

JACKSON COUNTY ROAD COMMISSION

(A COMPONENT UNIT OF JACKSON COUNTY, MICHIGAN)

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2007

JACKSON COUNTY ROAD COMMISSION
ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
INDEPENDENT AUDITOR’S REPORT	1 - 2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3 - 7
BASIC FINANCIAL STATEMENTS – GOVERNMENT WIDE/GOVERNMENTAL FUND FINANCIAL STATEMENTS:	
Governmental Funds Balance Sheet/Statement of Net Assets	8
Statement of Governmental Fund Revenues, Expenditures, and Changes In Fund Balance/Statement of Activities	9
NOTES TO FINANCIAL STATEMENTS	10 - 30
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule – Road Fund	31
Schedule of Funding Progress – Jackson County Employees’ Retirement System	32
ADDITIONAL INFORMATION:	
Analysis of Changes in Road Fund Balance	33 - 35
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	36 - 37
SCHEDULE OF FINDINGS	38

MARKOWSKI & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

2880 SPRING ARBOR ROAD • JACKSON • MICHIGAN • 49203
PHONE (517) 782-9351
FAX (517) 782-0599

RONALD. L. MARKOWSKI, C.P.A.
DOUGLAS E. ATKINS, C.P.A.
SCOTT O. McLANE
RANDALL D. BIDDIX, C.P.A.
RETIRED PARTNER:
K. LAVERNE MARKOWSKI, C.P.A. (1961 – 2006)

MEMBERS:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

ESTATE PLANNING COUNCIL OF
SOUTH CENTRAL MICHIGAN

INDEPENDENT AUDITOR'S REPORT

To the Board of Road Commissioners
Of Jackson County
Jackson, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **JACKSON COUNTY ROAD COMMISSION** (the Road Commission, a component unit of Jackson 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 Road Commission's management. Our responsibility is to express opinions on these basic 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.

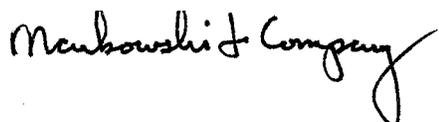
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Jackson County Road Commission as of December 31, 2007, and the respective changes in financial position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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2008 on our consideration of the Jackson County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis, budgetary comparison, and schedule of pension plan funding progress presented on pages 3-7 and 31-32 respectively, are not a required part of the basic financial statements but are supplemental 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 made for the purpose of forming an opinion on the basic financial statements of the Jackson County Road Commission taken as a whole. The additional information- Analysis of Changes in Road Fund Balance on pages 33-35 is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Jackson County Road Commission. This 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2008 on our consideration of the Jackson County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



MARKOWSKI & COMPANY, CPAs
June 6, 2008

JACKSON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

Year Ended December 31, 2007

The year 2007 saw several dramatic changes at the Jackson County Road Commission. The retirement of three full-time commissioners – Elwin Johnson, Karl Schmidt, and Robert Zenz – led the transition to a part-time board with five new members. The new members – Randall Treacher, Anthony Phillips, John Hurd, Michael Rand, Jr. , and Michael Stimpson – selected the first Managing Director in the history of the Jackson County Road Commission, Ken Straub.

The changes led to the restructuring of the Finance and Operations departments as well, with the appointment of Charles Walker as the Director of Finance/Clerk and Dave Smith as the first ever Director of Operations. Two full time positions were eliminated during the restructuring. As a result of the dramatic changes, the Road Commission is now a more streamlined operation better suited to facing the challenges presented by today's difficult economic outlook.

Using this Annual Report

The Jackson County Road Commission's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the commission's financial activity, (c) identify changes in the commission's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the approved budget and (e) identify any issues or concerns.

This report consist of several sections – management's discussion and analysis (this section), which presents management's view of the Road Commission's finances; the basic financial statements, which present reports based on two different accounting standards – one based on the current resource perspective, and the other focused on a longer-term view of the Road Commission's finances; notes to the financial statements, which provide information about accounting policies and detail behind various accounts; required supplementary information in the form of a budgetary analysis of the Road Commission's finances and a snapshot of the retirement system's funding status; and additional information which reports the Road Commission's operating fund activities broken down into Primary Road, Local Road and County Road activities.

Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the commission as a whole and about its activities in a way that helps answer the question of whether the commission as a whole is better off or worse off as a result of the year's activities. These statements include all 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 year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the commission's net assets and changes in them. The reader can think of the commission's net assets (the difference between assets and liabilities) as one way to measure the commission's financial health or financial position. Over time, increases or decreases in the commission's net assets are one indicator of whether its financial health is improving or deteriorating.

JACKSON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

Year Ended December 31, 2007

Reporting the Commission's Major Fund

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

- Governmental fund – Governmental fund 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 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 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.

The Road Commission as a Whole

Net assets may, over time, enable governmental agencies to determine their overall fiscal position. As shown in the condensed statement of net assets below, the Road Commission's assets exceed liabilities by \$75,563,662. The commission's net assets increased approximately 1.3% from \$74,609,271 to \$75,563,662 during the year ended December 31, 2007.

A comparative analysis of the Road Commission's financial data follows:

Condensed Statement of Net Assets

	Governmental Activities	
	December 31,	
	2007	2006
Assets		
Current and other assets	\$ 7,378,242	\$ 5,830,390
Capital assets, net of depreciation	70,204,047	70,928,172
Total assets	<u>77,582,289</u>	<u>76,758,562</u>
Liabilities		
Long-term liabilities outstanding	480,712	674,112
Other liabilities	1,537,915	1,479,634
Total liabilities	<u>2,018,627</u>	<u>2,153,746</u>
Net Assets		
Invested in capital assets - Net of related debt	69,914,561	70,518,132
Invested in inventory	1,869,968	1,616,821
Unrestricted	3,779,133	2,469,863
Total net assets	<u>\$ 75,563,662</u>	<u>\$ 74,604,816</u>

JACKSON COUNTY ROAD COMMISSION

Management's Discussion and Analysis
Year Ended December 31, 2007

Condensed Statement of Activities

	Governmental Activities	
	The Year Ended December 31,	
	2007	2006
REVENUES:		
Program Revenues:		
Permits	\$ 79,727	\$ 52,810
Federal and State sources	13,688,055	13,585,768
Contributions from local units	977,879	1,224,428
Charges for services	2,731,536	2,028,060
Other	34,047	77,089
Total program revenues	<u>17,511,244</u>	<u>16,968,155</u>
General Revenues:		
Interest and rentals	149,691	174,214
Gain on asset disposals	42,441	855,173
Total general revenues	<u>192,132</u>	<u>1,029,387</u>
Total revenue	<u>17,703,376</u>	<u>17,997,542</u>
EXPENSES:		
Primary road maintenance	3,205,371	3,484,996
Local road maintenance	4,488,423	4,674,352
State trunkline maintenance	2,709,642	2,004,670
Non-motorized project	1,322,811	69,650
Administrative Expense - Net	531,467	702,736
Equipment Expense - Net	536,111	727,229
Infrastructure Depreciation	3,927,045	3,826,999
Interest	23,660	14,207
Total expenses	<u>16,744,530</u>	<u>15,504,839</u>
CHANGE IN NET ASSETS	958,846	2,492,703
NET ASSETS - BEGINNING	<u>74,604,816</u>	<u>72,112,113</u>
NET ASSETS - ENDING	<u>\$ 75,563,662</u>	<u>\$ 74,604,816</u>

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 December 31, 2007 the fund balance of the general operations fund increased \$1,725,174 as compared to a decrease of \$685,712 in the fund balance for the 2006 fiscal year.

JACKSON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

Year Ended December 31, 2007

Budgetary Highlights

Prior to the beginning of any year, the Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year. The revenue and expenditure budgets were not amended during 2007, as both revenues and expenditures were within the original budget amounts.

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2007 and 2006 the commission had \$70,204,047 and \$70,928,172 respectively, invested in capital assets as follows:

	<u>2007</u>	<u>2006</u>
Capital assets not being depreciated:		
Land and improvements	\$ 948,392	\$ 923,080
Infrastructure land and improvements	15,556,341	15,258,182
Total capital assets not being depreciated	<u>16,504,733</u>	<u>16,181,262</u>
Other capital assets:		
Buildings and improvements	6,048,281	6,237,745
Road equipment	12,843,031	13,226,601
Other equipment	1,706,843	1,710,505
Gravel pits	548,074	548,074
Infrastructure	81,777,193	79,627,780
Total other capital assets	<u>102,923,422</u>	<u>101,350,705</u>
Less - Accumulated depreciation	<u>(49,224,108)</u>	<u>(46,603,795)</u>
Net other capital assets	<u>53,699,314</u>	<u>54,746,910</u>
Net capital assets	<u>\$ 70,204,047</u>	<u>\$ 70,928,172</u>

Current year's major additions included the following:

Roads and related land improvements	\$ 3,226,860
Bridges and related structures	1,250,979
Traffic signals	72,354
	<u>\$ 4,550,193</u>

The Road Commission's fleet is aging, and there have been very few purchases in the past few years. This is expected to change in 2008 and the future.

JACKSON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

Year Ended December 31, 2007

Debt

The Road Commission currently experiences a relatively debt free status. Long-term debt consists of two installment purchase agreements totaling \$55,740 (which financed the 2006 acquisition of three new graders; one lease was paid off in 2007); a capital lease (used to finance improvements to the main complex's energy systems in 2006) in the amount of \$233,746; and accrued compensated absences totaling \$262,766. There are currently no plans to incur new debt.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2008 budget. One of the factors is the economy. The commission derives approximately 62% of its revenues from the fuel tax collected by the State. The economic downturn and fuel prices hovering around \$4 per gallon has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed. Also, the increased in fuel price results in increased expense for the Road Commission to operate equipment and trucks for road maintenance. The outlook is not optimistic to maintain the current service level as revenues stay static or decrease, and expenses increase.

The Board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Jackson County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Jackson County.

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 commission's finances and to show the commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Jackson County Road Commission administrative offices at 2400 North Elm Road, Jackson, MI 49201.

JACKSON COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS:

GOVERNMENT WIDE/GOVERNMENTAL FUND FINANCIAL STATEMENTS

JACKSON COUNTY ROAD COMMISSION
GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2007

	Governmental Funds	Adjustments (Note 2)	Statement of Net Assets
Assets:			
Cash and cash equivalents	\$ 2,598,986	\$ -	\$ 2,598,986
Receivables	2,283,872	-	2,283,872
Inventory	1,869,968	-	1,869,968
Capital assets - Net:			
Assets not being depreciated	-	16,504,733	16,504,733
Assets being depreciated (Net)	-	53,699,314	53,699,314
Receivables - Noncurrent	517,398	-	517,398
Deferred Federal Aid	108,018	-	108,018
Total Assets	<u>\$ 7,378,242</u>	<u>\$ 70,204,047</u>	<u>77,582,289</u>
 Liabilities and Fund Balances/Net Assets			
Liabilities:			
Accounts payable	462,711	-	462,711
Accrued payroll	80,841	-	80,841
Performance bonds payable	34,750	-	34,750
Advances	888,073	-	888,073
Deferred revenue	539,543	(539,543)	-
Current portion of long-term debt	-	71,540	71,540
Total current liabilities	<u>2,005,918</u>	<u>(468,003)</u>	<u>1,537,915</u>
Long-term liabilities, net	-	480,712	480,712
Total liabilities	<u>2,005,918</u>	<u>12,709</u>	<u>2,018,627</u>
 Fund Balances/Net Assets:			
Fund Balances:			
Reserved	1,869,968	(1,869,968)	-
Unreserved and undesignated	3,502,356	(3,502,356)	-
Total fund balances	<u>5,372,324</u>	<u>(5,372,324)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 7,378,242</u>		<u>2,018,627</u>
 Net Assets:			
Invested in capital assets net of related debt		69,914,561	69,914,561
Invested in inventory		1,869,968	1,869,968
Unrestricted		3,779,133	3,779,133
		<u>75,563,662</u>	<u>75,563,662</u>
Total net assets		<u>\$ 70,204,047</u>	<u>\$ 75,563,662</u>

The notes to the financial statements are an integral part of this statement.

JACKSON COUNTY ROAD COMMISSION
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
THE YEAR ENDED DECEMBER 31, 2007

	Governmental Funds	Adjustments (Note 2)	Statement of Activities
Revenues:			
Permits	\$ 79,727	\$ -	\$ 79,727
Federal grants	2,095,030	-	2,095,030
State sources	11,593,025	-	11,593,025
Local government sources	1,105,878	(127,999)	977,879
Charges for services	2,731,536	-	2,731,536
Interest and rentals	149,691	-	149,691
Special assessments	36,064	(36,064)	-
Gain on asset disposals	42,441	-	42,441
Other revenues	34,047	-	34,047
Total revenues	<u>17,867,439</u>	<u>(164,063)</u>	<u>17,703,376</u>
Expenditures/Expenses:			
Primary roads - Construction/Preservation	2,862,353	(2,862,353)	-
Local roads - Construction/Preservation	1,708,173	(1,687,840)	20,333
Primary roads - Maintenance	3,205,371	-	3,205,371
Local roads - Maintenance	4,468,090	-	4,468,090
State trunkline maintenance	2,709,642	-	2,709,642
Non-motorized grant - County parks	1,322,811	-	1,322,811
Administrative expense - Net	533,638	(2,171)	531,467
Equipment expense - Net	536,111	-	536,111
Depreciation expense	-	3,927,045	3,927,045
Capital outlay - Net	(1,348,138)	1,348,138	-
Debt service	144,214	(120,554)	23,660
Total expenditures/expenses	<u>16,142,265</u>	<u>602,265</u>	<u>16,744,530</u>
Excess of Revenues Over (Under)			
Expenditures/Change in Net Assets	1,725,174	(766,328)	958,846
Other Financing Sources (Uses)			
Loan proceeds	-	-	-
Net Change in Fund Balances			
	1,725,174	(766,328)	958,846
Fund Balance/Net Assets - Beginning			
	<u>3,647,150</u>	<u>-</u>	<u>74,604,816</u>
Fund Balance/Net Assets - Ending			
	<u>\$ 5,372,324</u>	<u>\$ (766,328)</u>	<u>\$ 75,563,662</u>

The notes to the financial statements are an integral part of this statement.

JACKSON COUNTY ROAD COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

JACKSON COUNTY ROAD COMMISSION
INDEX TO THE NOTES TO THE FINANCIAL STATEMENTS

<u>NOTE</u>	<u>TITLE</u>	<u>PAGE NUMBER</u>
1	SIGNIFICANT ACCOUNTING POLICIES:	
	A. Reporting Entity	10
	B. Basic Financial Statements – Government-Wide and Governmental Fund Financial Statements	10
	C. Measurement Focus, Basis of Accounting and Financial Statement Presentation	11
	D. Assets, Liabilities, and Fund Balance or Net Assets:	
	Cash, Cash Equivalents, and Investments	11
	Inventories	12
	Capital Assets and Depreciation	12
	Compensated Absences	13
	Long-Term Obligations	13
	E. Estimates	13
2	RECONCILIATION OF THE GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS	14
3	STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY	15
4	CASH, CASH EQUIVALENTS, AND INVESTMENTS	16
5	RECEIVABLES/DEFERRED REVENUE	18
	A. Current Receivables	18
	B. Special Assessments	19
	C. Township Road Agreements	19
6	INVENTORIES	19
7	CAPITAL ASSETS	20
8	ADVANCES	21
9	LONG-TERM LIABILITIES	21
10	FUND EQUITIES/NET ASSETS	22
11	FEDERAL/STATE GRANTS	22
12	EXPENDITURE/EXPENSE REPORTING	23

JACKSON COUNTY ROAD COMMISSION
INDEX TO THE NOTES TO THE FINANCIAL STATEMENTS
(Continued)

<u>NOTE</u>	<u>TITLE</u>	<u>PAGE NUMBER</u>
13	EMPLOYEES' RETIREMENT PLAN	24
	A. Employee Membership Data	24
	B. Benefit Provisions	24
	C. Required Contributions	25
14	OTHER POST – EMPLOYMENT BENEFITS	27
15	RISK MANAGEMENT	28
	A. Liability Insurance	28
	B. Health Insurance	28
	C. Workers Compensation	29
16	COMMITMENTS AND CONTINGENCIES	29
	A. Claims and Lawsuits	29
	B. Trunkline Maintenance Audit	29
	C. Commitments to Townships	29
	D. Construction Commitments	30
	E. Jobs Today Loan Program	30
	F. Concentrations	30

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Road Commission have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity:

The Jackson County Road Commission (the Road Commission) is a Component Unit of the County of Jackson. The Road Commission is administered by a full time Board comprised of three Commissioners, appointed to staggered six year terms by the Jackson County Board of Commissioners. The Road Commission accounts for the Michigan Transportation Fund revenues distributed to Jackson County, and all other revenues provided for the construction and maintenance of primary and local roads within Jackson County (exclusive of those located within incorporated Cities and Villages). As of December 31, 2007, there were approximately 1,945 miles of roads maintained by the Jackson County Road Commission – 652 miles of paved primary roads, and 1,010 miles of paved and 283 miles of gravel local roads.

B. Basic Financial Statements – Government-Wide and Governmental Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the Road Commission. The Road Commission consists solely of governmental-type activities; it has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to users 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 income not properly included among program revenues are reported instead as general revenue.

The fund financial statements are provided for governmental fund, and have been separately stated in conjunction with the government-wide financial statements.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT POLICIES: (Continued)

C. 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 the liability is incurred, regardless of the timing of related cash flows. 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 a modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the fiscal year end.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Noncurrent receivables, such as special assessments and township agreements, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Interest earned on investments is recorded on the accrual basis. Interest charged on special assessment installments is not accrued until its due date.

The Road Fund is the Road Commission's only governmental fund (a major fund). The Road Fund is used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

D. Assets, Liabilities, and Fund Balance or Net Assets:

Cash, Cash Equivalents, and Investments:

All investments of the Road Commission are reported at cost. It is the policy of the Road Commission that all investments with an original maturity of 90 days or less are accounted for as cash equivalents. The Road Commission's investments are made through the Jackson County Treasurer, thus providing for increased interest rates and revenue.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT POLICIES: (Continued)

D. Assets, Liabilities, and Fund Balance or Net Assets: (Continued)

Inventories:

Inventories are valued at cost as determined on the first-in, first-out method using average costs. Inventory items are charged to road construction, equipment maintenance, repairs, and operations as they are used.

Capital Assets and Depreciation:

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges and similar items), are reported in the general operating fund in the government-wide financial statements. The Road Commission considers assets with an initial individual cost of \$500 or more and an estimated useful life in excess of one year to be a capital asset. Capital assets are recorded at their historical cost (or, in the case of infrastructure assets, at estimated historical cost). Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repair and maintenance are expensed as incurred.

The initial capitalization of infrastructure assets was developed using actual costs of construction and heavy maintenance incurred by the Road Commission. All such assets were retroactively capitalized when implementing GASB Statement No. 34.

Depreciation is computed on the sum-of-the-years-digits method for road equipment, and the straight-line method for all other assets. Estimated useful lives are used as follows:

	Years
Buildings and Improvements	10-40
Road Equipment	5-8
Other Equipment	3-10
Infrastructure	8-50

Depletion is computed by allocating the purchase and/or processing costs over the total resource available (which provides a cost per unit) and charging depletion for the units extracted and used during the year.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

D. Assets, Liabilities, and Fund Balance or Net Assets: (Continued)

Compensated Absences:

Paid time off is earned in varying amounts, depending on the employee's number of years of service. It is earned and credited throughout the year. A maximum of thirty paid days off may be accumulated.

Effective December 31, 1987, sick pay is no longer earned. The hours earned and unused as of that date were banked. The Road Commission now provides disability insurance coverage to its employees, providing benefits effective with the first day of an injury or the eighth day of an illness.

Road Commission policy is to pay unused paid time off at 100% using the employee's current rate of pay. The sick pay banked is paid off at 50% using the employee's current rate of pay.

Long-term Obligations:

Long-term debt and other long-term obligations (due more than one year from the balance sheet date) are reported as liabilities in the government-wide financial statements under the applicable governmental activity. Premiums and discounts, as well as any issuance costs related to the long-term debt are deferred and amortized to expense over the life of the long-term debt.

Fund financial statements report the proceeds from long-term debt issuance as other financing sources, along with any premiums received. Discounts on long-term debt are reported as other financing uses. Issuance costs are reported as debt service expenditures in the period incurred.

E. Estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND
FINANCIAL STATEMENTS:

Amounts reported in the government-wide financial statements are different from amounts reported in the governmental funds because of the following:

Governmental funds fund balance	\$ 5,372,324
Capital assets used in governmental activities; these are not financial resources and as such are not reported in the fund financial statements.	70,204,047
Special assessment and Township receivables which are not collected within 60 days of year end are not considered available to pay current year expenditures. In the fund financial statements, they are reported as Deferred Revenue.	539,543
Compensated absences are not paid from current resources; accordingly a liability is not reported in the fund financial statements.	(262,766)
Long-term liabilities (debt) are not due and payable in the current period and, therefore, are not reported in the fund financial statements.	<u>(289,486)</u>
Government-wide net assets	<u><u>\$ 75,563,662</u></u>

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS: (Continued)

Net changes in fund balances - Total governmental funds	\$	1,725,174
<p>Capital asset acquisitions are reported as expenditures in the fund financial statements; in the statement of activities, these assets are expensed over their useful lives through depreciation. (The Preservation expense represents the cost of projects performed for others during 2007).</p>		
		4,643,028
Depreciation		(5,367,153)
<p>Special assessment and township road agreement billings are reported as revenue in the fund financial statements when collected during the year or within 60 days of year end; these billings are reported as revenue upon project completion in the statement of activities.</p>		
		(164,063)
<p>Accumulated compensated absences are reported as an expenditure in the fund financial statements when paid; the statement of activities reports this expense as it is earned by the employee.</p>		
		1,306
<p>The payment of long-term debt is reported as an expense when paid in the fund financial statements; these payments are applied to reduce the liability in the government-wide financial statements.</p>		
		120,554
Change in net assets of governmental activities	\$	958,846

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary procedures are established pursuant to Michigan Act 621 PA 1978, as amended, (MCL 141.421). This act requires the commissioners to approve a budget for the general operating fund. Pursuant to the Act, the Road Commission has adopted the following procedures:

The Road Commission’s Chief Administrative Officer (the secretary – clerk) prepares and submits a proposed Operating Fund budget to the Board of Road Commissioners for its review and consideration. The budget is prepared at the category level (Primary Construction/Heavy Maintenance, Primary Routine Maintenance, etc.). The Board of Road Commissioners conducts public budget hearings and subsequently adopts a budget. This budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY: (Continued)

The budget as presented has been amended during the year by official action of the board, taken at a public meeting. All budget appropriations lapse at year end.

The Operating Fund budget of the Jackson County Road Commission includes an amount appropriated for an item called the Distributive Expense. The Distributive Expense consists of indirect costs related to construction projects (such as supervisory labor and fringes, etc.). For financial statement purposes, the Distributive Expense has been proportionately allocated to the other expense line items. As a result of this, comparison of budgeted to actual expense by line item can be misleading. This method does comply with the Michigan Department of Transportation guidelines.

Michigan Public Act 621 of 1978, as amended, requires budgets amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. The total Road Commission expenditures of \$16,142,265 were less than the total amount appropriated of \$19,069,585. For the year ended December 31, 2007, the Road Commission’s expenditures were in excess of the amounts appropriated, as follows:

	Final Amended Budget	Actual	(Excess Budget Variance)
Local Roads - Preservation	\$ 1,350,000	\$ 1,708,173	\$ (358,173)
Local Roads - Maintenance	4,201,105	4,468,090	(266,985)
State Trunkline Maintenance	2,322,848	2,709,642	(386,794)
Non-motorized grant - County parks	-	1,322,811	(1,322,811)
Equipment Expense - Net	-	536,111	(536,111)
Debt service	-	144,214	(144,214)

NOTE 4 – CASH, CASH EQUIVALENTS, AND INVESTMENTS:

State statutes and Road Commission policy authorize the County Treasurer, on behalf of the Jackson County Road Commission, to deposit and invest in the following types of accounts:

- (1) Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States;
- (2) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution (but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States);
- (3) Commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services and that matures not more than 270 days from the purchase date;
- (4) Repurchase agreements consisting of instruments listed in subdivision (1) above;
- (5) Bankers’ acceptances of United States banks;
- (6) Mutual funds registered under the Investment Company Act of 1940, that maintain a \$1.00 per share net asset value, and with authority to purchase only investment vehicles that are legal for direct investment by a public corporation;
- (7) Obligations described in (1) through (6) as named above if purchased through an interlocal agreement under the Urban Cooperation Act of 1967;
- (8) Investment pools organized under the Surplus Funds Investment Act, 367 of 1982;
- (9) Investment pools organized under the Local Government Investment Pool Act, 121 of 1985.

(The above statute references refer to Michigan Public Acts).

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – CASH, CASH EQUIVALENTS, AND INVESTMENTS: (Continued)

The Road Commission's deposits are in accordance with statutory authority and Road Commission policy.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Road Commission minimizes this risk by investing in shorter term securities and holding them to maturity.

Concentration of Credit Risk

The Road Commission's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law. The cash accounts are held at one local financial institution. \$100,000 of the cash is covered by FDIC insurance; the remaining \$2,498,736 is uninsured.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized; collateralized with securities held by the pledging financial institution; or collateralized with securities held by the pledging financial institution's trust department or agent but not in the Road Commission's name.

The custodial credit risk for investments is that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Road Commission will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following provision for deposits: Michigan law (MCL 129.33) requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 100% of the total amount deposited by the public agencies.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – CASH, CASH EQUIVALENTS, AND INVESTMENTS: (Continued)

Custodial Credit Risk (Continued)

The risk disclosure for the Road Commission’s cash and cash equivalents is as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash on Hand	\$ 250	\$ -
Insured (FDIC)	100,000	100,000
Uninsured	2,498,736	2,629,302
	\$ 2,598,986	\$ 2,729,302

The Road Commission did not violate any of the provisions of its investment policies or state laws during the year ended December 31, 2007.

The cash at December 31, 2007 includes monies from performance bonds deposited by contractors with the County Treasurer in the County’s Trust and Agency bank account. An offsetting liability has been established for the performance bonds payable. The balance payable, upon completion of projects with no damage to County roads, at December 31, 2007 was \$34,750.

NOTE 5 – RECEIVABLES/DEFERRED REVENUE:

A. Current Receivables:

Receivables at December 31, 2007 consist of accounts receivable from the ordinary course of operations, MTF funds for November and December due from the State, trunkline maintenance contract reimbursements and advances due from the State, current year special assessment collections due from the Jackson County Treasurer (due in May 2008), and payments due under Township road agreements.

Accounts receivable		\$ 40,173	
Special assessments receivable - current		22,145	
Due from other governments:			
MTF collections	\$ 1,688,433		
State trunkline maintenance	343,521		
State maintenance - Other	235		
Township road agreements - Current	189,365	2,221,554	
Total receivables		\$ 2,283,872	

The noncurrent receivables reported on the statement of net assets consist of special assessment and township road agreement payments not due within the next fiscal year.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – RECEIVABLES/DEFERRED REVENUE: (Continued)

B. Special Assessments:

In accordance with state statute, the Road Commission will pave local streets within subdivisions or residential areas following a process which is initiated by the request of at least 51% of benefiting property owners. It is the Road Commission’s policy to spread the resident’s payments out over a five year period by levying a special assessment on each winter tax bill. The winter tax bills are sent to property owners in December, and are due without penalty by February 14 of the following year. Interest is charged on installments after the first one, and prepayment is allowed. The Jackson County Treasurer collects the assessments and distributes the collections to the Road Commission each May.

Because the revenue is not available to the Road Commission within sixty days of year end, a deferred revenue liability account is established in the governmental fund financial statements to offset the receivable.

C. Township Road Agreements:

The Road Commission also paves certain local roads under a cost sharing agreement with the local townships. One half of the estimated project cost will be reimbursed by the township over a five year period. Installments are billed each December, and are payable upon receipt. The first three installments are interest free, each installment after that includes an interest charge. Prepayment is allowed. Because the installments billed in December 2007 will be collected within sixty days of year end (except for special assessments returned delinquent, which will be received by the Road Commission in May 2008), it is recognized as revenue in the governmental fund financial statements during 2007. A deferred revenue liability is established in the governmental fund financial statements for the remaining installments.

Installment billed/ levied in December	Noncurrent Receivable			Deferred Revenue
	Special Assessments	Twsp. Road Agreements	Total	
2007	\$ 22,145	\$ 189,365	\$ 211,510	\$ 22,145
2008	18,528	366,517	385,045	385,045
2009	18,528	113,825	132,353	132,353
	<u>\$ 59,201</u>	<u>\$ 669,707</u>	<u>\$ 728,908</u>	<u>\$ 539,543</u>

NOTE 6 – INVENTORIES:

The inventory at December 31, 2007 consisted of the following:

	Amount
Equipment materials and parts	\$ 324,746
Road materials	1,545,222
	<u>\$ 1,869,968</u>

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – CAPITAL ASSETS:

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land and land improvements	\$ 923,079	\$ 25,313	\$ -	\$ 948,392
Infrastructure land and land improvements	15,321,819	234,522	-	15,556,341
Subtotal	<u>16,244,898</u>	<u>259,835</u>	<u>-</u>	<u>16,504,733</u>
Capital assets being depreciated:				
Buildings and improvements	6,237,744	-	(189,463)	6,048,281
Road Equipment	13,226,601	8,421	(391,991)	12,843,031
Other equipment	1,710,504	59,101	(62,762)	1,706,843
Gravel pits	548,074	-	-	548,074
Infrastructure	79,564,154	4,315,671	(2,102,632)	81,777,193
Subtotal	<u>101,287,077</u>	<u>4,383,193</u>	<u>(2,746,848)</u>	<u>102,923,422</u>
Less - accumulated depreciation for:				
Buildings and improvements	(4,273,080)	(210,942)	189,463	(4,294,559)
Road Equipment	(9,634,768)	(1,112,409)	391,991	(10,355,186)
Other equipment	(1,397,781)	(116,757)	62,762	(1,451,776)
Gravel pits	(147,019)	-	-	(147,019)
Infrastructure	(31,151,155)	(3,927,045)	2,102,632	(32,975,568)
Subtotal	<u>(46,603,803)</u>	<u>(5,367,153)</u>	<u>2,746,848</u>	<u>(49,224,108)</u>
Net capital assets being depreciated	<u>54,683,274</u>	<u>(983,960)</u>	<u>-</u>	<u>53,699,314</u>
Net capital assets	<u>\$ 70,928,172</u>	<u>\$ (724,125)</u>	<u>\$ -</u>	<u>\$ 70,204,047</u>

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – ADVANCES:

As part of its agreement with the Michigan Department of Transportation (MDOT) to maintain state and federal highways (trunklines) within Jackson County and portions of Lenawee County, MDOT provides upfront cash to assist with cash flow for equipment and operating purposes. The amount advanced is reviewed annually, and is to be returned upon termination of the contract. At December 31, 2007, these advances totaled \$888,073. As such, this money is reported as a liability by the Road Commission.

NOTE 9 – LONG-TERM LIABILITIES:

Long-term liabilities of the Jackson County Road Commission consist of the following at December 31, 2007:

Accrued Compensated Absences:

Paid time off is earned in varying amounts, depending on the number of years service. It is earned and credited to the employee on the employee's anniversary date. A maximum of 30 paid days off may be accumulated.

As of December 31, 1987, sick pay is no longer earned. The hours accumulated to that date were banked and disability insurance coverage was provided, covering employees the first day of injury or the eighth day of sickness.

Upon an employee's termination, unused paid time off is paid off at 100%; unused sick pay is paid off at 50%. Both are paid off at 100% if used during the course of employment. The liability for accrued compensated absences at December 31, 2007 is as follows:

	Beginning of Year	Change	End of Year
Accrued Paid Time Off (100%)	\$ 262,224	\$ (865)	\$ 261,359
Accrued Sick Pay (100%)	1,848	(441)	1,407
	\$ 264,072	\$ (1,306)	\$ 262,766

Changes in Long Term Debt:

	Debt Outstanding - Beginning	Additions of New Debt	Retirements and Repayments	Debt Outstanding - Ending
Honeywell - Capital lease - Building improvements, \$266,372, maturing serially in quarterly amounts of \$9,489.50 including interest at a rate of 7.84%	\$ 253,054	\$ -	\$ (19,308)	\$ 233,746
Caterpillar Financial - Road equipment - Three installment purchase agreements - monthly payments of \$2,205 including interest at a rate of 4.85%	156,986	-	(101,246)	55,740
Total Long Term Debt:	\$ 410,040	\$ -	\$ (120,554)	\$ 289,486

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 – LONG-TERM LIABILITIES: (Continued)

Debt Service Requirements:

The annual principal and interest requirements to service the capital lease and installment purchase agreements as of December 31, 2007 are as follows:

<u>The Year Ended:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
December 31, 2008	\$ 71,540	\$ 19,358	\$ 90,898
December 31, 2009	26,230	16,140	42,370
December 31, 2010	23,595	14,363	37,958
December 31, 2011	25,502	12,456	37,958
December 31, 2012	27,563	10,395	37,958
December 31, 2013	29,791	8,167	37,958
December 31, 2014	32,199	5,759	37,958
December 31, 2015	34,801	3,157	37,958
December 31, 2016	18,265	538	18,803
	<u>\$ 289,486</u>	<u>\$ 90,333</u>	<u>\$ 379,819</u>

NOTE 10 – FUND EQUITY/NET ASSETS:

Governmental Fund Financial Statements – Reserves and Designations:

Reserved Fund Balance in the Road Commission’s Operating Fund was established to present the portion of fund equity which is not available for expenditure in future periods. The reserve at December 31, 2007 consists of \$1,869,968 for inventory.

Prior Year Restatements:

In January 2008, The Michigan Council on Governmental Accounting (MCGA) issued Statement No. 14 – Funding of Retiree Health Care Obligations. This statement clarifies that contributions to plans created under the authority of Public Act 149 of 1999 (PA 149) are the equivalent to contributions to a trust arrangement.

As a result of this clarification, the Road Commission elected to write off an asset of \$674,950 it had been reporting in its financial statements. This asset write-off reduced opening fund balance accordingly.

NOTE 11 – FEDERAL/STATE GRANTS:

The Michigan Department of Transportation (MDOT) requires that the local Road Commission report federal and state grant revenues/expenditures for all projects within the Road Commission’s jurisdiction. During 2007, federal and state aid reported as revenue and expenditures was \$2,793,562 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (as such, they are included in MDOT’s single audit rather than the Road Commission’s). The Road Commission acts as the contractor in negotiated projects. A summary of the 2007 grant projects is presented on the next page:

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – FEDERAL/STATE GRANTS: (Continued)

Project Number	Description	Federal Revenue	State Revenue	Expenditures Recognized
59711A	Coonhill Rd Bridge over Batteese Creek	\$ -	\$ 26,871	\$ 26,871
74485A	South Street - Francis to Brooklyn Rd	12,593	-	12,593
74493A	Dettman Rd - Michigan Ave to Page Ave	640,000	160,000	800,000
79015A	Lansing Ave - Cunningham to Morrill	567	-	567
80590A	E. Michigan Ave/Rank Rd intersection	16,360	-	16,360
83233A	E. Michigan Ave - Grass Lake to Rank Rd	101,771	25,443	127,214
86425A	Draper Rd bridge over Grand River	408,889	76,666	485,555
86426A	Mt Hope Rd bridge over Portage River	-	409,552	409,552
87292A	Falling Waters Trail	625,143	-	625,143
87683A	S Jackson Rd - Jefferson/Waite intersect.	248,806	-	248,806
87684A	Page Ave/Watts traffic signal	40,901	-	40,901
		<u>\$ 2,095,030</u>	<u>\$ 698,532</u>	<u>\$ 2,793,562</u>

As of December 31, 2007 the Road Commission had prepaid \$108,018 of matching project funds, This is reported as Deferred Federal Aid in the financial statements.

NOTE 12 – EXPENDITURE/EXPENSE REPORTING:

In accordance with Michigan Department of Transportation guidelines, certain expenditures/expenses are reported net of related revenues. These are noted as ‘net’ on the basic financial statements, and are summarized as follows:

Administrative:

Administrative expenditures/expenses (A515 accounts)	\$ 766,729
Less:	
Overhead charges - State	\$ (212,276)
Handling charges	(16,113)
Purchase discounts	<u>(4,702)</u>
Administrative expenditure/expense - Net	<u>\$ 533,638</u>

Equipment:

Direct equipment expenditures/expenses	\$ 2,675,532
Indirect equipment expenditures/expenses	1,198,716
Operating expenses	<u>714,039</u>
	4,588,287
Less - Equipment rental credits	<u>(4,052,176)</u>
Equipment expenditure/expense - Net	<u>\$ 536,111</u>

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 – EXPENDITURE/EXPENSE REPORTING: (Continued)

Capital outlay:

Capital outlay expenditure	\$ 92,274
Less:	
Equipment retirements (Cost less accumulated depreciation)	-
Depreciation	<u>(1,440,412)</u>
Capital outlay expenditure - Net	<u><u>\$ (1,348,138)</u></u>

NOTE 13 – EMPLOYEES’ RETIREMENT PLAN:

The Jackson County Road Commission participates in the Jackson County Employees’ Retirement System, a defined benefit pension plan. This plan was established in accordance with applicable state and local statutes.

A. Employee Membership Data:

As of December 31, 2007 (the latest valuation data available) employee membership data related to the pension plan (Road Division) was as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	108
Active plan participants:	
Vested	50
Nonvested	43
	<u>201</u>

B. Benefit Provisions:

The pension plan provides pension benefits, deferred allowances, and death and disability benefits. A member may retire at age 60 with 8 or more years of credited service. Benefits vest after eight years. Employees retiring at age 60 with eight or more years credited service are entitled to pension payments for the remainder of their lives equal to 2.5% of their Final Average Compensation (the average of the highest five consecutive years in the ten years prior to retirement). The Road Commission financed portion is limited to 75% of final average compensation.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 – EMPLOYEES’ RETIREMENT PLAN: (Continued)

B. Benefit Provisions: (Continued)

Pension provisions include a deferred allowance whereby an employee may terminate his or her employment with the Road Commission after accumulating eight years of credited service. The pension benefit is payable at age 60 or any age allowed by the retirement by-laws at the time of retirement. The benefit amount is computed in the same manner as the regular benefit described above.

Provisions are also included for duty and non-duty disability or death benefits. Disability benefit payments are computed in the same manner as regular benefits. The minimum benefit for a disability is 15% of final average compensation, with the maximum County-financed portion limited to 50% of FAC and worker’s compensation. Non-duty disability benefits are payable only after 10 or more years of credited service. Death benefits are computed in the same manner as the regular benefits; in the case of a duty death, additional service credit will be granted up to the amount needed to be vested prior to computation of the retirement allowance of the spouse.

C. Required Contributions:

Employees of the Road Commission are required to pay 2.5%, plus 50% of the employer contribution above 2.5% (an employee contribution rate of 6.06% for 2007) of their gross earnings to the pension plan. The payments are deducted from the employee’s wages and remitted to the pension plan each bi-weekly pay period. If an employee leaves the Road Commission prior to vesting, these contributions plus interest are returned to the employee.

The Road Commission makes bi-weekly contributions to the pension plan in an amount as determined by the plan’s actuaries. For the year ended December 31, 2007, the required contribution was computed as 6.06% of covered payroll. The Road Commission pension expense for the year ended December 31, 2007 was \$241,590. The actuarial assumptions used to compute this amount are available in the County of Jackson’s Comprehensive Annual Financial Report.

Substantially all of the Road Commission’s employees are covered by this plan. The Road Commission’s total payroll for the year ended December 31, 2007 was approximately \$4,203,000 with \$3,987,000 covered by the pension plan.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 – EMPLOYEES’ RETIREMENT PLAN: (Continued)

Trend information for the plan as a whole is presented below:

Schedule of Funding Progress

Valuation Date Dec. 31,	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
1998	\$ 100,030	\$ 68,577	\$ (31,453)	145.9%	\$ 24,209	0%
1999(a)	\$ 112,224	\$ 77,492	\$ (34,732)	144.8%	\$ 26,781	0%
2000(a)	\$ 120,724	\$ 84,373	\$ (36,351)	143.1%	\$ 27,224	0%
2001(a)	\$ 124,551	\$ 92,102	\$ (32,449)	135.2%	\$ 29,687	0%
2002 (a)	\$ 120,693	\$ 104,222	\$ (16,471)	115.8%	\$ 29,763	0%
2003 (a)	\$ 118,340	\$ 112,314	\$ (6,026)	105.4%	\$ 29,566	0%
2004	\$ 121,005	\$ 121,440	\$ 435	99.6%	\$ 31,519	0%
2005	\$ 125,487	\$ 128,872	\$ 3,385	97.4%	\$ 31,441	11%
2006	\$ 137,122	\$ 135,894	\$ (1,228)	100.9%	\$ 30,779	0%
2007	\$ 144,465	\$ 140,898	\$ (3,567)	102.5%	\$ 32,298	0%

Note: \$ amounts in Thousands; information is for the plan as a whole.

(a) After changes in benefit provisions and/or actuarial assumptions and cost methods.

Schedule of Employer Contributions

Fiscal Year	Actuarial Value of Assets	Contribution Rates as a % of Valuation Payroll*	Computed \$ Contribution Based on Projected Payroll	Annual Required Contribution Based on Actual Payroll	Percentage Contributed
1998	12/31/96(a)	1.05%	\$ 262,012	\$ 254,050	100%
1999	12/31/97(a)	0.22%	\$ 55,039	\$ 59,036	100%
2000	12/31/98	0.00%	\$ -	\$ -	100%
2001	12/31/99(a)	0.00%	\$ -	\$ -	100%
2002	12/31/00(a)	0.00%	\$ -	\$ -	100%
2003	12/31/01	0.00%	\$ -	\$ -	100%
2004	12/31/02	6.21%/1.75%	\$ 1,477,934	\$ 1,477,934	100%
2005	12/31/03	6.96%/3.97%	\$ 2,247,761	\$ 2,247,761	100%
2006	12/31/04	6.96%	\$ 2,367,969	\$ 2,367,969	100%
2007	12/31/05	7.57%	\$ 2,324,801	\$ 2,324,801	100%

Note: \$ amounts in Thousands; information is for the plan as a whole.

(a) After changes in benefit provisions and/or actuarial assumptions.

* Weighted averages.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 – EMPLOYEES’ RETIREMENT PLAN: (Continued)

Some additional information relating to the actuarial assumptions used in the December 31, 2007 valuation follows:

Actuarial Cost Method	Individual Entry Age
Amortization Method	Level percent of Payroll
Remaining amortization for	
Unfunded actuarial accrued	
Liability	30 years (open)
Remaining amortization period	
For credit	10 years (open)
Asset valuation method:	4 year smoothed market
Investment rate of return	8.00%
Projected salary increases	5.0%-8.8%
Includes inflation at	5.0%

The details of amounts attributable solely to the Road Commission were not available. Detailed information concerning the Jackson County Employees’ Retirement System is presented in the publicly available County of Jackson, Michigan Comprehensive Annual Financial Report. Copies of this report may be obtained from the Jackson County Administrator / Controller’s Office, 120 West Michigan Avenue, Jackson, Michigan, 49201.

NOTE 14 – OTHER POST-EMPLOYMENT BENEFITS:

The Jackson County Road Commission pays for health insurance benefits for its retired employees and their beneficiaries through the Jackson County Self-Funded Managed Care Health Insurance program. These benefits are funded as incurred and totaled approximately \$789,000 for the year ended December 31, 2007, which consists of \$489,000 of current expenses and a \$300,000 contribution to a trust arrangement set up with the County of Jackson. The total number of retirees covered by this plan at December 31, 2007 was approximately 108.

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care expenses over the working life of the employee, rather than when they are paid. This pronouncement is effective for the year ending December 31, 2008, which is when the Road Commission has elected to adopt the standard.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 – OTHER POST-EMPLOYMENT BENEFITS: (Continued)

The Road Commission has set aside \$1,048,000 in a trust fund with the County of Jackson in an effort to start pre-funding this liability. An actuarial valuation of the post-employment health benefits was performed as of January 1, 2007. The actuarial accrued liability for the Road Commission was \$14,766,660 - \$6,363,900 attributable to current active and inactive employees and \$8,402,760 to current retirees. The annual contribution rate computed to fund this liability was 27.81% of active employee payroll – 9.81% for the normal cost and 18.00% for the unfunded actuarial accrued liability. The study computed this using the following assumptions:

Medical care inflation rate (annual)	5.0%
Investment rate of return (annual)	8.0%
Amortization of unfunded actuarial Accrued liability	30 years

NOTE 15 – RISK MANAGEMENT:

During the normal course of its operations the Jackson County Road Commission is exposed to various risks of loss related to liability, employee injury, and other circumstances. In certain instances, the Jackson County Road Commission has opted to protect itself from such risks through means other than the purchase of traditional insurance coverage. These exceptions are as follows:

A. Liability Insurance:

The Jackson County Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for its liability insurance. The Pool is a municipal self-insurance entity operating within the laws of the State of Michigan.

The Pool has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Pool. In the event that a reinsurer does not meet its obligation to the Pool, the responsibility for payment of any unpaid claims reverts to the Pool, and, indirectly, to the Pool members.

B. Health Insurance:

The Road Commission participates jointly with the County of Jackson in the Jackson County Self-Funded Managed Care Health Insurance program. The premiums paid by the participating employers are the program's source of income, and expenses include: 1) the payment of claims; 2) the payment of an administrative fee; and 3) the payment of Stop-Loss insurance premiums (reinsurance). At December 31, 2007 (unaudited), the Road Commission had a deficit of \$20,831 in this Fund. The County of Jackson, Michigan Comprehensive Annual Financial Report provides further details regarding this insurance program.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 15 – RISK MANAGEMENT: (Continued)

C. Workers Compensation:

The Jackson County Road Commission participates in the County Road Association Self-Insurance Fund for its workers compensation insurance. The Pool is a municipal self-insurance entity operating within the laws of the State of Michigan.

The Pool has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Pool. In the event that a reinsurer does not meet its obligation to the Pool, the responsibility for payment of any unpaid claims reverts to the Pool, and, indirectly, to the Pool members.

NOTE 16 – COMMITMENTS AND CONTINGENCIES:

A. Claims and Lawsuits:

In the normal course of its operations, the Jackson County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

B. Trunkline Maintenance Audit:

As part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. During 2007, the State completed its audit of the 2005 costs. The audit resulted in the Road Commission refunding \$3,603 to the State. The amount due under its 2006 - 2007 contracts has not been determined.

C. Commitments to Townships:

The Jackson County Road Commission is committed to providing the best road system possible to the residents of Jackson County. This commitment includes the Township Road Agreement matching program. The Road Commission offers to match \$50,000 of construction funds to each of the 19 townships within its jurisdiction. The match may be used up to three years in advance. This program has been highly successful, as Townships contracted for \$392,750 of new projects during 2007.

JACKSON COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 16 – COMMITMENTS AND CONTINGENCIES: (Continued)

D. Construction Commitments:

Estimated future contract cost obligations related to the completion of construction projects in progress as of December 31, 2007, net of estimated federal, state and local grants and contributions, total \$682,000. The actual costs for completion of these projects will be greater than this amount, as the Road Commission will also pay for inspection costs and other services not covered by the construction contracts. The actual costs of completion cannot be determined at this time.

E. Jobs Today Loan Program:

The Road Commission financed a portion of the Dettman Rd. construction project with a loan in the amount of \$640,000 from the State's Jobs Today Program. Principal is to be repaid from federal advanced construction funds as soon as they become available. Interest at 4% is to be invoiced to the Road Commission. The principal and interest of this loan must be repaid by September 30, 2009.

F. Concentrations:

The Road Commission receives approximately 77% (\$13.7 million) of its revenue from the state and federal governments. A large portion of these revenues (\$10.9 million) is derived from the collection of taxes on gasoline and diesel fuels. These revenues could be susceptible to an economic downturn.

JACKSON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - ROAD FUND
SCHEDULE OF FUNDING PROGRESS -
JACKSON COUNTY EMPLOYEES' RETIREMENT SYSTEM

JACKSON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - ROAD FUND
YEAR ENDED DECEMBER 31, 2007

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue:				
Permits	\$ 40,000	\$ 40,000	\$ 79,727	\$ 39,727
Federal grants	3,563,607	3,563,607	2,095,030	(1,468,577)
State sources	12,311,630	12,311,630	11,593,025	(718,605)
Local government sources	720,000	720,000	1,105,878	385,878
Charges for services -				
State trunkline maintenance	2,322,848	2,322,848	2,706,039	383,191
Other	-	-	25,497	25,497
Interest and rentals	75,000	75,000	149,691	74,691
Special assessments	36,000	36,000	36,064	64
Gain on asset disposals	-	-	42,441	42,441
Other revenues	500	500	34,047	33,547
Lease proceeds	-	-	-	-
Total revenues	<u>19,069,585</u>	<u>19,069,585</u>	<u>17,867,439</u>	<u>(1,202,146)</u>
Expenditures/Expenses:				
Primary roads - Construction	-	-	-	-
Local roads - Construction	-	-	-	-
Primary roads - Preservation	4,859,863	4,859,863	2,862,353	1,997,510
Local roads - Preservation	1,350,000	1,350,000	1,708,173	(358,173)
Primary roads - Maintenance	3,759,610	3,759,610	3,205,371	554,239
Local roads - Maintenance	4,201,105	4,201,105	4,468,090	(266,985)
State trunkline maintenance	2,322,848	2,322,848	2,709,642	(386,794)
Non motorized grant - County Parks	-	-	1,322,811	(1,322,811)
Distributive expense	1,381,488	1,381,488	-	1,381,488
Administrative expense - Net	1,875,656	1,875,656	533,638	1,342,018
Equipment expense - Net	-	-	536,111	(536,111)
Capital outlay - Net	(680,985)	(680,985)	(1,348,138)	667,153
Debt service	-	-	144,214	(144,214)
Total expenditures	<u>19,069,585</u>	<u>19,069,585</u>	<u>16,142,265</u>	<u>2,927,320</u>
Excess of Revenues Over (Under) Expenditures	-	-	1,725,174	1,725,174
Fund Balance - Beginning	<u>3,647,150</u>	<u>3,647,150</u>	<u>3,647,150</u>	-
Fund Balance - Ending	<u>\$ 3,647,150</u>	<u>\$ 3,647,150</u>	<u>\$ 5,372,324</u>	<u>\$ 1,725,174</u>

JACKSON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
JACKSON COUNTY EMPLOYEES' RETIREMENT SYSTEM
DECEMBER 31, 2007

The information presented in the required supplementary schedule was determined as part of the actual valuation at the dates indicated.

Valuation Date Dec. 31,	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
1998	\$ 100,030	\$ 68,577	\$ (31,453)	145.9%	\$ 24,209	0%
1999(a)	\$ 112,224	\$ 77,492	\$ (34,732)	144.8%	\$ 26,781	0%
2000(a)	\$ 120,724	\$ 84,373	\$ (36,351)	143.1%	\$ 27,224	0%
2001(a)	\$ 124,551	\$ 92,102	\$ (32,449)	135.2%	\$ 29,687	0%
2002 (a)	\$ 120,693	\$ 104,222	\$ (16,471)	115.8%	\$ 29,763	0%
2003 (a)	\$ 118,340	\$ 112,314	\$ (6,026)	105.4%	\$ 29,566	0%
2004	\$ 121,005	\$ 121,440	\$ 435	99.6%	\$ 31,519	0%
2005	\$ 125,487	\$ 128,872	\$ 3,385	97.4%	\$ 31,441	11%
2006	\$ 137,122	\$ 135,894	\$ (1,228)	100.9%	\$ 30,779	0%
2007	\$ 144,465	\$ 140,898	\$ (3,567)	102.5%	\$ 32,298	0%

Note: \$ amounts in Thousands; information is for the plan as a whole.

(a) After changes in benefit provisions and/or actuarial assumptions and cost methods.

See Note 13 for more complete disclosures relating to the Road Commission's participation in the Jackson County Employees' Retirement System.

JACKSON COUNTY ROAD COMMISSION

ADDITIONAL INFORMATION

ANALYSIS OF CHANGES IN ROAD FUND BALANCE

JACKSON COUNTY ROAD COMMISSION
ADDITIONAL INFORMATION
ANALYSIS OF CHANGES IN ROAD FUND BALANCE
YEAR ENDED DECEMBER 31, 2007

	Primary Road	Local Road	County Road Commission	Total
Revenue:				
Permits	\$ 9,874	\$ 16,799	\$ 53,054	\$ 79,727
Federal grants	1,060,998	1,034,032	-	2,095,030
State sources:				
Michigan Transportation Fund	7,400,873	3,493,620	-	10,894,493
State critical bridge grants	436,422	76,667	-	513,089
TED/STP grants	25,443	-	-	25,443
Jobs Today grants	160,000	-	-	160,000
Revenues from local governments:				
Cities and villages	-	-	-	-
Township contributions	-	582,327	-	582,327
Other governments	-	523,551	-	523,551
Charges for services:				
State trunkline maintenance	-	-	2,485,246	2,485,246
State trunkline non-maintenance	-	-	220,793	220,793
Salvage sales	-	-	8,291	8,291
Fuel rebates	-	-	17,206	17,206
Interest and rentals:				
Interest	79,162	5,884	30,435	115,481
Rental of property	-	-	34,210	34,210
Special assessments	-	36,064	-	36,064
Gain on asset disposal	-	-	42,441	42,441
Other revenue	-	28,241	5,806	34,047
Total revenue	<u>9,172,772</u>	<u>5,797,185</u>	<u>2,897,482</u>	<u>17,867,439</u>
Expenditures:				
Construction	-	-	-	-
Preservation/Structural Improvements:				
Roads	1,789,296	975,327	-	2,764,623
Structures	561,948	689,031	-	1,250,979
Safety projects	445,847	23,483	-	469,330
Special assessments	-	20,332	-	20,332
Traffic Control	65,262	-	-	65,262
Non-motorized projects	-	-	-	-
Total preservation	<u>\$ 2,862,353</u>	<u>\$ 1,708,173</u>	<u>\$ -</u>	<u>\$ 4,570,526</u>

JACKSON COUNTY ROAD COMMISSION
ADDITIONAL INFORMATION
ANALYSIS OF CHANGES IN ROAD FUND BALANCE
YEAR ENDED DECEMBER 31, 2007

	Primary Road	Local Road	County Road Commission	Total
Expenditures: (Continued)				
Maintenance:				
Roads	\$ 1,758,581	\$ 3,351,112	\$ -	\$ 5,109,693
Structures	4,560	-	-	4,560
Roadside parks	4,295	-	-	4,295
Winter maintenance	1,178,002	914,448	-	2,092,450
Traffic Control	259,933	202,530	-	462,463
Total maintenance	<u>3,205,371</u>	<u>4,468,090</u>	<u>-</u>	<u>7,673,461</u>
Trunkline maintenance	-	-	2,488,849	2,488,849
Trunkline non-maintenance	-	-	220,793	220,793
Total trunkline	<u>-</u>	<u>-</u>	<u>2,709,642</u>	<u>2,709,642</u>
Non-motorized grant - County Parks	<u>-</u>	<u>1,322,811</u>	<u>-</u>	<u>1,322,811</u>
Administrative expenses:				
Administrative expenses	352,352	414,377	-	766,729
Less:				
Handling charges	(97,552)	(114,724)	-	(212,276)
Overhead - State	(7,404)	(8,709)	-	(16,113)
Purchase discounts	(2,161)	(2,541)	-	(4,702)
Net administrative expenses	<u>245,235</u>	<u>288,403</u>	<u>-</u>	<u>533,638</u>
Equipment expense:				
Direct expenses	715,170	1,201,581	758,781	2,675,532
Indirect expenses	320,417	538,343	339,956	1,198,716
Operating expenses	190,863	320,675	202,501	714,039
Less - Rental credits	(1,083,147)	(1,819,832)	(1,149,197)	(4,052,176)
Net equipment expenses	<u>143,303</u>	<u>240,767</u>	<u>152,041</u>	<u>536,111</u>
Capital outlay:				
Capital acquisitions	-	-	92,274	92,274
Less:				
Equipment retirements	-	-	-	-
Depreciation	-	-	(1,440,412)	(1,440,412)
Total capital outlay	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,348,138)</u>	<u>\$ (1,348,138)</u>

JACKSON COUNTY ROAD COMMISSION
ADDITIONAL INFORMATION
ANALYSIS OF CHANGES IN ROAD FUND BALANCE
YEAR ENDED DECEMBER 31, 2007

	Primary Road	Local Road	County Road Commission	Total
Expenditures: (Continued)				
Debt service:				
Debt principal payment	\$ -	\$ -	\$ 120,554	\$ 120,554
Interest expense	-	-	23,660	23,660
Total debt service	-	-	144,214	144,214
 Total expenditures	 6,456,262	 8,028,244	 1,657,759	 16,142,265
 Excess of Revenue Over (Under) Expenditures	 2,716,510	 (2,231,059)	 1,239,723	 1,725,174
Other Financing Sources (Uses):				
Loan proceeds	-	-	-	-
Optional transfers	(2,220,262)	2,231,059	(10,797)	-
Total other financing sources	(2,220,262)	2,231,059	(10,797)	-
 Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	 496,248	 -	 1,228,926	 1,725,174
 Fund Balance - Beginning (Restated)	 2,634,313	 -	 1,012,837	 3,647,150
 Fund Balance - Ending	 \$ 3,130,561	 \$ -	 \$ 2,241,763	 \$ 5,372,324

MARKOWSKI & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

2880 SPRING ARBOR ROAD • JACKSON • MICHIGAN • 49203
PHONE (517) 782-9351
FAX (517) 782-0599

RONALD L. MARKOWSKI, C.P.A.
DOUGLAS E. ATKINS, C.P.A.
SCOTT O. McLANE
RANDALL D. BIDDIX, C.P.A.
RETIRED PARTNER:
K.LAVERNE MARKOWSKI, C.P.A.

MEMBERS:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

ESTATE PLANNING COUNCIL OF
SOUTH CENTRAL MICHIGAN

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

To the Board of Road Commissioners
Of Jackson County
Jackson, Michigan

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Jackson 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 Jackson County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Jackson County Road Commission's internal control over financial reporting.

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

Internal Control Over Financial Reporting (Continued)

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 Jackson 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 Jackson County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Jackson County Road Commission's internal control. We consider the deficiencies, 2007-1 and 2007-2, described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

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

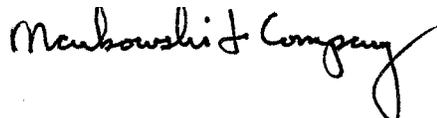
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, we believe that the significant deficiencies described above, 2007-1 and 2007-2, to be material weaknesses.

Compliance and Other Matters

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

We also noted certain other matters that we reported to management of Jackson County Road Commission in a separate letter dated June 6, 2008.

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



MARKOWSKI & COMPANY, CPAs
June 6, 2008

JACKSON COUNTY ROAD COMMISSION
SCHEDULE OF FINDINGS
DECEMBER 31, 2007

Finding 2007-1: Manual Journal Entries

Condition – Journal entries prepared by the Finance Director are not reviewed or approved by any other member of management or management consultant. The journal entries selected for testing during our audit did not always include a description of the adjustment and the justification for the entry.

Recommendation – Journal entries should include appropriate support and an appropriate explanation of the need for the entry. The preparer should sign the entry, and it should be subjected to review by the Managing Director or the independent CPA retained by the Road Commission.

Response – Management agrees that the process for preparing and recording journal entries, including the approval of them, is in need of improvement. Future entries will be recorded on a standardized form, with areas designated for signatures from the preparer and the management level individual approving the entry. Prior to approving entries, the support will be reviewed and initialed.

Finding 2007-2: Inventory Reconciliations

Condition – Tests of inventory revealed that gasoline inventories reported in the perpetual records exceeded the capacity of storage tanks. This was caused by a timing difference between the addition of fuel purchases to inventory (which was done in the appropriate period) and charging usage to the appropriate accounts (which was inadvertently done in the subsequent fiscal year).

Recommendation – As part of the inventory reconciliation process, a reasonableness test should be adopted which would identify potential problems in the inventory reports. Inventory levels above a certain amount should be subjected to additional scrutiny as part of the reconciliation process.

Response – Management agrees that adding this step to the inventory reconciliation process would strengthen controls over financial reporting of inventories.

MARKOWSKI & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

2880 SPRING ARBOR ROAD • JACKSON • MICHIGAN • 49203
PHONE (517) 782-9351 • FAX (517) 782-0599

RONALD L. MARKOWSKI, CPA
DOUGLAS E. ATKINS, CPA
SCOTT O. McLANE
RANDALL D. BIDDIX, CPA
RETIRED PARTNER:
K. LAVERNE MARKOWSKI, CPA (1961-2006)

MEMBERS:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

ESTATE PLANNING COUNCIL OF
SOUTH CENTRAL MICHIGAN

To the Board of Road Commissioners
Jackson County Road Commission

COMMUNICATION OF AUDITOR/CLIENT RESPONSIBILITIES

We have audited the basic financial statements of the Jackson County Road Commission (the Road Commission) for the year ended December 31, 2007, and have issued our report thereon dated June 8, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated April 8, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the basic financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Road Commission are described in Note 1 to the basic financial statements.

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

Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was management's estimate regarding infrastructure costs. We evaluated the key factors and assumptions used to develop these amounts in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Road Commission that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed an audit adjustment (to federal aid projects, based on the MDOT confirm response) that could, in our judgment, either individually or in the aggregate, have a significant effect on the Road Commission's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit. We were very pleased with the cooperation of the administrative staff during our audit.

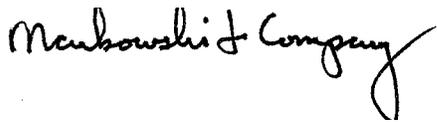
Comments and Recommendations

During the course of performing our audit, we did note two items which were reported as Findings in the Annual Financial Report.. There is also an area which we believe can be improved upon by Road Commission staff. These are addressed in the accompanying Memorandum of Comments and Recommendations.

A listing of the proposed audit adjustments which were waived as immaterial can be found with the Management Representation letter. These items can be used to analyze potential errors or misstatements in future periods. We encourage management to review these and take appropriate steps to head off these potential trouble spots.

This information is intended solely for the use of the Board of Road Commissioners and management of the Road Commission and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,



MARKOWSKI & COMPANY, CPAs

June 6, 2008

JACKSON COUNTY ROAD COMMISSION
MEMORANDUM OF COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

2007 COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES:

As reported on page 38 of the Road Commission's Annual Financial Report, there are two instances which we believe to be material weaknesses in internal controls at the Road Commission.

Manual Journal Entries

An area of internal controls which needs improvement is the review/approval of journal entries. One person, the Director of Finance/Clerk, controls the entire process. The concern is that potential errors in financial reporting could occur and not be caught internally due to this lack of oversight.

Inventory Reconciliation

As noted on Page 38 of the Annual Financial Report, a material adjustment to inventory was needed to correct a timing difference in posting inventory usage. This error was uncovered during our audit. Had internal controls been properly functioning, this error would have been caught during the year end inventory reconciliation process.

It is during this process that process that the detail inventory records are balanced with the general ledger. We understand that system improvements are being implemented to remove the need for manually posting fuel usage. This will eliminate the cause of this error. It will still be important to implement a process under which material inventory amounts are analyzed as part of the inventory reconciliation process.

OTHER ITEMS FOR CONSIDERATION

Federal Aid Accounting

The Michigan Road Commission Accounting Manual provides information regarding the proper accounting for federal aid projects administered by the State of Michigan. The Road Commission is in compliance with these guidelines, but has required assistance from the external auditors as part of this process.

A properly functioning *internal* control system cannot include the *external* auditors as part of controls. Areas for which the independent auditor is relied upon should be monitored carefully and procedures implemented to avoid this situation in the future.

JACKSON COUNTY ROAD COMMISSION
MEMORANDUM OF COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

FOLLOW UP ON 2006 COMMENTS:

Budgeting Procedures

In 2006, the Road Commission spent amounts in excess of budget. Our recommendation was for the Road Commission to monitor their actual and budgeted expenditures more closely, and propose adjustments to the budget when necessary and appropriate.

In 2007, the budget was not amended, as expenditures were within the total approved appropriation amount. Because the budget is adopted using numbers prior to spreading the Distributive Expense, and the actual amounts reported in the annual report are reported after spreading these expenses, there were areas in which actual expenditures were in excess of the approved budget. This is acceptable as long as the total actual expenditures are within the original appropriated amount.

In 2008, financial reporting has been improved by adding the ability to allocate these expenses quarterly, allowing for a more accurate analysis of budget d and actual expenditures. With these steps, we believe that this issue has been appropriately addressed.

Fuel Monitoring Controls

Controls over access to the fuel pumps at the Road Commission's Elm Rd. complex were strengthened during 2007. The pumps are locked, and keys have been placed in an area with restricted access.

This concern has been addressed satisfactorily.