

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Houghton County Road Commission	County Houghton
Fiscal Year End 9/30/07	Opinion Date 2/28/08	Date Audit Report Submitted to State 3-22-08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

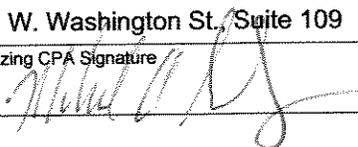
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

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

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	Not Required	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman, & Company, PLC		Telephone Number 906-225-1166	
Street Address 102. W. Washington St., Suite 109		City Marquette	State MI
Authorizing CPA Signature 		Printed Name Michael Alan Greutz	Zip 49855
		License Number 1101027988	

**Houghton County Road Commission
Component Unit Financial Statements
For the Year Ended September 30, 2007**

Table of Contents

Independent Auditors' Report	3
Management's Discussion and Analysis.....	5
Statement of Net Assets.....	12
Statement of Activities	13
Balance Sheet	14
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.....	15
Statement of Revenues, Expenditures and Changes in Fund Balance	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Notes to Financial Statements.....	18

Required Supplementary Information

General Operating Fund Statement of Revenues – Budget and Actual.....	29
General Operating Fund – Statement of Expenditures Budget and Actual	30

Other Supplemental Financial Information

Analysis of Changes in Fund Balance.....	32
Analysis of Revenues	32
Analysis of Expenditures	34

Compliance Section

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Component Unit Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36
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Anderson, Tackman & Company, PLC

Certified Public Accountants
Marquette, Michigan 906-225-1166
Fax – 1-906-225-1714

Partners

John W. Blemberg, CPA	Robert J. Downs, CPA, CVA	Daniel E. Bianchi, CPA
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INDEPENDENT AUDITORS' REPORT

Board of County Road Commissioners
Houghton County Road Commission
PO BOX 269
Hancock, MI 49930

We have audited the accompanying financial statements of the governmental activities and major fund of the Houghton County Road Commission a component unit of the County of Houghton, Michigan, as of and for the year ended September 30, 2007, which collectively comprise the Houghton County Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Houghton 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. 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 major fund of the Houghton County Road Commission as of September 30, 2007, and the changes in financial position thereof 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 February 28, 2008 on our consideration of the Houghton County Road Commission's internal control over financial reporting and our tests of its compliance with certain provision 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.

Board of County Road Commissioners
Houghton County Road Commission

The Management's Discussion and Analysis, on pages 5 through 11 and budgetary comparison information on pages 29 and 30 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. 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 Houghton County Road Commission's basic financial statements. The schedules listed as additional information in the accompanying table of contents are presented for the purpose 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

February 28, 2008

**Houghton County Road Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

Our discussion and analysis of Houghton County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended September 30, 2007. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services are 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.

The Houghton County Road Commission is one of the most unique county road commissions in the State of Michigan due to their yearly budget being so dependent upon the severity of the winter season.

The Houghton County Road Commission routinely spends between 30% and 50% or more of their Michigan Transportation income on snow removal costs each year, the highest in the State of Michigan.

The highest cost of snow removal is due to five month long winters with up to 350 inches of snow and the extremely high cost of operating and maintaining a 10 million dollar fleet of specialized equipment needed to operate, not only the open county roads, but in the narrow 25 or 30 foot right-of-ways in the old mining era residential locations.

In addition to the operating costs associated with sophisticated snow removal equipment, the Houghton County Road Commission must annually place and clean up some 15,000 tons of abrasives and salt on their 844 mile county road system.

The winter maintenance activity typically may last up to 6 months or more, and is the top priority item in the development of an operating budget each year, with contract federal aid construction, routine maintenance and road commission financed construction following in order of priority.

Overview of the Financial Statements

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

**Houghton County Road Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)**

Reporting the Commission as a Whole

Government-Wide Statements

The statement of net assets and the statement of activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The statement of net assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the conditions of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has only one fund, the general operations fund. All of the Road Commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. Our analysis of the Road Commission's major fund begins on page 14. The fund financial statements begin on page 14 and provide detailed information about the major fund.

Governmental Funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 23%, or \$2,412,007, from \$10,295,573 to \$12,707,580 for the year ended September 30, 2007. The net assets and change in net assets are summarized below.

**Houghton County Road Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)**

Net Assets

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

The restricted net assets increased by \$273,817 during 2007.

The increase in restricted net assets occurred because there were limited equipment purchases of \$186,512 and equipment depreciation of \$476,097 which caused revenues to be more than expenses.

The investment in capital assets, net of related debt increased by \$2,138,190.

The investment in capital assets, net of related debt increase of \$2,138,190 was primarily due to reporting infrastructure of \$2,385,976 for the year of 2007. The depreciation for the current year's infrastructure will be depreciated in the subsequent years.

Net assets as of year ended September 30, 2007 follows:

	2007	2006
Current and other assets	\$2,676,361	\$2,394,299
Capital assets	10,906,964	8,768,774
Total Assets	13,583,325	11,163,073
Current liabilities	485,094	514,374
Non-current liabilities	390,651	353,126
Total Liabilities	875,745	867,500
 Net Assets:		
Invested in capital assets, net of Related debt	10,906,964	8,768,774
Restricted - operations	1,800,616	1,526,799
Total Net Assets	\$12,707,580	\$10,295,573

**Houghton County Road Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)**

Changes in Net Assets

A summary of changes in net assets for the year ended September 30, 2007 and 2006 follows:

	Governmental Activities - 2007	Governmental Activities - 2006
Program Revenue:		
License and Permits	\$18,144	\$16,722
Federal Grants	1,493,095	1,339,234
State Grants	5,038,930	4,297,815
Contributions From Local Units	266,090	59,394
Charges for Services	32,148	25,251
Investment Earnings	88,505	55,849
Reimbursements	65,777	94,601
General Revenue:		
Taxes	528,485	500,048
Gain on Equipment Disposal	-	6,882
Total Revenue	7,531,174	6,395,796
Expenses		
Public Works	5,119,167	4,772,835
Interest Expense	-	-
Total Expenses	5,119,167	4,772,835
Excess Before Transfers	2,412,007	1,622,961
Transfers In—Primary Government	-	-
Increase in Net Assets	2,412,007	1,622,961
Fund Balance - Beginning	10,295,573	8,672,648
Fund Balance - Ending	\$12,707,580	\$10,295,573

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2007, the fund balance of the general operations fund increased \$311,342 as compared to an increase of \$251,053 in the fund balance for the year ended September 30, 2006. Total operating revenues were \$7,531,174, an increase of \$1,121,819 as compared to last year. Total expenditures were \$7,219,832, an increase of \$1,061,530 as compared to last year.

General operations fund increased due to limited equipment purchases and equipment depreciation, resulting in a net increase in general operations fund.

Operating revenues in 2006 included \$872,000 in STP funds and \$368,000 in Federal "D" funds, while in 2007 there was \$511,431 in STP funds and \$183,249 in Federal "D" funds.

**Houghton County Road Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)**

The expenditure increase of \$186,512 was largely due to equipment purchases of \$120,936 in capital outlay in 2007 compared to \$202,820 in 2006.

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

	9/30/07 Operating Fund	9/30/06 Operating Fund	Favorable (Unfavorable) Variance	Variance Percent
Revenues				
Taxes	\$528,485	\$500,048	\$28,437	6%
License & Permits	18,144	16,722	1,422	9
Federal Grants	1,493,095	1,339,234	153,861	11
State Grants	5,038,930	4,297,815	741,115	17
Contributions From Local Units	266,090	59,394	206,696	348
Charges for Services	32,148	25,251	6,897	27
Interest and Rents	88,505	55,849	32,656	58
Other Revenue	65,777	115,042	(49,265)	(43)
Total Revenues	<u>7,531,174</u>	<u>6,409,355</u>	<u>1,121,819</u>	<u>18</u>
Expenditures				
Public Works	7,504,346	6,470,693	(1,033,653)	(16)
Net Capital Outlay	(284,514)	(312,391)	(27,877)	9
Debt Service	-	-	-	-
Total Expenditures	<u>7,219,832</u>	<u>6,158,302</u>	<u>(1,061,530)</u>	<u>(17)</u>
Excess of Revenues Over Expenditures	<u>311,342</u>	<u>251,053</u>	<u>60,289</u>	<u>24</u>
Fund Balance—Beginning	<u>1,879,925</u>	<u>1,628,872</u>	<u>251,053</u>	<u>15</u>
Fund Balance—Ending	<u>\$2,191,267</u>	<u>\$1,879,925</u>	<u>\$311,342</u>	<u>17%</u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget were 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 \$698,000, lower than the original budget. The actual revenue recognized during 2007 was less than the final amended budget by \$67,826.

The final amended revenue budget was lower than the original budget due to a combination of additional STP projects and the reduction of the FFH16 funds that were removed from the budget as they were direct billed by

the contractor to MDOT.

**Houghton County Road Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)**

The final amended expenditure budget for 2007 was \$946,000, lower than the original budget. The actual expenditures recognized during 2007 were less than the final amended budget by \$309,168.

The final amended expenditures budget was lower than the original budget due to decreased primary and local heavy maintenance.

The actual expenditures recognized during 2007 were less than the final amended budget due to construction billing overlapping and occurring in fiscal year 2008.

Capital Asset and Debt Administration

Capital Assets

As of September 30, 2007, the Road Commission had invested \$10,906,964 in capital assets. This amount represents a net increase (including additions and deductions) of \$747,937 or 9% as follows:

	2007	2006	Total Percentage Change 2006/2005
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 93,137	\$ 93,137	0%
Subtotal	<u>93,137</u>	<u>93,137</u>	<u>0%</u>
Capital Assets Being Depreciated			
Depletable Assets	102,093	102,093	0%
Buildings	1,446,256	1,394,767	4%
Equipment	7,600,166	8,478,604	(10)%
Infrastructure	10,923,453	7,953,448	37%
Subtotal	<u>20,071,918</u>	<u>17,928,912</u>	<u>12%</u>
Total Capital Assets	<u>20,165,055</u>	<u>18,022,049</u>	<u>12%</u>
Total Accumulated Depreciation	<u>9,258,091</u>	<u>9,253,275</u>	<u>1%</u>
Total Net Capital Assets	<u><u>\$10,906,964</u></u>	<u><u>\$8,768,774</u></u>	<u><u>24%</u></u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$2,122,430. The infrastructure is financed through federal, state and local contributions.

During fiscal year 2006 the Road Commission Purchased \$56,901 in building improvements, \$120,936 in new road equipment and \$8,675 in office equipment; with county road funds.

During fiscal year 2007 the Road Commission traded-in, sold and/or disposed of road equipment with a net book value of \$0 for a \$13,238 gain.

**Houghton County Road Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)**

Debt

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

Economic Factors and Next Year's Budget

The Board of Houghton County Commissioners considers many factors when setting the fiscal year 2007 budget. One of the factors is economy. The Road Commission derives approximately 67% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated the Road Commission will receive modest increases in Michigan Transportation Fund revenues in 2008. However it was decided to use a more conservative figure of approximately the same Michigan Transportation Funds income as the previous year.

Fuel tax projected collections are provided by the State of Michigan.

Property taxes are very stable with slight increases due to new construction in the county.

The most difficult revenue to project are federal and state economic development monies which in many cases can be awarded by grant application during the year, and also can be very difficult to time revenues and expenditures because of outside contractor scheduling and performance work. These projects usually overlap in at least two fiscal years.

The Road Commission is participating in the State of Michigan's "Jobs Today" program that will advance several construction projects that use STP and Federal "D" funds. This program will advance projects/funds in the Road Commission Transportation Improvement Plan from 2008 thru 2011 to be constructed in 2007 and 2008. This will cause a large increase in revenues from STP and Federal "D" funds for the fiscal years of 2007 and 2008 followed by a large decrease in subsequent years thru 2011.

Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Houghton County Road Commission's administrative offices at P.O. Box 269, Hancock, Michigan, 49930.

HOUGHTON COUNTY ROAD COMMISSION

STATEMENT OF NET ASSETS

September 30, 2007

ASSETS

Cash and Equivalents	\$ 1,547,372
Accounts Receivable:	
Property Taxes	-
Sundry Accounts	7,145
State Trunk line Maintenance	-
State - Other	-
Michigan Transpiration Fund	609,606
Due on County Road Agreements	-
Due From Primary Government	-
Inventories:	
Road Materials	206,320
Equipment, Parts and Materials	283,946
Prepaid Expenses	21,972
Capital Assets (Net of Accumulated Depreciation)	10,906,964
Total Assets	<u>13,583,325</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	161,156
Due to State of Michigan	-
Accrued Liabilities	29,755
Performance Bonds Payable	-
Non-Current Liabilities:	
Advances From State	294,183
Deferred Revenue	
Property Taxes	-
Township Road Bonds	-
Installment Purchase Agreements Payable - Due Within One Year	-
Installment Purchase Agreements Payable - Due in More Than One Year	-
Vested Employee Benefits Payable	390,651
Total Liabilities	<u>875,745</u>

NET ASSETS

Invested in Capital Assets - Net of Related Debt	10,906,964
Restricted for County Road	<u>1,800,616</u>
Total Net Assets	<u>\$ 12,707,580</u>

HOUGHTON COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2007

Expenditures	
Primary Road Routine and Preventive Maintenance	\$ 2,221,936
Local Road Routine and Preventive Maintenance	2,045,805
State Trunk line Maintenance	-
Net Equipment Expense	(81,546)
Net Administrative Expense	353,217
Non-Road Project	-
Infrastructure Depreciation	542,230
Compensated Absences	37,525
Interest Expense	-
 Total Program Expenses	 <u>5,119,167</u>
 Program Revenue	
Charges for Services	
Licenses and Permits	18,144
Charges for Services	32,148
Contributions from Local Units	266,090
Other Revenue	65,777
Operating Grants and Contributions	
Federal Sources	1,493,095
State Sources	5,038,930
Capital Grants and Contributions	
Federal Sources	-
State Sources	-
Contributions from Local Units	-
 Total Program Revenues	 <u>6,914,184</u>
 Net Program Revenue	 <u>1,795,017</u>
 General Revenues	
Property Taxes	528,485
Interest and Rents	88,505
Transfers In	-
 Total General Revenue and Transfer In	 <u>616,990</u>
 Change in Net Assets	 <u>2,412,007</u>
 Net Assets - Beginning of Year	 10,295,573
 Net Assets - End of Year	 <u>\$ 12,707,580</u>

HOUGHTON COUNTY ROAD COMMISSION

BALANCE SHEET

September 30, 2007

	Governmental Fund Type
	<u>General Operating Fund</u>
ASSETS	
Cash and Equivalents	\$ 1,547,372
Accounts Receivable:	
Michigan Transpiration Fund	609,606
Land Contract	-
Other Governmental Units	-
Due on County Road Agreements	-
Sundry Accounts	7,145
Inventories:	
Road Materials	206,320
Equipment, Parts and Materials	283,946
Prepaid Expenses	21,972
 Total Assets	 <u><u>\$ 2,676,361</u></u>
 LIABILITIES AND FUND EQUITY	
 Liabilities:	
Accounts Payable	\$ 161,156
Contracts Payable	-
Accrued Liabilities	29,755
Due to State of Michigan	-
Advances	294,183
Escrow and Other	-
 Total Liabilities	 <u>485,094</u>
 Fund Equities:	
Fund Balance - Unreserved and Undesignated	<u>2,191,267</u>
 Total Fund Equities	 <u>2,191,267</u>
 Total Liabilities and Fund Equity	 <u><u>\$ 2,676,361</u></u>

HOUGHTON COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

September 30, 2007

Total Fund Balances for Governmental Funds	\$	2,191,267
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital Assets - Net	<u>10,906,964</u>	10,906,964
Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of:		
Compensated Absences	<u>390,651</u>	(390,651)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>12,707,580</u>

HOUGHTON COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>General Operating Fund</u>
Revenues:	
Property Taxes	\$ 528,485
Licenses and Permits	18,144
Federal Sources	1,493,095
State Sources	5,038,930
Contributions from Local Units	266,090
Charges for Services	32,148
Interest and Rents	88,505
Other Revenue	65,777
 Total Revenues	 <u>7,531,174</u>
Expenditures	
Public Works	7,504,346
Capital Outlay	(284,514)
Debt Service	-
 Total Expenditures	 <u>7,219,832</u>
 Excess of Revenues Over (Under) Expenditures	 <u>311,342</u>
Other Financing Sources	
Transfers In - Primary Government	-
Note Proceeds	-
 Total Other Financing Sources	 <u>-</u>
 Excess (Deficit) of Revenues and Other financing Sources Over (Under) Expenditures	 <u>311,342</u>
 Fund Balance - Beginning of Year	 1,879,925
 Fund Balance - End of Year	 <u>\$ 2,191,267</u>

HOUGHTON COUNTY ROAD COMMISSION

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

FOR THE YEAR ENDED SEPTEMBER 30, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 311,342

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

Governmental funds report capital outlays and infrastructure as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense - building and equipment	(476,097)	
Depreciation expense - infrastructure	(542,230)	
Capital outlays - building and equipment	186,512	
Capital outlays - infrastructure - primary	2,385,976	
Capital outlays - infrastructure - local	584,029	
Gain (loss) on disposal	-	2,138,190

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

(37,525)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 2,412,007

Houghton County Road Commission

Notes to Financial Statements

September 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of Houghton County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Houghton County Road Commission.

(1) Reporting Entity

The Houghton County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Houghton County Road Commission, a discretely presented component unit of Houghton County.

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

(2) Government-Wide and Fund Financial Statements

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not

properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements. The Road Commission has one major fund, the operating fund.

(3) **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year 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 financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

(4) **Assets, Liabilities, and Net Assets or Equity**

Cash, Cash Equivalents and Investments

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Property Taxes Receivable

The property tax is levied on each December 1st on the taxable valuation of property located in the county as of the preceding December 31st. The 2006 taxable valuation of the Houghton County Road Commission amounted to \$599,293,469 less \$217,047,298 for cities and villages, on which ad valorem taxes of 1.3493 mills were levied for the Road Commission for road construction purposes for a total of \$528,485.

In the government-wide financial statements, the property taxes receivable is recorded as revenue when

the tax is levied in the current year.

Although the county's 2006 ad valorem tax is levied and collectible on December 1, 2006, it is the Road Commission's policy to recognize revenues from the current tax levy in the current year. When the proceeds of this levy are budgeted and made available for the financing of the Road Commission's operations in the governmental fund financial statements.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Houghton County Road Commission as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34, and has reported the infrastructure in the Statement of Net Assets.

Depreciation

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure—Roads	8 to 30 years
Infrastructure—Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund Statement of Net Assets.

Compensated Absences (Vacation and Sick Leave)

It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds.

Use of Estimates

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

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the county board of commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board does not conduct a public budget hearing, the budget is submitted to the county and included in its public hearing. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

NOTE C – CASH DEPOSITS AND INVESTMENTS:

The cash and investments are classified in the following categories:

Cash – Held with Road Commission – Bank Deposits	\$4,767
Cash – Held with County Treasurer – Bank Deposits	1,542,605
Total Cash	<u>\$1,547,372</u>

NOTE C – CASH DEPOSITS AND INVESTMENTS (Continued):

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States, United States governmental or federal agency obligation repurchase agreements; banker’s acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivision which are treated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County’s investment policy, which is in accordance with the provisions of Public Act 20 of 1943.

Interest Rate Risk

The Road Commission does not have a formal investment policy that limits investment maturities as a means of managing it’s exposure to Fair Value losses arising from increasing interest rates.

Credit Risk

State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Road Commission has no investment policy that would further limit its investment choices.

Custodial Investment Credit Risk

Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Road Commission invests with the County of Houghton and would receive its proportional share of holdings.

Custodial Deposit Credit Risk

Custodial deposit credit risk is the risk that in the event of a bank failure, the Road Commission deposits my not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. The carrying amounts of the Road Commission’s deposits with financial institutions were \$4,767 and the bank balance was \$4,497. The bank balance is categorized as follows:

Amount insured by FDIC		\$4,497
Amount uninsured and uncollateralized		-
		\$4,497

The \$1,542,605 other cash balance is pooled with the County of Houghton funds and would receive a proportionate share of insurance.

NOTE D – DEFERRED COMPENSATION PLAN:

The Houghton County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust,

(custodial account or annuity contract) as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Houghton County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Houghton County Road Commission's financial statements.

NOTE E – CAPITAL ASSETS:

Capital asset activity of the Houghton County Road Commission for the current year was as follows:

	Beginning Balances 10/01/06	Additions	Deletions	Ending Balances 9/30/07
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 93,137	\$ -	\$ -	\$ 93,137
Subtotal	<u>93,137</u>	<u>-</u>	<u>-</u>	<u>93,137</u>
Capital Assets Being Depreciated:				
Depletable Assets	102,093	-	-	102,093
Buildings	1,394,767	56,901	5,412	1,446,256
Road Equipment	8,120,404	120,936	889,241	7,352,099
Shop Equipment	211,043	-	60,494	150,549
Office Equipment	147,157	8,674	58,363	97,468
Infrastructure—Bridges	762,929	570,015	-	1,332,944
Infrastructure—Roads	7,190,519	2,399,990	-	9,590,509
Subtotal	<u>17,928,912</u>	<u>3,156,516</u>	<u>1,013,510</u>	<u>20,071,918</u>
Less Accumulated Depreciation:				
Depletable Assets	39,877	2,545	-	42,422
Buildings	723,761	40,377	5,412	758,726
Road Equipment	7,162,602	411,208	889,241	6,684,569
Shop Equipment	154,571	13,089	60,494	107,166
Office Equipment	118,898	8,878	58,363	69,413
Infrastructure—Bridges	59,611	26,659	-	86,270
Infrastructure—Roads	993,955	515,570	-	1,509,525
Subtotal	<u>9,253,275</u>	<u>1,018,326</u>	<u>1,013,510</u>	<u>9,258,091</u>
Net Capital Assets Being Depreciated	<u>8,675,637</u>	<u>2,138,190</u>	<u>-</u>	<u>10,813,827</u>
Total Net Capital Assets	<u><u>\$8,768,774</u></u>	<u><u>\$2,138,190</u></u>	<u><u>\$ -</u></u>	<u><u>\$10,906,964</u></u>

NOTE E – CAPITAL ASSETS:

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

Infrastructure:	
Primary	\$ 432,265
Local	109,964
Equipment Expense:	
Direct	400,219
Indirect	48,011
Operating	18,746
Administrative Expense:	
Office Equipment	9,121
Total Depreciation Expense	<u>\$1,018,326</u>

NOTE F – EMPLOYEE RETIREMENT AND BENEFIT:

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Houghton County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all nonunion employees of the Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: Gabriel, Roeder, Smith & Company, One Town Square, Suite 800, Southfield, Michigan, 48076.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Houghton County Road Commission's competitive bargaining units and requires a contribution from the employer of 27% of gross wages for the County Road Commission.

Annual Pension Costs – For year ended 2007, Houghton County Road Commission's annual pension cost of \$90,215 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry age normal funding method. Significant actuarial assumptions used include: (1) an 8% investment rate of return; (2) projected salary increases of 4.5% per year; and (3) 4.5% per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

NOTE F – EMPLOYEE RETIREMENT AND BENEFIT (Continued):

Three year trend information as of September 30 follows:

	2003	2004	2005
Actuarial Value of Assets	\$2,439,095	\$2,598,835	\$2,593,845
Actuarial Accrued Liability (AAL)	2,873,598	3,255,374	3,494,787
Unfunded AAL (UAAL)	434,503	656,539	900,942
Funded Ratio	85%	80%	74%
Covered Payroll	395,083	281,910	320,611
UAAL as a Percentage of Covered Payroll	110%	233%	281%

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	\$62,646	100%	\$-
2004	79,991	100%	-
2005	60,425	100%	-

Defined Contribution Pension Plan

The Houghton County Road Commission provides pension benefits to all of its full-time union employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by union contract, the Houghton County Road Commission contributes a fixed amount per the union agreement, plus interest allocated to the employee's account, and employees are fully vested after 10 years of service.

The current year contribution was calculated based on \$65 per employee, for 34 employees, resulting in an employer contribution of \$110,005 and employee contributions of \$-0-.

NOTE G – FEDERAL GRANTS:

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended September 30, 2007, the Federal aid received and expended by the Road Commission was \$511,531 for contracted projects and \$441,459 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects. The schedule of federal awards for the Houghton County Road Commission is included in the Schedule of Federal Awards of County of Houghton, Michigan.

NOTE H – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION:

The Road Commission provides post-retirement health care benefits, in accordance with labor contracts and personnel policy, to all employees who retire from the Road Commission. Full premium of medical benefits for the retired employees only, between 60 and 65 years old are paid by the Road Commission. When the retired employee attains the age of 65 years, the employer's contribution shall end under the contracts. Currently, 3 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. During the year, net expenditures of \$6,698 were recognized for post-retirement health care.

NOTE I – GENERAL LONG-TERM DEBT:

The general long-term debt of the Road Commission may be summarized as follows:

	Balance October 1, 2006	Additions (Reductions)	Balance September 30, 2007
Vested Employee Benefits:			
Vacation Benefits	\$ 41,499	\$ 11,305	\$52,804
Sick Leave Benefits	311,627	26,220	337,847
TOTAL	\$ 353,126	\$ 37,525	\$390,651

Vested Employee Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year.

Employees who anticipate the need for an extended vacation shall be allowed (on receiving approval from the County Engineer) to use up to two (2) weeks of the next year's vacation for such purpose, but not in the months of November, December, January, or February.

Sick Leave Benefit Policies

Road Commission employment policies provide that each regular employee shall earn sick leave with pay at the rate of 3/4 day, or 6 hours, for each completed month of employment. Sick leave may be accumulated to a maximum of 90 days. On an annual basis sick leave accruals over the 90 days are paid off at 100 percent for the first 5 days and 50 percent for any additional time accrued.

Three personal days are allowed each employee per calendar year. If the personal days are not used during the year they are added to the sick leave accruals for the year.

NOTE I – GENERAL LONG-TERM DEBT (Continued):

Upon retirement, death or discontinuance of employment for any reason, except for dismissal for disciplinary reasons, the employee shall be paid for all accumulated sick leave at the employee's prevailing rate of pay at the time of the termination of employment.

NOTE J – COMMITMENTS AND CONTINGENCIES

Grants – The Houghton County Road Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Houghton County Road Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Houghton County Road Commission at September 30, 2007.

Risk Management – The Houghton County Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Houghton County Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Houghton County Road Commission joined together with other Michigan Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Houghton County Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 (\$2,000 for errors and omissions) for each insured event. The maximum limit of liability for each occurrence is \$10,500,000. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Houghton County Road Commission is unable to provide an estimate of the amounts of additional assessments.

Required Supplementary Information

Houghton County Road Commission
General Operating Fund
Statement of Revenues - Budget and Actual
For the Year Ended September 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Taxes	\$ 490,000	\$ 490,000	\$ 528,485	\$ 38,485
Licenses and Permits	-	-	18,144	18,144
Federal Aid				
Surface Transportation Program	1,600,000	430,000	511,431	81,431
Economic Development "D" Funds	1,150,000	183,000	183,249	249
Federal Critical Bridge	390,000	390,000	390,000	-
High Priority	-	383,000	299,280	(83,720)
Other	-	110,000	109,135	(865)
State Aid				
Michigan Transportation Fund:				
Engineering	10,000	10,000	10,000	-
Primary Road	2,100,000	2,100,000	2,099,575	(425)
Primary Urban Road	250,000	250,000	201,862	(48,138)
Local Road	1,000,000	1,000,000	1,092,720	92,720
Local Urban Road	140,000	140,000	125,663	(14,337)
Snow Removal	615,000	586,000	585,842	(158)
State Critical Bridge	210,000	73,000	73,125	125
Economic Development Fund:				
Local Jobs Today	-	173,000	172,612	(388)
Rural Primary "D" Funds	-	510,000	509,890	(110)
Forest Road "E" Funds	167,000	167,000	167,641	641
Contributions from Local Units				
Cities and Villages	-	-	1,916	1,916
Townships	50,000	392,000	261,673	(130,327)
Others	25,000	4,000	2,501	(1,499)
Charges for Service:				
Salvage sales	-	-	9,994	9,994
Other	-	-	22,154	22,154
Interest and Rents	-	-	88,505	88,505
Other:				
Reimbursements	100,000	195,000	802	(194,198)
Map Sales	-	-	498	498
Dust Control	-	-	51,239	51,239
Gain on Equipment Disposal(s)	-	13,000	13,238	238
Total Operating Revenue	<u>8,297,000</u>	<u>7,599,000</u>	<u>7,531,174</u>	<u>(67,826)</u>
Other Financing Sources				
Total Revenue and Other Financing Sources	<u>8,297,000</u>	<u>7,599,000</u>	<u>\$ 7,531,174</u>	<u>\$ (67,826)</u>
Fund Balance - October 1, 2006	<u>1,879,925</u>	<u>1,879,925</u>		
Total Budget	<u>\$ 10,176,925</u>	<u>\$ 9,478,925</u>		

Houghton County Road Commission
General Operating Fund
Statement of Expenditures - Budget and Actual
For the Year Ended September 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Primary Roads:				
Construction	\$ -	\$ -	\$ -	\$ -
Preservation	3,275,000	2,175,000	2,375,188	(200,188)
Maintenance	1,890,000	2,440,000	2,221,937	218,063
Local Roads:				
Construction	-	-	-	-
Preservation	1,000,000	55,000	24,850	30,150
Maintenance	2,085,000	1,960,000	2,045,805	(85,805)
Primary Roads Structures:				
Construction	-	-	-	-
Preservation	-	-	10,788	(10,788)
Maintenance	-	-	-	-
Local Roads Structures:				
Construction	-	-	-	-
Preservation	-	574,000	559,179	14,821
Maintenance	-	-	-	-
State Trunkline Maintenance	-	-	-	-
Equipment Expense - Net	240,000	240,000	(86,618)	326,618
Direct			1,219,210	
Indirect			602,264	
Operating			324,130	
Less: Equipment Rentals			<u>(2,232,222)</u>	
Administrative Expense - Net	435,000	385,000	353,217	31,783
Administrative Expense			364,911	
Engineering Expense			-	
Less: Overhead			(10,021)	
Purchase Discounts			<u>(1,673)</u>	
Capital Outlay - Net	(450,000)	(300,000)	(284,514)	(15,486)
Capital Outlay			186,512	
Less: Depreciation Credits	-	-	(471,026)	-
Less: Equipment Retirements	-	-	<u>-</u>	-
Other	-	-	-	-
Debt Service				
Principal Payment	-	-	-	-
Interest Expense	-	-	-	-
TOTAL EXPENDITURES	<u>8,475,000</u>	<u>7,529,000</u>	<u>\$ 7,219,832</u>	<u>\$ 309,168</u>
FUND BALANCE - September 30, 2007	<u>1,701,925</u>	<u>1,949,925</u>		
Total Budget	<u>\$ 10,176,925</u>	<u>\$ 9,478,925</u>		

Other Supplemental Financial Information

Houghton County Road Commission
Analysis of Changes in Fund Balance
For the Year Ended September 30, 2007

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Revenues	\$ 4,790,667	\$ 2,714,382	\$ 26,125	\$ 7,531,174
Expenditures	4,790,667	2,714,381	(285,216)	7,219,832
Excess of Revenues Over (Under) Expenditures	-	1	311,341	311,342
Other Financing Sources (Uses)				
Interfund Transfers In (Out)	-	(1)	1	-
Total Other Financing Sources (Uses)	-	(1)	1	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	311,342	311,342
Fund Balance - October 1	-	-	1,879,925	1,879,925
FUND BALANCE - SEPTEMBER 30	\$ -	\$ -	\$ 2,191,267	\$ 2,191,267

Houghton County Road Commission
Analysis of Revenues
For the Year Ended September 30, 2007

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Taxes	\$ 247,662	\$ 280,823	\$ -	\$ 528,485
Licenses and Permits	9,041	9,103	-	18,144
Federal Aid				
Surface Transportation Program	511,431	-	-	511,431
Economic Development "D" Funds	183,249	-	-	183,249
Federal Critical Bridge	-	390,000	-	390,000
High Priority	299,280	-	-	299,280
Other	109,135	-	-	109,135
State Aid				
Michigan Transportation Fund:				
Engineering	6,577	3,423	-	10,000
Snow Removal	-	585,842	-	585,842
Primary Urban Road	201,862	-	-	201,862
Local Urban Road	-	125,663	-	125,663
Primary Road	2,099,575	-	-	2,099,575
Local Road	-	1,092,720	-	1,092,720
State Critical Bridge	-	73,125	-	73,125
Economic Development Fund:				
Rural Primary "D" Funds	509,890	-	-	509,890
Forest Road "E" Funds	167,641	-	-	167,641
Other - Local Jobs Today Program	172,612	-	-	172,612
Contributions from Local Units				
Cities and Villages	-	1,916	-	1,916
Townships	261,673	-	-	261,673
Others	-	2,501	-	2,501
Charges for Service:				
Salvage sales	-	-	9,994	9,994
Other	11,039	11,115	-	22,154
Interest and Rents	-	86,912	1,593	88,505
Other:				
Sundry Refunds	-	-	802	802
Gain on Equipment Disposal(s)	-	-	13,238	13,238
Map Sales	-	-	498	498
Dust Control	-	51,239	-	51,239
Total Operating Revenue	<u>4,790,667</u>	<u>2,714,382</u>	<u>26,125</u>	<u>7,531,174</u>
Total Revenue and Other Financing Sources	<u>\$ 4,790,667</u>	<u>\$ 2,714,382</u>	<u>\$ 26,125</u>	<u>\$ 7,531,174</u>

Houghton County Road Commission
Analysis of Expenditures
For the Year Ended September 30, 2007

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Primary Roads:				
Preservation	\$ 2,375,188	\$ -	\$ -	\$ 2,375,188
Maintenance	2,221,937	-	-	2,221,937
Local Roads:				
Preservation	-	24,850	-	24,850
Maintenance	-	2,045,805	-	2,045,805
Primary Roads Structures:				
Preservation	10,788	-	-	10,788
Local Roads Structures:				
Preservation	-	559,179	-	559,179
Equipment Expense - Net	(42,122)	(43,794)	(702)	(86,618)
Administrative Expense - Net	224,876	128,341	-	353,217
Capital Outlay - Net	-	-	(284,514)	(284,514)
TOTAL EXPENDITURES	\$ 4,790,667	\$ 2,714,381	\$ (285,216)	\$ 7,219,832

Compliance Section



Anderson, Tackman & Company, PLC

Certified Public Accountants
Marquette, Michigan 906-225-1166
Fax – 1-906-225-1714

Partners

John W. Blemberg, CPA	Robert J. Downs, CPA, CVA	Daniel E. Bianchi, CPA
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of County Road Commissioners
Houghton County Road Commission
PO BOX 269
Hancock, MI 49930

We have audited the financial statements of the governmental activities and major fund of the Houghton County Road Commission, component unit of the County of Houghton, Michigan as of and for the year ended September 30, 2007, which collectively comprise the Houghton County Road Commission's basic financial statements and have issued our report thereon dated February 28, 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 the Houghton 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 Houghton County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Houghton County 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 Houghton County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Houghton County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Houghton County 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 Houghton County 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Houghton County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provision 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 audit committee, the board of commissioners, 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.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

February 28, 2008