non-maintenance	-	-	42,248	42,248
Equipment expense (net)	(279,320)	(396,953)	(177,391)	(853,664)
Administrative expense (net)	322,557	348,168		670,725
Capital outlay (net)	-	-	(514,512)	(514,512)
Other	-	-	1,179	1,179
Debt principal payments	-	-	550,000	550,000
Interest expense	-	-	161,730	161,730
<b>Total expenditures</b>	<b><u>\$ 5,085,213</u></b>	<b><u>\$ 5,393,533</u></b>	<b><u>\$ 1,283,689</u></b>	<b><u>\$ 11,762,435</u></b>

**GRAND TRAVERSE 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	\$ 6,772,741	\$ 3,065,623	\$ 1,219,779	\$ 11,058,143
Total expenditures	<u>5,085,213</u>	<u>5,393,533</u>	<u>1,283,689</u>	<u>11,762,435</u>
<b>Revenues over (under) expenditures</b>	<b>1,687,528</b>	<b>(2,327,910)</b>	<b>(63,910)</b>	<b>(704,292)</b>
<b>Other financing sources (uses)</b>				
Intrafund transfers	<u>(1,384,000)</u>	<u>1,384,000</u>	<u>-</u>	<u>-</u>
<b>Revenues and other sources over (under) expenditures and other (uses)</b>	<b>303,528</b>	<b>(943,910)</b>	<b>(63,910)</b>	<b>(704,292)</b>
Fund balance, beginning of year	<u>542,232</u>	<u>1,738,324</u>	<u>527,653</u>	<u>2,808,209</u>
<b>Fund balance, end of year</b>	<b><u>\$ 845,760</u></b>	<b><u>\$ 794,414</u></b>	<b><u>\$ 463,743</u></b>	<b><u>\$ 2,103,917</u></b>



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

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**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***

June 19, 2008

Members of the Board of County  
Road Commissioners  
County of Grand Traverse, Michigan  
1881 LaFranier Road  
Traverse City, Michigan 49684

We have audited the financial statements of the governmental activities and the major fund of the *Grand Traverse County Road Commission*, a component unit of Grand Traverse County, Michigan, as of and for the year ended December 31, 2007, and have issued our report thereon dated June 19, 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 *Grand Traverse County Road Commission's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control over financial reporting.

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

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

Our consideration of 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to management of *Grand Traverse County Road Commission* in a separate letter dated June 19, 2008.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

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

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