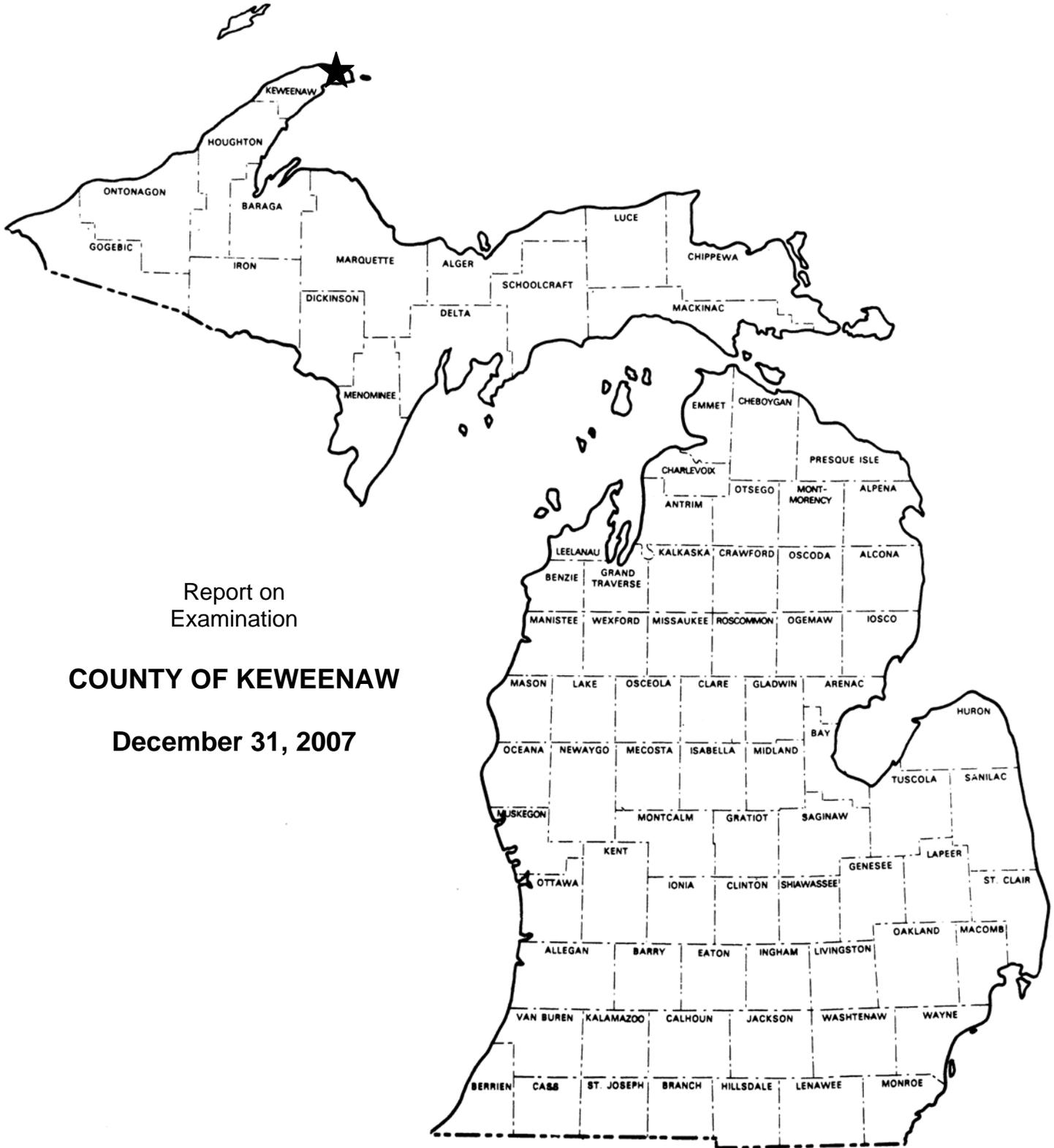


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

COUNTY OF KEWEENAW

December 31, 2007

COUNTY OF KEWEENAW
BOARD OF COMMISSIONERS

Donald Keith
Chairperson

Alfred Gunnari

Frank Stubenrauch

Randy Eckloff

Joe Langdon
Vice Chairperson

COURT JUDGES

Garfield W. Hood
Circuit Judge

James Jaaskelainen
Probate Judge

Phillip L. Kukkonen
District Judge

OTHER ELECTED OFFICIALS

Geri Hall
Treasurer

James Kaura
Mine Inspector

Donna Jaaskelainen
Prosecuting Attorney

Ronald Lahti
Sheriff

Marilyn Winquist
Clerk and Register of Deeds

COUNTY POPULATION--2000
2,301

TAXABLE VALUATION--2007
\$175,671,745



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

October 4, 2008

Keweenaw County Board of Commissioners
Keweenaw County Courthouse
Unit 1, Box 7
Eagle River, Michigan 49950

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Keweenaw County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise Keweenaw County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Keweenaw County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Keweenaw County, as of December 31, 2007 and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 5, 2008, on our consideration of the Keweenaw County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of

internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 10 and the budgetary comparison information in Exhibits I through M are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Keweenaw County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Exhibits N through R are for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

KEWEENAW COUNTY

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS	1
<u>BASIC FINANCIAL STATEMENTS</u>	
EXHIBIT A--Government-Wide Statement of Net Assets	11
EXHIBIT B--Government-Wide Statement of Activities	12
EXHIBIT C--Balance Sheet--Governmental Funds	13
EXHIBIT D--Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	14
EXHIBIT D-1--Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities	15
EXHIBIT E--Statement of Net Assets--Enterprise Fund.....	16
EXHIBIT F--Statement of Revenues, Expenses and Changes in Net Assets Enterprise Fund.....	17
EXHIBIT G--Statement of Cash Flows--Enterprise Funds	18
EXHIBIT H--Statement of Net Assets--Fiduciary Funds.....	19
NOTES TO FINANCIAL STATEMENTS.....	20
<u>REQUIRED SUPPLEMENTAL INFORMATION</u>	
EXHIBIT I--Budgetary Comparison Schedule--General Fund	46
EXHIBIT J--Budgetary Comparison Schedule--Major Special Revenue Fund County 911 Service.....	47
EXHIBIT K--Budgetary Comparison Schedule--Economic Development.....	48
EXHIBIT L--Budgetary Comparison Schedule--Revenue Sharing	49
EXHIBIT M--Budgetary Comparison Schedule--Medical Care Facility	50

KEWEENAW COUNTY

TABLE OF CONTENTS
(Continued)

	<u>Page</u>
<u>SUPPLEMENTAL INFORMATION AND SCHEDULES</u>	
EXHIBIT N--Combining Balance Sheet--Non-Major Governmental Funds	51
EXHIBIT O--Combining Statement of Revenues, Expenditures and Changes in Fund Balances--Non-Major Governmental Funds	52
EXHIBIT P--Combining Balance Sheet--All Trust and Agency Funds.....	53
EXHIBIT Q--Statement of Revenues and Other Financing Sources Budget and Actual--General Fund	54
EXHIBIT R--Statement of Expenditures and Other Uses--By Activity Budget and Actual--General Fund.....	57
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	60
Unqualified Opinion on Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	63
SCHEDULE 1--Expenditures of Federal Awards	64
Notes to Schedule of Expenditures of Federal Awards	65
Schedule of Findings and Questioned Costs.....	66
Letter to Governance.....	80

COUNTY OF KEWEENAW

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

The annual financial report of the County of Keweenaw consists of the following components: 1) *Independent Auditor's Report*; 2) *Management's Discussion and Analysis*; 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements); 4) *Required Supplementary Information* such as budget-and-actual comparisons for the General Fund and Major Special Revenue Funds; and 5) *Other Supplementary Information* including combining financial statements for all nonmajor governmental funds.

Government-Wide Financial Statements (Reporting the County as a Whole)

The Statement of Net Assets and the Statement of Activities provide information about the County, as a whole, and present a longer-term view of the County's finances. Their purpose is to assist in answering the question, "Is the County of Keweenaw, in its entirety, better or worse off as a result of this fiscal year's activities?" These statements are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are earned and expenses are accounted for when incurred, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets presents all of the County of Keweenaw's assets and liabilities, recording the difference between the two as "net assets." Over time, increases or decreases in net assets measure whether the County of Keweenaw's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the County of Keweenaw's net assets changed during the calendar year 2007. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes, and earned but unused employee personal leave.

Fund Financial Statements (Reporting the County's Major Funds)

The governmental funds financial statements are reported on a *modified accrual basis of accounting*. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources. The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending.

COUNTY OF KEWEENAW

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund financial statements also report the County's operations in more detail than the government-wide financial statements by providing information about the County's most significant funds (major funds). Fund financial statements are utilized to track specific operations, these include: the General, County 911, Economic Development, Revenue Sharing and Medical Care Facility Funds.

The business-type funds include the Mountain Lodge as a major fund and the Commissary Fund as a nonmajor fund. These funds are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are earned and expenses are accounted for when incurred, regardless of when the actual cash is received or disbursed.

The fiduciary fund statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

The Keweenaw County Road Commission is the only component unit of the County and a separate audit was issued and may be obtained at the Road Commission's office.

Comparison of Government-Wide and Fund Financial Statements

Both statements report governmental activities and business-type activities. Governmental activities include the General Fund and Special Revenue Funds. The business-type activities include the Mountain Lodge and Jail Commissary Funds.

Because of the different basis of accounting between the fund statements and the government-wide statements, reconciliations between the two statement types are also presented in this report. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental funds; however, depreciation expense is reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Long-term liabilities, such as reserves for personal leave (compensated absences), etc., appear as liabilities on the government-wide statements; however, they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.
- Debt proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the fund financial statements.

In addition, the government-wide financial statements include the net value of the County of Keweenaw's general capital assets such as buildings, land, cars, computer equipment, etc. These values are not included in the fund financial statements.

COUNTY OF KEWEENAW

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities/Governmental Funds

Most of the County of Keweenaw's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the County of Keweenaw's general government departments such as general government, public safety, recreation programs, and health and welfare programs are reported under these activities.

The County of Keweenaw as a Whole

The County's net assets for the governmental funds increased \$384,904 from a year ago for the governmental activities. The County's net assets for the business-type activities decreased \$1,620,758 from a year ago for the business-type activities. In a condensed format, the tables below show a comparison of the net assets as of the current year to the prior year.

	<u>Governmental Activities 2006</u>	<u>Governmental Activities 2007</u>	<u>Increase (Decrease) Variance</u>	<u>% of Change</u>
Current and Other Assets	\$ 1,833,302	\$ 2,141,682	\$ 308,380	17%
Capital Assets	<u>3,707,395</u>	<u>3,690,832</u>	<u>(16,563)</u>	<u>0%</u>
Total Assets	<u>5,540,697</u>	<u>5,832,514</u>	<u>291,817</u>	<u>5%</u>
Other Liabilities	610,681	513,747	(96,934)	-16%
Long-Term Liabilities	<u>41,278</u>	<u>45,125</u>	<u>3,847</u>	<u>9%</u>
Total Liabilities	<u>651,959</u>	<u>558,872</u>	<u>(93,087)</u>	<u>-14%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	3,707,395	3,690,832	(16,563)	0%
Restricted	865,432	1,306,544	441,112	51%
Unrestricted (Deficit)	<u>315,911</u>	<u>276,266</u>	<u>(39,645)</u>	<u>-13%</u>
Total Net Assets	<u><u>\$4,888,738</u></u>	<u><u>\$5,273,642</u></u>	<u><u>\$ 384,904</u></u>	<u><u>8%</u></u>

A portion of the county's net assets in the amount of \$3,690,832 reflects its investments in capital assets (i.e., land, buildings, vehicles, equipment, and infrastructure, less any related debt used to acquire those assets that is still outstanding). The county uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the county's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

COUNTY OF KEWEENAW

MANAGEMENT’S DISCUSSION AND ANALYSIS

An additional portion of the county’s net assets, \$1,306,544, represents resources that are subject to external restrictions on how they may be used, these are mostly special revenue funds and reservations in fund balance.

The remaining balance of \$276,266 represents *unrestricted net assets* that may be used to meet the county’s ongoing obligations to citizens and creditors.

At the end of the current calendar year, the County is able to report positive balances in all three categories (invested in capital assets-net of related debt, restricted and unrestricted) of net assets, both for the government, as a whole, as well as for its separate governmental and business-type activities as explained above.

	<u>Business-Type Activities 2006</u>	<u>Business-Type Activities 2007</u>	<u>Increase (Decrease) Variance</u>	<u>% of Change</u>
Current and Other Assets	\$ 39,409	\$ 49,371	\$ 9,962	25%
Capital Assets	<u>1,941,335</u>	<u>3,953,709</u>	<u>2,012,374</u>	<u>104%</u>
Total Assets	<u>1,980,744</u>	<u>4,003,080</u>	<u>2,022,336</u>	<u>102%</u>
Other Liabilities	1,113,392	121,970	(991,422)	-89%
Long-Term Liabilities	<u> </u>	<u>1,393,000</u>	<u>1,393,000</u>	<u>-100%</u>
Total Liabilities	<u>1,113,392</u>	<u>1,514,970</u>	<u>401,578</u>	<u>36%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	844,014	2,451,225	1,607,211	190%
Restricted	<u> </u>	<u>34,447</u>	<u>34,447</u>	<u>100%</u>
Unrestricted (Deficit)	<u>23,338</u>	<u>2,438</u>	<u>(20,900)</u>	<u>-90%</u>
Total Net Assets	<u>\$ 867,352</u>	<u>\$ 2,488,110</u>	<u>\$ 1,620,758</u>	<u>187%</u>

The capital assets and long-term liabilities increased as a result of the major capital improvements and conference center addition at the Mountain Lodge.

COUNTY OF KEWEENAW

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets for the years ended December 31, 2006 and December 31, 2007:

	<u>Governmental Activities 2006</u>	<u>Governmental Activities 2007</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 338,132	\$ 261,086	\$ (77,046)	-23%
Operating Grants and Contributions	396,320	396,762	442	0%
Capital Grants and Contributions		8,000	8,000	100%
General Revenues				
Property Taxes	1,243,034	1,333,800	90,766	7%
Unrestricted Investment Earnings	<u>64,957</u>	<u>52,259</u>	<u>(12,698)</u>	<u>-20%</u>
Total Revenues	<u>2,042,443</u>	<u>2,051,907</u>	<u>9,464</u>	<u>0%</u>
Program Expenses				
General Government	618,682	650,643	31,961	5%
Public Safety	651,007	728,505	77,498	12%
Health and Welfare	234,937	120,355	(114,582)	-49%
Community and Economic Development	114,091	136,936	22,845	20%
Recreation and Culture	200	550	350	175%
Other	<u>34,343</u>	<u>30,014</u>	<u>(4,329)</u>	<u>-13%</u>
Total Expenses	<u>1,653,260</u>	<u>1,667,003</u>	<u>13,743</u>	<u>1%</u>
Change in Net Assets	<u>389,183</u>	<u>384,904</u>	<u>(4,279)</u>	<u>-1%</u>
Ending Net Assets	<u>\$ 4,888,738</u>	<u>\$ 5,273,642</u>	<u>\$ 384,904</u>	<u>8%</u>

COUNTY OF KEWEENAW

MANAGEMENT'S DISCUSSION AND ANALYSIS

	<u>Business-Type Activities 2006</u>	<u>Business-Type Activities 2007</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 938,881	\$1,031,363	\$ 92,482	10%
Capital Grants and Contributions		1,844,250	1,844,250	100%
General Revenues		3,177	3,177	100%
Loss on Disposal of Capital Assets	<u>(21,979)</u>		<u>21,979</u>	<u>100%</u>
 Total Revenues	 <u>916,902</u>	 <u>2,878,790</u>	 <u>1,961,888</u>	 <u>214%</u>
Program Expenses				
Recreation and Culture	971,539	1,253,085	281,546	29%
Public Safety	<u>4,235</u>	<u>4,947</u>	<u>712</u>	<u>17%</u>
 Total Expenses	 <u>975,774</u>	 <u>1,258,032</u>	 <u>282,258</u>	 <u>29%</u>
 Increase (Decrease) in Net Assets	 <u>58,872</u>	 <u>1,620,758</u>	 <u>1,561,886</u>	 <u>2653%</u>
 Ending Net Assets	 <u>\$ 867,352</u>	 <u>\$2,488,110</u>	 <u>\$1,620,758</u>	 <u>187%</u>

The Mountain Lodge had the most significant revenues and expenditures which is related to the operation of the Mountain Lodge's lodging, restaurant and bar and golf course. The revenues increased by 10% due to price increases and the new convention center.

With the increase in revenue, there was also an increase in expenses, primarily due to labor, food related to the new convention center and rising costs of fuel related products. There was also an increase in depreciation expense of \$106,820 and interest expense of \$45,807 during 2007. The Mountain Lodge also received \$1,844,250 in Federal grants for the Mountain Lodge renovation and expansion.

COUNTY OF KEWEENAW

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

As the County completed fiscal year 2007, the governmental funds reported had a *combined* fund balance of \$1,604,128, an increase of \$381,507. The net changes are summarized below:

	Governmental Activities <u>2006</u>	Governmental Activities <u>2007</u>	Amount Difference	Percentage Difference
Revenues				
Taxes	\$ 1,243,034	\$ 1,309,993	\$ 66,959	5%
Licenses and Permits	75,563	73,358	(2,205)	-3%
Federal Grants	97,284	100,595	3,311	3%
State Grants	300,920	304,167	3,247	1%
Contributions from Local Units	9,183	11,320	2,137	23%
Charges for Services	193,990	63,862	(130,128)	-67%
Fines and Forfeits	2,740	2,735	(5)	0%
Interest and Rentals	67,357	82,114	14,757	22%
Other Revenue	52,372	79,956	27,584	53%
Total Revenues	<u>2,042,443</u>	<u>2,028,100</u>	<u>(14,343)</u>	<u>-1%</u>
Expenditures				
Current				
General Government	608,874	651,069	42,195	7%
Public Safety	629,898	683,734	53,836	9%
Health and Welfare	234,937	120,355	(114,582)	-49%
Community and Economic Development	114,091	117,436	3,345	3%
Recreation and Cultural	200	5,162	4,962	2481%
Other	34,343	30,014	(4,329)	-13%
Capital Outlay	73,118	38,823	(34,295)	-47%
Total Expenditures	<u>1,695,461</u>	<u>1,646,593</u>	<u>(48,868)</u>	<u>-3%</u>
Excess of Revenues Over (Under) Expenditures	<u>346,982</u>	<u>381,507</u>	<u>34,525</u>	<u>10%</u>
Other Financing Sources (Uses)				
Interfund Transfers In	239,846	241,273	1,427	1%
Interfund Transfers (Out)	<u>(239,846)</u>	<u>(241,273)</u>	<u>(1,427)</u>	<u>1%</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>0%</u>
Beginning Fund Balance	<u>875,639</u>	<u>1,222,621</u>	<u>346,982</u>	<u>40%</u>
Ending Fund Balance	<u>\$ 1,222,621</u>	<u>\$ 1,604,128</u>	<u>\$ 381,507</u>	<u>31%</u>

COUNTY OF KEWEENAW

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's Funds

Our analysis of the County's major funds is detailed in the Notes to the Financial Statements, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the County as a whole. The County Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millage. The County's major funds for 2007 include the General Fund, 911 Service Fund, Economic Development, Revenue Sharing, and the Medical Care Facility Funds.

The General Fund is the chief operating fund of the County. Unless otherwise required by statute, contractual agreement, or board policy, all County revenues and expenditures are recorded in the General Fund. The most significant are the general government and the public safety, which incurred expenses of \$637,019 and \$566,762, respectively, during 2007.

The County's total governmental revenues decreased by \$14,343 or approximately 1%. The decrease was primarily due mostly to a increases in: taxes and penalties, Interest and rents and other revenue, which was offset by the decrease in charge for services of \$130,128.

Expenditures decreased by approximately 10%, mainly due to decreased expenditures in health and welfare (probate child care charges) and a decrease capital outlay.

General Fund Budgetary Highlights

Over the course of the year, the County Board amended the budget to take into account events during the year. The County's revenue budget, however, did not change and remained at \$1,401,081, which was \$9,326 less than the actual revenues. The largest variances were: decreases in anticipated State grants and an increase in charges in services.

The County's expenditure budget was increased by \$14,300 (.94% over the original budget) during calendar year 2007. Actual General Fund expenditures totaled \$1,308,632, which was \$226,644 below the final amended budget. The largest variances were: decreases in anticipated general government and public safety expenditures.

COUNTY OF KEWEENAW

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

At the end of 2007, the County had a net amount of \$3,690,832 invested in a broad range of capital assets, including land, land improvements, buildings and building improvements, office equipment, and police vehicles and equipment in the governmental activities and \$3,953,709 in the business-type activity (Mountain Lodge). The governmental activities' major additions to the capital assets of \$38,823 related to the acquisitions of a rescue all terrain vehicle, 2 snowmobiles with covers, thermal imaging camera, new boiler and condensation tank. The capital acquisitions for the Mountain Lodge were \$2,134,617 during 2007, which consisted primarily of the capital improvement project for the new addition, land improvements and equipment.

Debt is classified as long-term if it matures in a period greater than one year. At the end of the current fiscal year, the County's only long-term debt consisted of vested employee benefits of \$45,125. During 2007, there were bonds issued for the capital improvement and addition to the mountain lodge, which totaled \$1,393,000, with payments of interest only for the first couple of years.

Economic Factors and Next Year's Budgets and Rates

The County has considered the following factors in preparing the 2008 fiscal year budget:

Increasing operating revenues: We have revamped our Equalization Department to insure county properties are assessed at their proper value. Low sales activity combined with the effect of Proposal A have held our tax revenues to the inflation rate. We will insure that evaluations are accurate so we can correct the appropriate taxes when properties are sold.

Employee salaries: Our employee salaries have been held to approximately 2.0% annually. We are in the third year of our contract, with our police department and court house maintenance, which include an annual 2.5 % increase per year. We will insure that our associates are evaluated by their responsibilities and paid accordingly.

Insurance rates: We have challenged our insurance cost for savings. We have saved over \$110,000 in insurance costs. By evaluating coverages and streamlining the policies we have greatly reduced our associate benefit costs. Our insurance costs for 2008 will be less than 2007 costs, including the 2008 increase.

COUNTY OF KEWEENAW

MANAGEMENT'S DISCUSSION AND ANALYSIS

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Keweenaw County Clerk's Office at Unit 1, Box 7, Eagle River, MI 49950.

Separately issued component unit financial statements for the Keweenaw County Road Commission can be obtained from the administrative offices at 1916 Fourth Street, Mohawk, Michigan 49950.

KEWEENAW COUNTY
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2007

EXHIBIT A

	PRIMARY GOVERNMENT			COMPONENT UNIT
	Governmental Activities	Business-Type Activities	Total	Road Commission
<u>ASSETS</u>				
Current Assets				
Cash and Cash Equivalents	\$ 1,448,592	\$ 385	\$ 1,448,977	\$ 688,399
Receivables				
Current Property Taxes	405,223		405,223	
Unpaid Delinquent Taxes	14,167		14,167	
Sundry		7,552	7,552	8,247
Due From Townships	50,944		50,944	
Due From State	68,832		68,832	354,164
Due From Federal Government	3,500	81,534	85,034	
Inventories			-	436,167
Internal Balances	138,924	(138,924)	-	
Prepays	11,500	30,427	41,927	7,303
Total Current Assets	2,141,682	(19,026)	2,122,656	1,494,280
Noncurrent Assets				
Restricted Cash		68,397	68,397	
Capital Assets--Net of Accumulated Depreciation	3,690,832	3,953,709	7,644,541	3,532,524
Total Noncurrent Assets	3,690,832	4,022,106	7,712,938	3,532,524
Total Assets	\$ 5,832,514	\$ 4,003,080	\$ 9,835,594	\$ 5,026,804
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities				
Accounts Payable	\$ 59,526	\$ 1,835	\$ 61,361	\$ 34,929
Due to State	-		-	2,091
Accrued Liabilities		2,881	2,881	45,808
Contracts Payable		100,394	100,394	
Deposits Payable		16,860	16,860	
Deferred Revenue	454,221		454,221	
Total Current Liabilities	513,747	121,970	635,717	82,828
Noncurrent Liabilities				
Installment Purchase Payable--Due Within One Year			-	21,929
Installment Purchase Payable--Due in More Than One Year			-	24,577
Bonds Payable--Due in More Than One Year		1,393,000	1,393,000	
Vested Employee Benefits Payable	45,125		45,125	193,281
Total Noncurrent Liabilities	45,125	1,393,000	1,438,125	453,832
Total Liabilities	558,872	1,514,970	2,073,842	536,660
Net Assets				
Investment in Capital Assets--Net of Related Debt Restricted for	3,690,832	2,451,225	6,142,057	3,486,018
Family Counseling	7,235		7,235	
Act 302 Officer Training	2,343		2,343	
Economic Development	141,582		141,582	
Special Revenue Programs	1,155,384		1,155,384	
Debt Service		33,553	33,553	
Construction Project		894	894	
County Road Projects				1,004,126
Unrestricted	276,266	2,438	278,704	
Total Net Assets	\$ 5,273,642	\$ 2,488,110	\$ 7,761,752	\$ 4,490,144

The Notes to Financial Statements are an integral part of this statement.

KEWEENAW COUNTY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007

EXHIBIT B

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND AND CHANGES IN NET ASSETS			ROAD COMMISSION
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	PRIMARY GOVERNMENT		Total	
					Governmental Activities	Business-Type Activities		
Primary Government								
Governmental Activities								
General Government	\$ 650,643	\$ 61,831	\$ 139,024		\$ (449,788)		\$ (449,788)	
Public Safety	728,505	87,756	166,145	-	(474,604)		(474,604)	
Health and Welfare	120,355	13,395	24,753		(82,207)		(82,207)	
Community and Economic Development	136,936	98,104	66,840	\$ 8,000	36,008		36,008	
Recreation and Culture	550	-	-		(550)		(550)	
Other	30,014	-	-		(30,014)		(30,014)	
Total Governmental Activities	1,667,003	261,086	396,762	8,000	(1,001,155)	\$ -	(1,001,155)	\$ -
Business-Type Activities								
Mountain Lodge								
Culture and Recreation	1,207,278	1,029,580		1,841,074		1,617,569		
Interest Expense	45,807							
Jail Commissary	4,947	4,959				12	12	
Total Business-Type Activities	1,258,032	1,034,539	-	1,841,074	-	1,617,581	12	-
Total Primary Government	\$ 2,925,035	\$ 1,295,625	\$ 396,762	\$ 1,849,074	\$ (1,001,155)	\$ 1,617,581	\$ (1,001,143)	\$ -
Component Unit								
Road Commission	\$ 2,100,955	\$ 1,313,192	\$ 1,329,742	\$ 576,842				\$ 1,118,821
Total Component Unit	\$ 2,100,955	\$ 1,313,192	\$ 1,329,742	\$ 576,842	\$ -	\$ -	\$ -	\$ 1,118,821
General Revenues								
Property Taxes					\$ 1,333,800		\$ 1,333,800	
Unrestricted Investment Earnings					52,259	\$ 3,177	55,436	
Gain (Loss) on Sale of Capital Asset					-		-	\$ 7,582
Total General Revenues--Special Items					1,386,059	3,177	1,389,236	7,582
Change in Net Assets					384,904	1,620,758	388,093	1,126,403
Net Assets--Beginning					4,888,738	710,552	5,599,290	3,363,741
Restatement to Beginning Net Assets						156,800	156,800	
Restated Net Assets--Beginning					4,888,738	867,352	5,756,090	3,363,741
Net Assets--Ending					\$ 5,273,642	\$ 2,488,110	\$ 6,144,183	\$ 4,490,144

The Notes to Financial Statements are an integral part of this statement.

**KEWEENAW COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2007**

EXHIBIT C

	SPECIAL REVENUE FUNDS						
	General	County 911	Economic Development	Revenue Sharing	Medical Care Facility	Non-Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>							
Current Assets							
Cash and Cash Equivalents	\$ 221,320	\$ 218,064	\$ 51,647	\$ 468,463	\$ 339,378	\$ 149,720	\$ 1,448,592
Receivables							
Current Taxes	141,298				263,925		405,223
Unpaid Delinquent Property Taxes	10,988				3,179		14,167
Due From Townships	41,899				9,045		50,944
Due From State	44,089	21,427				3,316	68,832
Due From Federal Government			3,500				3,500
Due From Other Funds--Primary Government	47,085		94,500				141,585
Prepaid Expense		11,500					11,500
Total Assets	<u>\$ 506,679</u>	<u>\$ 250,991</u>	<u>\$ 149,647</u>	<u>\$ 468,463</u>	<u>\$ 615,527</u>	<u>\$ 153,036</u>	<u>\$ 2,144,343</u>
<u>LIABILITIES AND FUND EQUITY</u>							
Current Liabilities							
Accounts Payable	\$ 44,570	\$ 12,669	\$ 834		\$ 1,437	\$ 16	\$ 59,526
Due to Other Funds--Primary Government	2,661						2,661
Deferred Revenue	152,286		7,231		267,104	51,407	478,028
Total Current Liabilities	<u>199,517</u>	<u>12,669</u>	<u>8,065</u>	<u>\$ -</u>	<u>268,541</u>	<u>51,423</u>	<u>540,215</u>
Total Liabilities	<u>199,517</u>	<u>12,669</u>	<u>8,065</u>	<u>-</u>	<u>268,541</u>	<u>51,423</u>	<u>540,215</u>
Fund Equity							
Fund Balances							
Reserved for							
Family Counseling	7,235						7,235
Act 302 Officer Training	2,343						2,343
Economic Development			141,582				141,582
Special Revenue Programs		238,322		468,463	346,986	101,613	1,155,384
Unreserved--Undesignated	297,584					-	297,584
Total Fund Equity	<u>307,162</u>	<u>238,322</u>	<u>141,582</u>	<u>468,463</u>	<u>346,986</u>	<u>101,613</u>	<u>1,604,128</u>
Total Liabilities and Fund Equity	<u>\$ 506,679</u>	<u>\$ 250,991</u>	<u>\$ 149,647</u>	<u>\$ 468,463</u>	<u>\$ 615,527</u>	<u>\$ 153,036</u>	<u>\$ 2,144,343</u>
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets							
Fund Balance--Total Governmental Funds							\$ 1,604,128
Amounts reported for governmental activities in the Statement of Net Assets are different because:							
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.							3,690,832
Revenues that do not provide current financial resources are not reported as revenue in the funds.							23,807
Certain liabilities, compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.							(45,125)
Total Net Assets							<u>\$ 5,273,642</u>

The Notes to Financial Statements are an integral part of this statement.

**KEWEENAW COUNTY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2007**

EXHIBIT D

	SPECIAL REVENUE FUNDS						
	General	County 911	Economic Development	Revenue Sharing	Medical Care Facility	Non-Major Governmental	Total Governmental Funds
Revenues							
Taxes and Penalties	\$ 1,101,709				\$ 208,284		\$ 1,309,993
Licenses and Permits	2,407					\$ 70,951	73,358
Federal Grants	25,755		\$ 8,000			66,840	100,595
State Grants	189,628	\$ 89,786				24,753	304,167
Contributions From Local Units	2,000					9,320	11,320
Charges for Services	56,551		7,311				63,862
Fines and Forfeits	735					2,000	2,735
Interest and Rentals	26,149		22,629	\$ 26,553	4,826	1,957	82,114
Other Revenue	5,473		29,594		5,906	38,983	79,956
Total Revenues	1,410,407	89,786	67,534	26,553	219,016	214,804	2,028,100
Expenditures							
Current							
General Government	637,019		11,538			2,512	651,069
Public Safety	566,762	44,338	3,350			69,284	683,734
Health and Welfare	40,713				44,171	35,471	120,355
Community and Economic Development	13,026					104,410	117,436
Recreation and Cultural	550		4,612				5,162
Other	30,014						30,014
Capital Outlay	20,548		18,275				38,823
Total Expenditures	1,308,632	44,338	37,775	-	44,171	211,677	1,646,593
Excess of Revenues Over (Under) Expenditures	101,775	45,448	29,759	26,553	174,845	3,127	381,507
Other Financing Sources (Uses)							
Interfund Transfers In--Primary Government	40,006			188,267		13,000	241,273
Interfund Transfers (Out)--Primary Government	(201,267)			(40,006)			(241,273)
Total Other Financing Sources (Uses)	(161,261)	-	-	148,261	-	13,000	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(59,486)	45,448	29,759	174,814	174,845	16,127	381,507
Fund Balance (Deficit)--December 31, 2006	366,648	192,874	111,823	293,649	172,141	85,486	1,222,621
Fund Balance (Deficit)--December 31, 2007	\$ 307,162	\$ 238,322	\$ 141,582	\$ 468,463	\$ 346,986	\$ 101,613	\$ 1,604,128

The Notes to Financial Statements are an integral part of this statement.

KEWEENAW COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007

EXHIBIT D-1

NET CHANGE IN FUND BALANCES--TOTAL GOVERNMENTAL FUNDS \$ 381,507

Amounts reported for governmental activities in the Statement of Activities are different because:

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

Add--Capital Outlay	38,823
Deduct--Depreciation Expense	(55,386)
Deduct--Asset Disposals	

Revenues earned, but not available for current resources, are not reported in the funds.

Summer Tax Revenues	23,807
---------------------	--------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.

Net (Increase) Decrease in Compensated Absences	<u>(3,847)</u>
---	----------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 384,904</u></u>
---	--------------------------

The Notes to Financial Statements are an integral part of this statement.

**KEWEENAW COUNTY
STATEMENT OF NET ASSETS
ENTERPRISE FUND
December 31, 2007**

EXHIBIT E

	BUSINESS-TYPE ACTIVITIES		
	Major Fund Mountain Lodge	Non-Major Fund Jail Commissary	Total Enterprise Funds
<u>ASSETS</u>			
Current Assets			
Cash and Cash Equivalents		\$ 385	\$ 385
Accounts Receivable	\$ 7,552		7,552
Due From Federal Government	81,534		81,534
Due From Other Funds	2,661		2,661
Prepaid Expense	30,427		30,427
Total Current Assets	122,174	385	122,559
Noncurrent Assets			
Restricted Cash and Cash Equivalents	68,397		68,397
Capital Assets--Net of Accumulated Depreciation	3,953,709		3,953,709
Total Noncurrent Assets	4,022,106	-	4,022,106
Total Assets	4,144,280	385	4,144,665
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	1,835		1,835
Accrued Liabilities	2,881		2,881
Due to Other Funds	141,585		141,585
Contracts Payable	100,394		100,394
Deposits Payable	16,860		16,860
Total Current Liabilities	263,555	-	263,555
Noncurrent Liabilities			
Bonds Payable--Due in More than One Year	1,393,000		1,393,000
Total Noncurrent Liabilities	1,393,000	-	1,393,000
Total Liabilities	1,656,555	-	1,656,555
<u>NET ASSETS</u>			
Invested in Capital Assets--Net of Related Debt	2,451,225		2,451,225
Restricted for Debt Service	33,553		33,553
Construction Project	894		894
Unrestricted	2,053	385	2,438
Total Net Assets	\$ 2,487,725	\$ 385	\$ 2,488,110

The Notes to Financial Statements are an integral part of this statement.

KEWEENAW COUNTY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS--ENTERPRISE FUND
For the Year Ended December 31, 2007

EXHIBIT F

	BUSINESS-TYPE ACTIVITIES		
	Major Fund Mountain Lodge	Non-Major Fund Jail Commissary	Total Enterprise Funds
Operating Revenues			
Charges for Services	\$ 1,029,580	\$ 4,959	\$ 1,034,539
Total Operating Revenues	1,029,580	4,959	1,034,539
Operating Expenses			
Salaries and Wages	549,012		549,012
Park Operations and Maintenance	348,897		348,897
Supplies	40,112	4,947	45,059
Insurance	49,185		49,185
Utilities	97,830		97,830
Depreciation Expense	122,242		122,242
Total Operating Expenses	1,207,278	4,947	1,212,225
Operating Income (Loss)	(177,698)	12	(177,686)
Nonoperating Revenues (Expenses)			
Interest Expense	(45,807)		(45,807)
Interest Earned on Investments	3,177		3,177
Federal Grants	1,841,074		1,841,074
Total Nonoperating Revenues (Expenses)	1,798,444	-	1,798,444
Change in Net Assets	1,620,746	12	1,620,758
Total Net Assets--January 1, 2007	710,179	373	710,552
Restatement of Beginning Net Assets	156,800	-	156,800
Restated Net Assets--January 1, 2007	866,979	373	867,352
Total Net Assets--December 31, 2007	\$ 2,487,725	\$ 385	\$ 2,488,110

The Notes to Financial Statements are an integral part of this statement.

KEWEENAW COUNTY
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
For the Year Ended December 31, 2007

EXHIBIT G

	BUSINESS-TYPE ACTIVITIES		
	Major Fund Mountain Lodge	Non-Major Fund Jail Commissary	Total Enterprise Funds
Cash Flows From Operating Activities			
Cash Received From Customers	\$ 1,019,368	\$ 4,959	\$ 1,024,327
Cash Payments to Employees for Services and Benefits	(548,450)	-	(548,450)
Cash Payments to Suppliers for Goods and Services	(543,105)	(4,947)	(548,052)
Net Cash Provided by Operating Activities	<u>\$ (72,187)</u>	<u>\$ 12</u>	<u>\$ (72,175)</u>
Cash Flows From Noncapital Financing Activities			
Due to Other Funds	\$ 141,485	-	\$ 141,485
Net Cash Provided by Noncapital Financing Activities	<u>141,485</u>	<u>\$ -</u>	<u>141,485</u>
Cash Flows From Capital and Related Financing Activities			
Contractor Payable	(996,927)		(996,927)
Capital Assets Acquired Through Federal Grants	1,759,540		1,759,540
capital Assets Acquired Through Bonds	1,393,000		1,393,000
Interest Paid on Bonds Payable	(45,807)		(45,807)
Capital Assets Purchased With Grants/Bonds	(2,123,062)		(2,123,062)
Net Cash Provided From Capital and Related Financing Activities	<u>(13,256)</u>	<u>-</u>	<u>(13,256)</u>
Cash Flows From Investing Activities			
Interest on Cash Equivalents	3,177		3,177
Net Cash Provided by Investing Activities	<u>3,177</u>	<u>-</u>	<u>3,177</u>
Net Increase in Cash and Cash Equivalents	59,219	12	59,231
Cash and Cash Equivalents at Beginning of the Year	<u>9,178</u>	<u>373</u>	<u>9,551</u>
Cash and Cash Equivalents at End of the Year	<u>\$ 68,397</u>	<u>\$ 385</u>	<u>\$ 68,782</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ (177,698)	\$ 12	\$ (177,686)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities (Noncash Items)			
Depreciation Expense	122,242		122,242
(Increase) in Accounts Receivable	(10,212)	-	(10,212)
(Increase) in Prepaid Insurance	(568)		(568)
Increase in Accounts Payable	(6,513)		(6,513)
Increase in Accrued Wages Payable	562		562
Net Cash Provided by Operating Activities	<u>\$ (72,187)</u>	<u>\$ 12</u>	<u>\$ (72,175)</u>

The Notes to Financial Statements are an integral part of this statement.

**KEWEENAW COUNTY
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
December 31, 2007**

EXHIBIT H

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	<u>\$ 211,630</u>
Total Assets	<u><u>\$ 211,630</u></u>
Liabilities	
Due to State of Michigan	\$ 1,576
Undistributed Penal Fines	2,305
Undistributed Tax Collections	202,458
Other Trust Payable	<u>5,291</u>
Total Liabilities	<u><u>\$ 211,630</u></u>

The Notes to Financial Statements are an integral part of this statement.

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

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

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Keweenaw County was organized in 1861 and covers an area of 561 square miles divided into 5 townships and 1 village. The county seat is located in Eagle River. Keweenaw County is a municipal corporation governed by an elected five member board of commissioners and provides services to its more than 2,299 residents in many areas including law enforcement, administration of justice, community enrichment and development and human services. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the county (the primary government) and its component units. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. The Road Commission is the only component unit and it is included in the county's financial reporting entity because of the significance of its operational or financial relationships with the county.

The component unit columns in the government-wide financial statements (Exhibits A and B) include the financial data of the Keweenaw County Road Commission. The financial statements are reported in separate columns to emphasize that they are legally separate from the county.

Discretely Presented Component Units

The Keweenaw County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected three member board of county road commissioners. The Road Commission may not issue debt or levy property taxes without the county's approval. The Road Commission's property taxes are levied under the taxing authority of the county, as approved by the county electors, are included as part of the county's total tax levy and are reported in the county Road Fund.

Complete audited and/or unaudited financial statements of the Road Commission can be obtained from their administrative offices or from the county clerk's office at the courthouse.

Administrative Offices

Keweenaw County Road Commission
1916 Fourth Street
P.O. Box 327
Mohawk, Michigan 49953

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly Governed Organization--District Health Department

Keweenaw County, in conjunction with Baraga, Gogebic, Houghton and Ontonagon counties, has created the Western Upper Peninsula District Health Department under the authority of the Public Health Code. The District Health Board is composed of two members from each of the counties who are appointed by each participating county board of commissioners. All of the financial operations of the District Health Department are recorded in the records of Houghton County as a discretely presented component unit. The funding formula approved by the member counties is based pro rata on each unit's population and State equalized valuation to the district's population and valuation. Member counties' percentages and dollar share of the net operating budget for 2007 were:

Keweenaw	5.30%	\$21,176
Baraga	12.30%	49,144
Gogebic	25.30%	101,084
Houghton	44.30%	176,998
Ontonagon	<u>12.80%</u>	<u>51,141</u>
Total	<u>100.00%</u>	<u>\$399,543</u>

Keweenaw County's 2007 actual appropriation to the District Health Department was \$21,176. An additional \$784 was appropriated from the State-shared cigarette tax revenues.

Jointly Governed Organization--Community Mental Health Authority

Keweenaw County, in conjunction with Baraga, Houghton and Ontonagon counties, has created the Copper Country Mental Health Services Board, which is a community mental health organization defined in the Mental Health Code, MCL 330.1001, et seq., as amended, (Code). During 1996, the jointly created board became a community mental health authority under Section 205 of the Code in accordance with the Urban Cooperation Act. The Copper Country Community Mental Health Services Authority Board is composed of 12 members apportioned between the member counties on the basis of population. The board appointments are approved by their respective county board of commissioners. All of the financial operations of the Mental Health Authority are recorded in the records of Houghton County as a discretely presented component unit. The funding of the Mental Health Authority operations by the member counties is based on an agreement between the Mental Health Board and member counties, which provides for single annual appropriations to provide for State institution inpatient costs and mental health program costs.

COUNTY OF KEWEENAW
NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The board approved member county appropriations for 2007 were as follows:

Keweenaw	\$ 8,500
Baraga	33,795
Houghton	164,495
Ontonagon	<u>48,814</u>
Total	<u>\$255,604</u>

Keweenaw County's 2007 appropriation to the Mental Health Board was \$8,500.

Basis of Presentation--Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

COUNTY OF KEWEENAW
NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the county.

The county reports the following major governmental funds:

The General Fund is the government's primary operating fund. This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, State and Federal aid, and charges for services to provide for the administration and operation of: 1) general county governmental departments, boards and commissions; 2) court systems; 3) law enforcement; and 4) health, welfare and medical assistance. The fund includes the general operating expenditures of the county.

The 911 Services Fund is used to account for the operations of the county-wide emergency 911 telephone service plan. Revenues are derived from the State's wireless 911 funding allocations. The fund includes all operating and capital expenditures relative to providing county-wide emergency 911 service.

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Economic Development Fund is used to account for the activity of the economic development program. Revenues during 2007 were primarily derived from tower rentals from various cellular phone services and the Isle Royale Park, and from the sale of salvage materials from the County's former radar base property. Expenditures are for various board of commissioner approved special projects or activities and maintenance costs of the former radar base property.

The Revenue Sharing Fund is the funding mechanism to serve as a substitute for the State's payment of revenue sharing. This substitute funding mechanism involves a gradual shift of county property tax mileage from a winter tax levy to a summer tax levy over a three year period.

The Medical Care Facility Fund is established to account for a special voted county-wide millage that is used to provide for the payment of long-term patient care for Keweenaw County residents at the Houghton County Medical Care Facility.

The county reports the following major proprietary fund:

The Mountain Lodge Fund is used to account for the operations of the Mountain Lodge. Revenues are primarily derived from motel/cabin charges, restaurant/bar revenue and golf user fees. The fund includes the operating, capital and debt service expenses relating to the mountain lodge activities.

Additionally, the county reports the following fund type:

Agency Funds--These funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds are by nature custodial; therefore, operation results are not measured.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The county has elected to consistently apply all applicable FASB pronouncements issued subsequent to November 30, 1989 in accounting and reporting for its proprietary operation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Mountain Lodge and the Jail Commissary Fund are collection of user fees for the Mountain Lodge and sales commissions, respectively. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Cash, Cash Equivalents, and Investments

The cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Current Property Taxes

Prior to 2005, all county related property taxes were levied on each December 1st on the taxable valuation of property located in the county as of the preceding December 31st.

In accordance with the provisions of Michigan Public Act 357 of 2004, the county levied one third of its 2005 county operating millage in the summer of 2005, levied two thirds of the 2006 county operating millage in the summer of 2006 and levied 100% of the 2007 county operating millage in the summer of 2007.

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The 2007 State equalized valuation of Keweenaw County amounted to \$175,671,745 and the taxable valuation is \$110,899,913, on which ad valorem taxes of 5.7956 mills was levied in the summer for county operating purposes; and special voted millage of .4531 mills for Sheriff Department operations; and 2.2764 mills for the care of Keweenaw County patients at the Houghton County Medical Care Facility were levied on the winter tax rolls. In addition, specific taxes are levied under the Commercial Forest Reserve Act.

Taxes Receivable--Current

The current taxes receivable of \$141,298 in the General Fund consists of the uncollected portion of the summer levy as of December 31, 2007 in the amount of \$23,807 plus 100% of the estimated winter tax levy for the Sheriff Department and specific taxes on commercial forest properties and Department of Natural Resources lands in the amount of \$117,491. The current taxes receivable of \$263,925 in the Medical Care Facility Fund consists of 100% of the estimated winter tax levy for that fund. The county's policy is to recognize the revenue from the current taxes receivable when they are available to finance county operations and accordingly are recorded with an offsetting credit to deferred revenue-taxes.

Taxes Receivable--Delinquent

The taxes receivable--delinquent of \$10,988 in the General Fund and \$3,179 in the Medical Care Facility (Special Revenue Fund) consist of unpaid real and personal property taxes levied on the 2005 and 2006 tax rolls for county operating and sheriff department operations in the General Fund and medical care facility services in the Medical Care Facility Fund. The county's policy is to recognize revenue from delinquent property taxes when collected. Accordingly, the delinquent taxes receivable are recorded in the county's financial statements with an offsetting credit to deferred revenue-taxes.

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

Inventories

The component unit (Road Commission) inventories, consisting of road materials of \$344,578 and equipment parts and materials of \$91,589 are priced at cost based on the average unit cost method. Inventory items are charged to road construction and maintenance, and to equipment repairs and operations, as used.

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$3,000 for the county, \$500 for the Mountain Lodge and \$200 for the Road Commission and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The capital assets of the Mountain Lodge were not updated between the years 1988 through 2001. Most of the assets would be at or near full depreciation. The total value is not known.

Capital assets used in governmental fund type operations are accounted for in the governmental activities column of the government-wide financial statements, this includes both the recognition of net capital assets as well as depreciation expense.

The depreciation on the county's capital assets is computed on the straight line basis. Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the operating fund as a charge to various expense accounts and a credit to a depreciation credit account. Accordingly, the annual depreciation expense does not affect the available operating fund equity.

The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Vehicles	8 to 10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Compensated Absences

Vacation and sick day policies for county employees are determined by union contracts. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Other Financing Sources (Uses)

The transfers of cash between the various county funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case they are carried as assets and liabilities of the advancing or borrowing funds.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, which requires the county board of commissioners to approve budgets for the General and Special Revenue Funds. The County Road Fund (special revenue--component unit) budget is adopted and administered by the board of county road commissioners. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budgets for the General and Special Revenue Funds are adopted at the function level and control is exercised at that level. Budgeted revenues and expenditures, as presented in Exhibits K, L, M, and N, include the original budget and the final amended budget for the major funds which contains authorized amendments to the original budgets as adopted.

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Excess of Expenditures Over Appropriations

Public Act 2 of 1968, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. During the year ended December 31, 2007, expenditures were incurred in excess of amounts appropriated in the amended budgets for the functions of the following special revenue funds:

<u>Fund/Function</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Expenditures Over Budget</u>
General Fund			
Recreation and Cultural	\$ 200	\$ 550	\$ 350
Special Revenue Funds			
Building Inspection			
Public Safety	42,577	69,284	26,707
County 911 Service			
Public Safety	29,040	44,338	15,298
Economic Development			
Public Safety	1,600	3,350	1,750
Capital Outlay		18,275	18,275
Revenue Sharing			
Other Uses--Operating Transfers (Out)	39,852	40,006	154

NOTE C--CASH AND INTEREST-BEARING DEPOSITS

Michigan Compiled Laws, Section 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The county's deposits and investments are in accordance with statutory authority.

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH AND INTEREST-BEARING DEPOSITS (Continued)

The county has designated two banks for deposit of county funds. The investment policy adopted by the board is in accordance with Public Act 20 of 1943, as amended, and includes all of the above investments. The risk disclosures for the county's deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 40, are as follows:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total Primary Government	Component Unit
Cash and Cash Equivalents	\$ 1,448,592	\$ 385	\$ 211,630	\$ 1,660,607	\$ 688,399
Restricted Cash		68,397		68,397	
Total	\$ 1,448,592	\$ 68,782	\$ 211,630	\$ 1,729,004	\$ 688,399

The restricted cash is related to the Keweenaw Mountain Lodge debt issuances. The following is the breakdown of the restricted cash as it relates to the Debt Service, Construction Project and Wedding Deposits for the Mountain Lodge as required by the bond ordinances and other restrictions:

	Restricted Cash
Keweenaw Mountain Lodge	
Debt Service	\$ 33,553
Construction Project	28,844
Wedding Deposits	6,000
Total Restricted Cash	\$ 68,397

The breakdown between deposits and investments is as follows:

	Primary Government	Component Unit
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 1,726,734	\$ 687,899
Petty Cash and Cash on Hand	2,270	500
Total	\$ 1,729,004	\$ 688,399

The bank balance of the primary government's deposits is \$1,747,023, of which \$115,751 is covered by Federal depository insurance. The component units' deposits had a bank balance of \$688,399 of which \$100,000 was covered by Federal depository insurance.

COUNTY OF KEWEENAW
NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH AND INTEREST-BEARING DEPOSITS (Continued)

Investments Authorized by the County's Investment Policy

The county's investment policy only authorizes investment in all those that are authorized by law and have limited their investments to money markets.

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 county's policy is to only invest in short-term certificates of deposit resulting in interest rates based on the current market.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The county does not purchase any investments that would have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the county contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits 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 the possession of an outside party. Michigan law and the county's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government 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 county's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

COUNTY OF KEWEENAW
NOTES TO FINANCIAL STATEMENTS

NOTE D--CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

Capital Assets--Primary Government

	Account Balances 01/01/07	Additions	Deductions	Account Balances 12/31/07
Capital Assets Not Being Depreciated				
Land	\$ 3,406,875			\$ 3,406,875
Subtotal	<u>3,406,875</u>	\$ -	\$ -	<u>3,406,875</u>
Capital Assets Being Depreciated				
Land Improvements	51,170			51,170
Buildings and Fixtures	472,203	9,030		481,233
Office and Other Equipment	113,564	5,995		119,559
Vehicles	111,515	23,798		135,313
Total Capital Assets Being Depreciated	<u>748,452</u>	<u>38,823</u>	<u>-</u>	<u>787,275</u>
Less Accumulated Depreciation				
Land Improvements	12,795	2,559		15,354
Buildings and Fixtures	331,127	16,062		347,189
Office and Other Equipment	53,157	10,731		63,888
Vehicles	50,853	26,034		76,887
Total Accumulated Depreciation	<u>447,932</u>	<u>55,386</u>	<u>-</u>	<u>503,318</u>
Net Capital Assets Being Depreciated	<u>300,520</u>	<u>38,823</u>	<u>55,386</u>	<u>283,957</u>
Total Capital Assets	<u>\$ 3,707,395</u>	<u>\$ 38,823</u>	<u>\$ 55,386</u>	<u>\$ 3,690,832</u>

Depreciation expense was charged to programs of the primary government as follows:

	<u>Amount</u>
Governmental Activities	
General Government	\$ 9,993
Public Safety	<u>45,393</u>
Total Depreciation--Governmental Activities	<u>\$55,386</u>

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE D--CAPITAL ASSETS (Continued)

<u>Business-Type Activity--Mountain Lodge</u>	Account Balances 01/01/07		Additions	Deductions	Account Balances 12/31/07
Capital Assets Not Being Depreciated					
Land	\$ 201,400				\$ 201,400
Land Improvements	347,745		\$ 157,693		505,438
Construction in Progress	<u>1,105,647</u>		<u>2,051,338</u>	<u>\$ 3,075,451</u>	<u>81,534</u>
Total Capital Assets Not Being Depreciated	<u>1,654,792</u>		<u>2,209,031</u>	<u>\$ 3,075,451</u>	<u>788,372</u>
Capital Assets Being Depreciated					
Buildings and Fixtures	1,863,557	(1)	2,885,290		4,748,847
Office and Other Equipment	26,459		115,747		142,206
Vehicles	<u>20,000</u>			<u>-</u>	<u>20,000</u>
Total Capital Assets Being Depreciated	<u>1,910,016</u>		<u>3,001,037</u>	<u>-</u>	<u>4,911,053</u>
Less Accumulated Depreciation					
Buildings and Fixtures	1,608,591	(1)	105,809		1,714,400
Office and Other Equipment	10,883		14,433		25,316
Vehicles	<u>4,000</u>		<u>2,000</u>		<u>6,000</u>
Total Accumulated Depreciation	<u>1,623,474</u>		<u>122,242</u>	<u>-</u>	<u>1,745,716</u>
Net Capital Assets Being Depreciated	<u>286,542</u>		<u>3,001,037</u>	<u>3,197,693</u>	<u>3,165,337</u>
Total Capital Assets	<u>\$ 1,941,334</u>	(1)	<u>\$ 5,210,068</u>	<u>\$ 6,273,144</u>	<u>\$ 3,953,709</u>

Note (1)--The Mountain Lodge did not have a detailed capital asset listing for the years of 1988-2001. If the equipment and vehicles still exist, they would most likely be fully depreciated. However the original cost of the motel was also not included. The beginning balance was adjusted to reflect the original cost of the motel, accumulated depreciation and total capital assets as follows:

	Original 12/31/06 Balance	Adjustment	Adjusted 12/31/06 Balance
Capital Assets Being Depreciated			
Buildings and Fixtures	\$ 1,583,557	\$ 280,000	\$ 1,863,557
Less Accumulated Depreciation			
Buildings and Fixtures	<u>1,485,391</u>	<u>123,200</u>	<u>1,608,591</u>
Total Capital Assets	<u>\$ 1,784,534</u>	<u>\$ 156,800</u>	<u>\$ 1,941,334</u>

The construction in progress is related to the water expansion project for the Keweenaw Mountain Lodge. The project is funded through CDBG funds up to \$300,000 and a \$40,000 match from the county. At December 31, 2007 there was construction in progress of \$81,534 related to this project.

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE D--CAPITAL ASSETS (Continued)

Capital Assets--Road Commission (Component Unit)

	Account Balances 01/01/07	Additions	Deductions	Account Balances 12/31/07
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 634,505	\$ 77,623		\$ 712,128
Infrastructure Land Improvements	78,120			78,120
Subtotal	<u>712,625</u>	<u>77,623</u>	<u>\$ -</u>	<u>790,248</u>
Capital Assets Being Depreciated				
Buildings	670,255	2,078		672,333
Road Equipment	3,165,106	1,218	42,517	3,123,807
Shop Equipment	120,303			120,303
Engineers' Equipment	103,525			103,525
Office Equipment	51,908	13,245		65,153
Yard and Storage	2,258			2,258
Infrastructure--Bridges	194,246			194,246
Infrastructure--Roads	1,428,946	779,731		2,208,677
Total	<u>5,736,547</u>	<u>796,272</u>	<u>42,517</u>	<u>6,490,302</u>
Less Accumulated Depreciation				
Buildings	223,284	2,888		226,172
Buildings--Salt Shed	16,523	16,523		33,046
Road Equipment	2,678,347	176,188	42,504	2,812,031
Shop Equipment	109,283	2,097		111,380
Engineers' Equipment	94,464	3,821		98,285
Office Equipment	47,172	2,144		49,316
Yard and Storage	2,258			2,258
Infrastructure--Bridges	82,621	2,590		85,211
Infrastructure--Roads	178,558	151,769		330,327
Total	<u>3,432,510</u>	<u>358,020</u>	<u>42,504</u>	<u>3,748,026</u>
Net Capital Assets Being Depreciated	<u>2,304,037</u>	<u>796,272</u>	<u>358,033</u>	<u>2,742,276</u>
Total Net Capital Assets	<u><u>\$3,016,662</u></u>	<u><u>\$ 873,895</u></u>	<u><u>\$ 358,033</u></u>	<u><u>\$3,532,524</u></u>

COUNTY OF KEWEENAW
NOTES TO FINANCIAL STATEMENTS

NOTE D--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 176,188
Indirect Equipment	21,508
Net Administrative Expenses	
Engineering Equipment	3,821
Office Equipment	2,144
Infrastructure Depreciation Expense	<u>154,359</u>
Total Depreciation Expense	<u><u>\$ 358,020</u></u>

NOTE E--INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The amounts of interfund receivables and payables for the primary government are as follows:

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	\$ 47,085	Mountain Lodge	\$ 141,585
Economic Development	94,500		
Mountain Lodge	<u>2,661</u>	General Fund	<u>2,661</u>
Total Primary Government	<u><u>\$ 144,246</u></u>	Total Primary Government	<u><u>\$ 144,246</u></u>

At December 31, 2007, there was a negative cash balance in the Mountain Lodge of \$40,610. When one fund has overdrawn its share of an internal common pooled account, that fund is required to report an interfund liability to the fund that management deems to have lent the amount to the overdrawn fund. A due to the General Fund from the Mountain Lodge was created as a result of this overdrawn cash account.

The transfers between funds may be summarized as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers (Out)</u>
Primary Government		Primary Government	
General	\$ 40,006	Revenue Sharing	\$ 40,006
Revenue Sharing	188,267	General	201,267
Non-Major Governmental	<u>13,000</u>		
Total Transfers	<u><u>\$ 241,273</u></u>		<u><u>\$241,273</u></u>

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT

The individual long-term debt and other long-term obligations of Keweenaw County, and the changes therein, may be summarized as follows:

Primary Government Long-Term Debt

	<u>Balances</u> <u>01/01/07</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balances</u> <u>12/31/07</u>	<u>Due in One</u> <u>Year</u>
<u>Governmental Activities</u>				
Accrued Employee Benefits (See Note G)	<u>\$ 41,278</u>	<u>\$ 3,847</u>	<u>\$ 45,125</u>	<u> </u>
Total Long-Term Debt--Primary Government	<u>\$ 41,278</u>	<u>\$ 3,847</u>	<u>\$ 45,125</u>	<u>\$ -</u>

The individual long-term debt obligations of Keweenaw County's business-type funds and the changes therein, may be summarized as follows:

	<u>Balance</u> <u>01/01/07</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>12/31/07</u>	<u>Due Within</u> <u>One Year</u>
Bond Payable for Capital Improvements Paid in Semi-Annual instalments over the next 30 years with an interest rate of 4.375%.		\$1,273,000	\$1,273,000	
Bond Payable for Capital Improvements Paid in Semi-Annual instalments over the next 30 years with an interest rate of 4.125		120,000	120,000	
Totals	<u>\$ -</u>	<u>\$1,393,000</u>	<u>\$1,393,000</u>	<u>\$ -</u>

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG TERM DEBT (Continued)

The annual interest and principal requirements of the Keweenaw Mountain Lodge's long-term borrowing may be summarized as follows:

Major capital improvements were completed in 2007 and financed with revenue bond loans under the Rural Development Community Facilities Loan Programs. The bond issued is for \$1,273,000 with an interest rate of 4.375%, with payment of interest only for the first two years and principal and interest payable over the next 28 years. The bond will be backed by the full faith and credit of Keweenaw County and annual debt obligations are expected to be paid out of Keweenaw Mountain Lodge operating revenues.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Interest Payable 1-May</u>	<u>Interest Payable 1-Nov</u>	<u>Principal Due 1-Nov</u>	<u>Total</u>
01/17/07	\$ 1,273,000	4.375%	2008	\$ 27,847	\$ 27,847		\$ 55,694
			2009	27,847	27,847	\$ 24,000	79,694
			2010	27,322	27,322	25,000	79,644
			2011	26,775	26,775	26,000	79,550
			2012-2016	124,775	124,775	149,000	398,550
			2017-2021	106,991	106,991	185,000	398,982
			2022-2026	84,876	84,876	230,000	399,752
			2027-2031	57,466	57,466	284,000	398,932
			2032-2036	23,624	23,624	350,000	397,248
Total				<u>\$ 507,523</u>	<u>\$ 507,523</u>	<u>\$1,273,000</u>	<u>\$ 2,288,046</u>

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG TERM DEBT (Continued)

Major capital improvements were completed in 2007 and financed with revenue bond loans under the Rural Development Community Facilities Loan Programs. The bond issued is for \$120,000 with an interest rate of 4.125%, with payment of interest only for the first three years and principal and interest payable over the next 27 years. The bond will be backed by the full faith and credit of Keweenaw County and annual debt obligations are expected to be paid out of Keweenaw Mountain Lodge operating revenues.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Interest Payable 1-May</u>	<u>Interest Payable 1-Nov</u>	<u>Principal Due 1-Nov</u>	<u>Total</u>
06/15/07	\$ 120,000	4.125%	2008	\$ 2,475	\$ 2,475		\$ 4,950
			2009	2,475	2,475	\$ 2,000	6,950
			2010	2,434	2,434	2,000	6,868
			2011	2,393	2,393	3,000	7,786
			2012-2016	11,035	11,035	15,000	37,070
			2017-2021	9,426	9,426	18,000	36,852
			2022-2026	7,425	7,426	21,000	35,851
			2027-2031	5,033	5,034	27,000	37,067
			2032-2036	2,041	2,042	32,000	36,083
Total				<u>\$ 44,737</u>	<u>\$ 44,740</u>	<u>\$120,000</u>	<u>\$ 209,477</u>

Long-Term Debt--Road Commission (Component Unit)

The individual long-term debt and other long-term obligations of Keweenaw County's component unit and the changes therein, may be summarized as follows:

	<u>Balance 01/01/07</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/07</u>	<u>Due Within One Year</u>
Installment Purchase Agreement for Land Paid in Annual Installment of \$5,220 at an interest rate of 6%.	\$ 15,660	\$ (5,220)	\$ 10,440	\$ 10,440
Installment Purchase Agreement for Equipment Paid in Monthly Installments of \$1,100 at an interest rate of 5.5%.	46,941	(10,875)	36,066	11,489
Vested Employee Benefits-Sick Leave	<u>172,668</u>	<u>20,613</u>	<u>193,281</u>	
Totals	<u>\$235,269</u>	<u>\$ 4,518</u>	<u>\$ 239,787</u>	<u>\$ 21,929</u>

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG TERM DEBT (Continued)

The annual interest and principal requirements of the Road Commission's long-term borrowing may be summarized as follows:

Land was purchased in April 2004 under an installment purchase agreement through Lake Superior Land Company. The original purchase price was \$26,100, with 5 annual principal payments of \$5,220 and an interest rate of 6.0%. The Road Commission elected to pay off the purchase agreement in 2008.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/07</u>	<u>Interest Payable if Held to Maturity</u>
04/30/04	\$26,100	6.00%	2008	\$10,440	\$ 939

Equipment was purchased in January 2006 under an installment purchase agreement with Citicorp Bank. The original purchase price was \$57,500, with 60 monthly payments of \$1,100 and an interest rate of 5.5%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/07</u>	<u>Interest Payable if Held to Maturity</u>
12/20/05	\$57,500	5.50%	2008	\$ 11,489	\$ 1,718
			2009	12,137	1,070
			2010	12,440	385
Total				<u>\$36,066</u>	<u>\$ 3,173</u>

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE G--COMPENSATED BENEFITS

Accrued Vacation and Sick Leave Payable

The County and Road Commission (component unit) has an accrued liability to their employees for accumulated vacation and vested sick leave benefits as of December 31, 2007, as follows:

	<u>Vacation</u>	<u>Sick Leave</u>	<u>Total</u>
Primary Government			
County General Employees	\$ 4,312	\$ 17,208	\$ 21,520
Sheriff Department Employees	<u>3,222</u>	<u>20,383</u>	<u>23,605</u>
Total Primary Government	<u>\$ 7,534</u>	<u>\$ 37,591</u>	<u>\$ 45,125</u>
Component Unit--Road Commission			
Road Commission Employees	<u> </u>	<u>\$ 193,281</u>	<u>\$ 193,281</u>
Total Component Unit	<u>\$ -</u>	<u>\$ 193,281</u>	<u>\$ 193,281</u>
Total Accrued Employee Benefits Payable--Reporting Entity	<u>\$ 7,534</u>	<u>\$ 230,872</u>	<u>\$ 238,406</u>

VACATION BENEFIT POLICIES

County General Employees--(Primary Government)

The county's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Employees are credited with their annual vacation benefits earned on their employment anniversary and are required to use all vacation within one year.

Road Commission Employees

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Employees are required to use all vacation leave in the same calendar year in which it is earned.

SICK LEAVE BENEFIT POLICIES

County General Employees--(Primary Government)

The county's employment policies provide that each regular employee shall earn sick leave with pay at the rate of 1 day per month, with a maximum accumulation of 90 days. Upon separation from employment with the county, the employee shall be paid for 50 percent of his/her accumulated unused sick leave at the current wage rate.

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE G--COMPENSATED BENEFITS (Continued)

Road Commission Employees

Road Commission sick leave benefit policies provide that each employee earns one day of sick leave for each month of employment, to a maximum accumulation of 180 days. Employees not using any sick leave during the year will be paid a bonus equivalent to one week at their regular rate at the end of the year. An employee's accumulated sick leave will be paid upon leaving, or death at 100%, up to a maximum of 90 days based on the employee's pay rate at that time, providing the employee has at least 5 years employment with the Road Commission.

The amount recorded as vested employee sick leave benefits represents only the accumulated days, up to a maximum of 90, for those employees with 5 or more years of employment with the Road Commission.

NOTE H--DEFERRED COMPENSATION

The County and Road Commission offer all its regular employees and elected officials, various deferred compensation plans created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (county and road commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the County or Road Commission's financial statements.

NOTE I--EMPLOYEES' RETIREMENT PLANS

Description of Plan and Plan Assets

Keweenaw County and the component unit, the Keweenaw County Road Commission, have separate agent multiple-employer defined benefit pension plans with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The plan's pension service requirements are computed using credited service at the time of termination of membership multiplied by the sum of 2.25% for county general and sheriff employees and 2.50% for road commission employees times the final average compensation. The most recent period for which actuarial data was available was for the fiscal period ended December 31, 2006.

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE I--EMPLOYEES' RETIREMENT PLANS (Continued)

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended, (MCL 46.12a) State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the County and Road Commission's competitive bargaining unit and personnel policy. The county requires an employee contribution of 1.0% and the Road Commission does not require employees to contribute to the plan. The calendar year 2006 required pension contributions were 9.68%, 12.02% and 17.71%, of covered payroll for the county, sheriff and the Road Commission, respectively.

Annual Pension Cost

For the calendar year ended December 31, 2006, the annual pension costs were \$57,569 for the County and \$144,020 for the Road Commission which was equal to their required and actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three-Year Trend Information for GASB Statement No. 27

Year Ended December 31	(APC)		Contributed		Contributed	
	County	Road	County	Road	County	Road
2004	\$ 52,085	\$ 81,629	100%	100%	\$0	\$0
2005	57,711	110,918	100%	100%	\$0	\$0
2006	57,569	144,020	100%	100%	\$0	\$0

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE I--EMPLOYEES' RETIREMENT PLANS (Continued)

Required Supplementary Information for GASB Statement No. 27

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(Unfunded) AAL (UAAL) (1)-(2)	Funded Ratio (1)/(2)	Covered Payroll	UAAL as a Percent of Covered Payroll
2004						
General	\$ 903,655	\$ 1,274,775	\$ (371,120)	71%	\$ 505,137	-73%
Road	3,758,803	4,870,536	(1,111,733)	77%	760,162	-146%
2005						
General	1,016,265	1,474,327	(458,062)	69%	525,254	-87%
Road	3,855,343	4,973,857	(1,118,514)	78%	760,862	-147%
2006						
General	1,148,280	1,616,009	(467,729)	71%	571,743	-82%
Road	4,056,396	5,109,030	(1,052,634)	79%	813,214	-129%

NOTE J--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note I, the Keweenaw County Road Commission provides post-employment health care benefits and life insurance coverage, in accordance with Article 16, Section B, and Article 17 of their working agreement. The health care benefit provides that any permanent employee who becomes disabled or retires at any age after 5 years of service with the Road Commission shall have their hospitalization insurance premium paid for a period of 3 years by the Road Commission. Currently, 6 retirees are eligible for this post-employment benefit. The life insurance benefit provides that the Road Commission will pay for group term life insurance coverage in the amount of \$2,000 for each retired employee. Currently, 11 retirees are covered by this benefit. The Road Commission's policy is to finance these benefits on a pay-as-you-go basis. During the year 2007, expenditures of approximately \$39,408 were recognized for post-employment health care benefits and \$389 for life insurance benefits.

NOTE K--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended December 31, 2007, the Federal Aid received and expended by the Road Commission was \$398,998 for contracted projects and \$61,600 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by road commission employees or private contractors paid for and administered by the road commission.

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE L--RISK MANAGEMENT

The County and Road Commission (component unit) are exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees.

County General

The county is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The county (including the Keweenaw Mountain Lodge) has purchased commercial insurance for risks of loss related to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. The county is uninsured for acts of god and environmental cleanup losses. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

The Michigan Township Participating Plan operates as an insurance-purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

Road Commission (Component Unit)

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission is a member of the Michigan County Road Commission Self Insurance Pool (Pool) established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions for the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protections, claims administration and risk management, and loss control services pursuant to Michigan Public Act 138 of 1982.

The Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, trunkline liability, errors and omissions and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the pool board. The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund.

At December 31, 2007, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road Commission have not exceeded the amount of insurance coverage in any of the past 3 years.

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE M--COMMITMENTS

In October 2007, Keweenaw Mountain Lodge began preliminary work on the water project to upgrade the wells and water system at the Lodge. The project is being funded by a Community Development Block Grant and was approximately 28% complete as of 12/31/07.

On January 2, 2008, the Road Commission entered into an installment purchase agreement with Superior National Bank & Trust for the purchase of a used Caterpillar 163H Grader in the amount of \$160,000.

NOTE O--OTHER POST-EMPLOYMENT BENEFITS

The Governmental Accounting Standards Board has recently released Statement No. 45, "Accounting and Reporting by Employers for Post-Employment Benefits Other Than Pension." The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post-employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The pronouncement is effective for the year ending December 31, 2008.

NOTE P--RESTATEMENT NET ASSETS

Restatements to beginning net assets for the reporting entity is as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Units</u>
<u>Beginning Net Assets</u>	\$4,888,738	\$ 710,552	\$3,363,741
Unrecorded Prior Year Capital Assets		280,000	
Unrecorded Prior Year Accumulated Depreciation		<u>(123,200)</u>	
Total Change in Beginning Net Assets	<u>-</u>	<u>156,800</u>	<u>-</u>
Restated Beginning Net Assets	<u>\$4,888,738</u>	<u>\$ 867,352</u>	<u>\$3,363,741</u>

KEWEENAW COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2007

EXHIBIT I

	BUDGETED AMOUNTS			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
Taxes and Penalties	\$ 1,107,187	\$ 1,107,187	\$ 1,101,709	\$ (5,478)
Licenses and Permits	1,575	1,575	2,407	832
Federal Grants	25,200	25,200	25,755	555
State Grants	201,102	201,102	189,628	(11,474)
Township Contributions	-	-	2,000	2,000
Charges for Services	31,417	31,417	56,551	25,134
Fines and Forfeits	100	100	735	635
Interest and Rentals	21,000	21,000	26,149	5,149
Other Revenue	13,500	13,500	5,473	(8,027)
Total Revenues	1,401,081	1,401,081	1,410,407	9,326
Expenditures				
Current				
General Government	540,047	712,539	637,019	75,520
Public Safety	480,136	644,708	566,762	77,946
Public Works				
Health and Welfare	52,241	52,241	40,713	11,528
Community and Economic Development	15,352	15,385	13,026	2,359
Recreation and Cultural	200	200	550	(350)
Other	401,000	78,203	30,014	48,189
Capital Outlay	32,000	32,000	20,548	11,452
Total Expenditures	1,520,976	1,535,276	1,308,632	226,644
Excess of Revenues Over (Under) Expenditures	(119,895)	(134,195)	101,775	235,970
Other Financing Sources (Uses)				
Interfund Transfers In--Primary Government	39,852	39,852	40,006	154
Interfund Transfers (Out)	(202,067)	(212,067)	(201,267)	10,800
Total Other Financing Sources (Uses)	(162,215)	(172,215)	(161,261)	10,954
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(282,110)	(306,410)	(59,486)	246,924
Fund Balance (Deficit)--December 31, 2006	338,372	338,372	366,648	28,276
Fund Balance (Deficit)--December 31, 2007	\$ 56,262	\$ 31,962	\$ 307,162	\$ 275,200

**KEWEENAW COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR SPECIAL REVENUE FUND
COUNTY 911 SERVICE
For the Year Ended December 31, 2007**

EXHIBIT J

	<u>BUDGETED AMOUNTS</u>			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
State Grants	\$ 70,000	\$ 70,000	\$ 89,786	\$ 19,786
Charges for Services	4,500	4,500		(4,500)
Reimbursements	2,000	2,000		(2,000)
Total Revenues	<u>76,500</u>	<u>76,500</u>	<u>89,786</u>	<u>13,286</u>
Expenditures				
Public Safety	<u>29,040</u>	<u>29,040</u>	<u>44,338</u>	<u>(15,298)</u>
Total Expenditures	<u>29,040</u>	<u>29,040</u>	<u>44,338</u>	<u>(15,298)</u>
Excess of Revenues Over (Under)				
Expenditures	<u>47,460</u>	<u>47,460</u>	<u>45,448</u>	<u>(2,012)</u>
Fund Balance (Deficit)--December 31, 2006	<u>187,108</u>	<u>187,108</u>	<u>192,874</u>	<u>5,766</u>
Fund Balance (Deficit)--December 31, 2007	<u>\$ 234,568</u>	<u>\$ 234,568</u>	<u>\$ 238,322</u>	<u>\$ 3,754</u>

KEWEENAW COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT
For the Year Ended December 31, 2007

EXHIBIT K

	<u>BUDGETED AMOUNTS</u>			Variance With
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
Revenues				
Federal Grants			\$ 8,000	\$ 8,000
State Grants	\$ 15,070	\$ 15,070		(15,070)
Charges For Services			7,311	7,311
Interest and Rents	19,920	19,920	22,629	2,709
Other			29,594	29,594
Total Revenues	34,990	34,990	67,534	32,544
Expenditures				
General Government	12,850	13,050	11,538	1,512
Public Safety	1,600	1,600	3,350	(1,750)
Community and Economic Development	6,000	6,000		6,000
Recreational and Cultural	6,000	11,000	4,612	6,388
Capital Outlay			18,275	(18,275)
Total Expenditures	26,450	31,650	37,775	(5,887)
Excess of Revenues Over (Under)				
Expenditures	8,540	3,340	29,759	26,419
Fund Balance (Deficit)--December 31, 2006	95,785	95,785	111,823	16,038
Fund Balance (Deficit)--December 31, 2007	\$ 104,325	\$ 99,125	\$ 141,582	\$ 42,457

KEWEENAW COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVENUE SHARING
For the Year Ended December 31, 2007

EXHIBIT L

	BUDGETED AMOUNTS			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
Interest and Rents	\$ 1,000	\$ 1,000	\$ 26,553	\$ 25,553
Total Revenues	1,000	1,000	26,553	25,553
Expenditures				-
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under)				
Expenditures	1,000	1,000	26,553	25,553
Other Financing Sources (Uses)				
Operating Transfers In--Primary Government	189,000	189,000	188,267	(733)
Operating Transfers (Out)--Primary Government	(39,852)	(39,852)	(40,006)	(154)
Total Other Financing Sources (Uses)	149,148	149,148	148,261	(887)
Excess of Revenues and Other				
Sources Over (Under)				
Expenditures and Other Uses	150,148	150,148	174,814	24,666
Fund Balance (Deficit)--December 31, 2006	281,326	281,326	293,649	12,323
Fund Balance (Deficit)--December 31, 2007	\$ 431,474	\$ 431,474	\$ 468,463	\$ 36,989

KEWEENAW COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
MEDICAL CARE FACILITY
For the Year Ended December 31, 2007

EXHIBIT M

	<u>BUDGETED AMOUNTS</u>			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
Taxes	\$ 175,000	\$ 175,000	\$ 208,284	\$ 33,284
Interest Earned on Deposits			4,826	4,826
Reimbursements			5,906	5,906
Total Revenues	<u>175,000</u>	<u>175,000</u>	<u>219,016</u>	<u>44,016</u>
Expenditures				
Health and Welfare	<u>175,000</u>	<u>175,000</u>	<u>44,171</u>	<u>130,829</u>
Total Expenditures	<u>175,000</u>	<u>175,000</u>	<u>44,171</u>	<u>130,829</u>
Excess of Revenues Over (Under)				
Expenditures	<u>-</u>	<u>-</u>	<u>174,845</u>	<u>174,845</u>
Fund Balance (Deficit)--December 31, 2006	<u>5,972</u>	<u>5,972</u>	<u>172,141</u>	<u>166,169</u>
Fund Balance (Deficit)--December 31, 2007	<u>\$ 5,972</u>	<u>\$ 5,972</u>	<u>\$ 346,986</u>	<u>\$ 341,014</u>

**KEWEENAW COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2007**

EXHIBIT N

	Friend of the Court	Building Inspection	Register of Deeds Automation	Budget Stabilization	Sheriff's Training	Law Library	Housing 2005-06 Grant	Rehabilitation 2007-08 Grant	Probate Child Care	Veterans' Trust	Total
<u>ASSETS</u>											
Cash	\$ 3,948	\$ 30,057	\$ 27,409	\$ 24,000	\$ 240	\$ 3,081	\$ 15,751	\$ 35,656	\$ 8,965	\$ 613	\$ 149,720
Due From State of Michigan									3,316		3,316
Total Assets	<u>\$ 3,948</u>	<u>\$ 30,057</u>	<u>\$ 27,409</u>	<u>\$ 24,000</u>	<u>\$ 240</u>	<u>\$ 3,081</u>	<u>\$ 15,751</u>	<u>\$ 35,656</u>	<u>\$ 12,281</u>	<u>\$ 613</u>	<u>\$ 153,036</u>
<u>LIABILITIES AND FUND BALANCES</u>											
Liabilities											
Accounts Payable		\$ 16									\$ 16
Deferred Revenue--Other							\$ 15,751	\$ 35,656			51,407
Total Liabilities	<u>\$ -</u>	<u>16</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>15,751</u>	<u>35,656</u>	<u>\$ -</u>	<u>\$ -</u>	<u>51,423</u>
Fund Balance											
Unreserved--Undesignated	3,948	30,041	27,409	24,000	240	3,081	-	-	12,281	613	101,613
Total Fund Balances	<u>3,948</u>	<u>30,041</u>	<u>27,409</u>	<u>24,000</u>	<u>240</u>	<u>3,081</u>	<u>-</u>	<u>-</u>	<u>12,281</u>	<u>613</u>	<u>101,613</u>
Total Liabilities and Fund Balances	<u>\$ 3,948</u>	<u>\$ 30,057</u>	<u>\$ 27,409</u>	<u>\$ 24,000</u>	<u>\$ 240</u>	<u>\$ 3,081</u>	<u>\$ 15,751</u>	<u>\$ 35,656</u>	<u>\$ 12,281</u>	<u>\$ 613</u>	<u>\$ 153,036</u>

KEWEENAW COUNTY
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2007

EXHIBIT O

	Friend of the Court	Building Inspection	Register of Deeds Automation	Budget Stabilization	Sheriff's Training	Law Library	Housing 2005-06 Grant	Rehabilitation 2007-08 Grant	Probate Child Care	Veterans' Trust	Total
Revenues											
Licenses and Permits		\$ 70,951									\$ 70,951
Federal Grants							\$ 27,738	\$ 39,102			66,840
State Grants									\$ 24,753		24,753
Charges for Services	\$ 170	3,150	\$ 4,510		\$ 240		600	16	634		9,320
Fines and Forfeits						\$ 2,000					2,000
Interest and Rents			1,957								1,957
Other							26,288	10,666	2,029		38,983
Total Revenues	170	74,101	6,467	\$ -	240	2,000	54,626	49,784	27,416	\$ -	214,804
Expenditures											
General Government						2,512					2,512
Public Safety		69,284									69,284
Health and Welfare									35,471		35,471
Community and Economic Development							54,626	49,784			104,410
Total Expenditures	-	69,284	-	-	-	2,512	54,626	49,784	35,471	-	211,677
Excess of Revenue Over (Under) Expenditures	170	4,817	6,467	-	240	(512)	-	-	(8,055)	-	3,127
Other Financing Sources (Uses)											
Operating Transfers In				2,000		1,000			10,000		13,000
Total Other Financing Sources (Uses)	-	-	-	2,000	-	1,000	-	-	10,000	-	13,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	170	4,817	6,467	2,000	240	488	-	-	1,945	-	16,127
Fund Balance (Deficit)--December 31, 2006	3,778	25,224	20,942	22,000	-	2,593	-	-	10,336	613	85,486
Fund Balance (Deficit)--December 31, 2007	\$ 3,948	\$ 30,041	\$ 27,409	\$ 24,000	\$ 240	\$ 3,081	\$ -	\$ -	\$ 12,281	\$ 613	\$ 101,613

**KEWEENAW COUNTY
COMBINING BALANCE SHEET
ALL TRUST AND AGENCY FUNDS
December 31, 2007**

EXHIBIT P

	<u>AGENCY FUNDS</u>		
	General Agency	Library (Penal Fines) Fund	Total
<u>ASSETS</u>			
Cash	\$ 209,325	\$ 2,305	\$ 211,630
Total Assets	<u>\$ 209,325</u>	<u>\$ 2,305</u>	<u>\$ 211,630</u>
<u>LIABILITIES</u>			
Due to State of Michigan	\$ 1,576		\$ 1,576
Undistributed Penal Fines		\$ 2,305	2,305
Undistributed Tax Collections	202,458		202,458
Other Trust Items Payable	5,291		5,291
Total Liabilities	<u>\$ 209,325</u>	<u>\$ 2,305</u>	<u>\$ 211,630</u>

KEWEENAW COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2007

EXHIBIT Q

	BUDGETED AMOUNTS			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Taxes				
Current Winter Property Taxes	\$ 196,000	\$ 196,000	\$ 190,907	\$ (5,093)
Current Summer Property Taxes	558,000	558,000	600,471	42,471
Delinquent Real Property Tax	55,000	55,000	9,413	(45,587)
Delinquent Personal Property Tax	600	600	381	(219)
Commercial Forest Tax	58,000	58,000	57,128	(872)
Swamp Lands Tax	2,787	2,787	2,787	-
Federal Payments-in-Lieu of Taxes	185,000	185,000	189,643	4,643
State DNR Payments-in Lieu of Taxes	43,000	43,000	41,899	(1,101)
Interest on Taxes	1,800	1,800	2,462	662
Tax Collection Fees	6,000	6,000	5,463	(537)
Expense of Sale	1,000	1,000	1,155	155
Total Taxes	1,107,187	1,107,187	1,101,709	(5,478)
Licenses and Permits				
Marriage Licenses	200	200	225	25
Marriage License Counseling Fees	300	300	315	15
Dog Licenses	75	75	88	13
Pistol Permits	500	500	779	279
Zoning Variance	500	500	1,000	500
Total Licenses and Permits	1,575	1,575	2,407	832
Federal Grants				
Emergency Services Program	4,000	4,000	3,229	(771)
State Homeland Security Grants	18,000	18,000	18,564	564
Marine Safety Program	2,000	2,000	2,483	483
ADC Incentive Program	1,200	1,200	1,479	279
Total Federal Grants	25,200	25,200	25,755	555

KEWEENAW COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2007

EXHIBIT Q
(CONTINUED)

	BUDGETED AMOUNTS			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
State Grants				
Probate Judge Salary	20,000	20,000	20,000	-
Judges' Salary Standardization	11,694	11,694	11,636	(58)
Caseflow Assistance	200	200	848	648
Court Equity Fund	5,000	5,000	11,609	6,609
Secondary Road Patrol	26,000	26,000	21,371	(4,629)
Snowmobile Safety Program	18,000	18,000	28,522	10,522
Diverted Felons Program	5,000	5,000	1,050	(3,950)
Juvenile Officer Salary	28,000	28,000	27,317	(683)
Act 302 Officer Training	1,100	1,100	728	(372)
Liquor License Fees	83	83	412	329
Voter Registrations	25	25	32	7
State Cigarette Tax	1,000	1,000	1,110	110
Convention Facilities Tax	8,000	8,000	10,124	2,124
State Remonumentation Grant	77,000	77,000	54,869	(22,131)
Total State Grants	201,102	201,102	189,628	(11,474)
Contributions From Local Units				
Township Contributions	-	-	2,000	2,000
Charges for Services				
Circuit Court Costs	300	300	1,492	1,192
District Court Costs	7,000	7,000	12,640	5,640
Circuit Court Services	600	600	505	(95)
Friend of the Court Services	800	800	566	(234)
Probate Court Services	1,900	1,900	1,206	(694)
Treasurer Services	500	500	655	155
Clerk Services	900	900	2,691	1,791
Register of Deeds Services	8,000	8,000	12,260	4,260
Land Transfer Tax	9,000	9,000	10,101	1,101
District Court Civil Fees	500	500	1,893	1,393
Sheriff Services	500	500	1,101	601
Tax Department Services	100	100	863	763
Prisoners Board and Care	1,000	1,000	9,587	8,587
Boat Livery Inspections	30	30	90	60
Prescription Program Fees	12	12	9	(3)
Telephone Calls	250	250	579	329
Sale of Supplies and Maps	25	25	313	288
Total Charges For Services	31,417	31,417	56,551	25,134

KEWEENAW COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2007

EXHIBIT Q
(CONTINUED)

	BUDGETED AMOUNTS			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Fines and Forfeits				
Bond Forfeitures	100	100	735	635
Interest and Rents				
Interest Earned on Deposits	20,000	20,000	23,749	3,749
Insurance Dividends	1,000	1,000	-	(1,000)
Rental Income	-	-	2,400	2,400
Total Interest and Rents	21,000	21,000	26,149	5,149
Other Revenue				
Reimbursements				
Transporting Patients	500	500	1,270	770
General Reimbursements and Refunds	13,000	13,000	4,203	(8,797)
Total Other Revenue	13,500	13,500	5,473	(8,027)
Total Revenue	1,401,081	1,401,081	1,410,407	9,326
Other Sources				
Operating Transfers In From Revenue Sharing Fund	39,852	39,852	40,006	154
Total Revenues and Other Sources	\$ 1,440,933	\$ 1,440,933	\$ 1,450,413	\$ 9,480

KEWEENAW COUNTY
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2007

EXHIBIT R

	BUDGETED AMOUNTS			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
General Government				
Board of Commissioners	\$ 28,039	\$ 38,930	\$ 36,948	\$ 1,982
Circuit Court	44,900	44,900	23,780	21,120
District Court	47,748	70,175	59,823	10,352
District Court Magistrate	3,900	4,610	3,957	653
Friend of the Court	4,000	4,000	2,610	1,390
Jury Commission	850	1,150	877	273
Probate Court	44,701	67,549	64,819	2,730
Juvenile Officer	26,867	49,475	48,975	500
Elections	350	350	198	152
Audit Services	17,900	18,175	9,118	9,057
County Budget			500	(500)
Clerk	51,509	74,629	64,288	10,341
Equalization Department	61,854	88,916	82,172	6,744
Prosecuting Attorney	41,783	54,355	52,843	1,512
Register of Deeds	2,850	2,850	1,733	1,117
Remonumentation Commission	54,963	54,963	54,869	94
Treasurer	60,894	81,017	78,498	2,519
Cooperative Extension Service	1,300	1,300	599	701
Courthouse and Grounds	42,039	51,595	47,140	4,455
UP Resource and Conservation District	300	300	300	-
Record Copying	1,800	1,800	1,567	233
Internet Services	1,500	1,500	1,405	95
Total General Government	540,047	712,539	637,019	75,520
Public Safety				
Sheriff	248,321	371,555	364,798	6,757
Act 302 Officer Training	1,000	1,000	924	76
Marine Safety Program	3,700	4,018	1,853	2,165
Snowmobile Safety Program	22,500	25,387	16,398	8,989
Secondary Road Patrol	26,000	37,079	30,868	6,211
Jail	98,015	123,144	125,872	(2,728)
Mine Inspector	5,000	5,983	6,133	(150)
Emergency Services Program	8,600	9,542	11,002	(1,460)
State Homeland Security Grants	67,000	67,000	8,914	58,086
Total Public Safety	480,136	644,708	566,762	77,946

KEWEENAW COUNTY
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2007

EXHIBIT R
(CONTINUED)

	BUDGETED AMOUNTS			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Health and Welfare				
District Health Department	21,176	21,176	21,176	-
District Health--Cigarette Tax	1,015	1,015	784	231
Substance Abuse Coordinating Agency	5,050	5,050	5,062	(12)
Medical Examiner	11,200	11,200	2,826	8,374
Community Mental Health Authority	8,500	8,500	8,500	-
Department of Human Services	4,000	4,000	1,765	2,235
Human Services Coordinating Body	300	300		300
Veterans' Burials	1,000	1,000	600	400
Total Health and Welfare	52,241	52,241	40,713	11,528
Community and Economic Development				
Zoning Commission	8,693	8,726	7,667	1,059
UPCAP	200	200	200	-
Western UP Planning and Development Region	4,659	4,659	4,659	-
County Economic Development Committee	1,300	1,300	500	800
Keweenaw Industrial Council	500	500		500
Total Community and Economic Development	15,352	15,385	13,026	2,359
Recreation and Cultural				
UP Travel and Recreation Association	200	200	550	(350)
Other				
Insurance and Bonds	30,000	30,000	29,817	183
Employee Fringe Benefits	371,000	48,203	197	48,006
Total Other	401,000	78,203	30,014	48,189
Capital Outlay	32,000	32,000	20,548	11,452
Total Expenditures	1,520,976	1,535,276	1,308,632	226,644
Other Uses				
Operating Transfers (Out)--Primary Government				
Law Library	1,800	1,800	1,000	800
Budget Stabilization	2,000	2,000	2,000	-
Revenue Sharing	188,267	188,267	188,267	-
Probate Child Care	10,000	20,000	10,000	10,000
Total Other Uses	202,067	212,067	201,267	10,800
Total Expenditures and Other Uses	\$ 1,723,043	\$ 1,747,343	\$ 1,509,899	\$ 237,444



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

October 4, 2008

Keweenaw County Board of Commissioners
Keweenaw County Courthouse
Unit 1, Box 7
Eagle River, Michigan 49950

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards

Dear Commissioner:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Keweenaw County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise Keweenaw County's basic financial statements and have issued our report thereon dated October 4, 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 Keweenaw County'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 internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Keweenaw County's internal control over financial reporting.

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

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 could adversely affect the Keweenaw County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Keweenaw County's

financial statements that is more than inconsequential will not be prevented or detected by Keweenaw County's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting which are listed as Findings 2007-1 through 2007-7.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily identify all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Keweenaw County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2007-8 and 2007-9.

We noted certain matters that we reported to management of Keweenaw County in the accompanying Schedule of Findings and Questioned Costs as Findings 2007-10 through 2007-15.

Keweenaw County's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Keweenaw County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of the Keweenaw County Board of Commissioners, the County's management and others within the County and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

October 4, 2008

Keweenaw County Board of Commissioners
Keweenaw County Courthouse
Unit 1, Box 7
Eagle River, Michigan 49950

RE: Unqualified Opinion on Report on Compliance With Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in Accordance With
OMB Circular A-133

Dear Commissioners:

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

The County of Keweenaw's basic financial statements include the operations of the Keweenaw County Road Commission, discretely presented component unit, which received \$460,598 in Federal Awards, respectively, which is not included in the Schedule of Expenditures of Federal Awards for the year ended December 31, 2007. The Keweenaw County Road Commission did not have a Single Audit required because the Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2007, the Federal aid received and expended by the Road Commission was \$398,998 for contracted projects and \$61,600 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to Single Audit requirements by the road commissions, as they are included in MDOT's Single Audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administered by the Road Commission.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about

whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program. An audit includes examining, on a test basis, evidence about Keweenaw County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Keweenaw County's compliance with those requirements.

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

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

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Finding 2007-16 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

County of Keweenaw
October 4, 2008

Keweenaw County's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Keweenaw County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of commissioners, the county's management, others within the county, and Federal awarding agencies and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

KEWEENAW COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (1) (2)
For the Year Ended December 31, 2007

SCHEDULE 1

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Revenue Recognized	Federal Expenditures
PRIMARY GOVERNMENT				
Department of Agriculture--Rural Development				
Passed Through Michigan Department of Agriculture				
Community Facilities Loans and Grants	10.766	(3)	\$1,754,950	(4) \$2,050,629
Community Facilities Rescue Equipment Grant	10.766	(3)	8,000	8,000
Community Facilities Marketing Grant	10.766	26-042-386004863	4,590	4,590
Total Department of Agriculture			<u>1,767,540</u>	<u>2,063,219</u>
Department of Housing and Urban Development				
Passed Through Michigan Strategic Fund				
Community Development Block Grant--Expansion Project	14.228	MSC-205072-EDIG	81,534	81,534
Passed Through Michigan State Housing Development Authority				
Community Development Block Grant/State's Program	14.228	MSC-2004-0741-HOA	27,738	27,738
Community Development Block Grant/State's Program	14.228	MSC-2007-0741-HOA	39,102	39,102
Community Development Block Grant/State's Program	14.228	Program Income	25,286	25,286
The Department of Housing and Urban Development			<u>173,660</u>	<u>173,660</u>
Department of Health and Human Services				
Passed Through Michigan Department of Human Services				
ADC Incentive Program	93.560	(3)	1,479	(5)
The Department of Health and Human Services			<u>1,479</u>	<u>-</u>
US Department of Homeland Security				
Pass Through Michigan Department of Natural Resources				
Federal Marine Safety Program Grant	97.012	2007 MS Agreement	2,483	2,483
Passed Through Michigan Department of State Police				
2005 Homeland Security Grant Program	97.067	2005 HSGP Grant	13,536	13,536
Law Enforcement Terrorism Prevention Program Grant	97.067	2005 LETPP Agreement	5,028	5,028
Emergency Management Performance Grant	97.042	2007 EMPG Agreement	3,229	3,229
Total US Department of Homeland Security			<u>24,276</u>	<u>24,276</u>
TOTAL PRIMARY GOVERNMENT			<u>\$1,966,955</u>	<u>\$2,261,155</u>

See Notes to Schedule of Expenditures of Federal Awards

KEWEENAW COUNTY
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2007

- (1) The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal awards programs of Keweenaw County, except for the Keweenaw County Road Commission, which was audited separately and did not have any Federal expenditures that were subject to the Single Audit requirements. Federal awards received directly from Federal agencies, as well as Federal awards passed through other government agencies, are included on the schedule.
- (2) The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note A of the basic financial statements.
- (3) Pass-through grantor's number was not available.
- (4) The county was approved for Federal Rural Development Bonds during January 2007, which covered the project expenses that occurred during 2006 and a portion of the project expenses that occurred during 2007.

Rural Development Loans

Expended during 2006	\$ 1,097,321
Expended during 2007	<u>295,679</u>
Total Rural Development Loans	<u><u>\$ 1,393,000</u></u>

- (5) Revenue from this grant is based on collection effort only, with no directly related expenditures.

KEWEENAW COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I--Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weaknesses identified? Yes No ✓
- Control deficiencies identified that are not considered to be material weaknesses? Yes ✓ No
- Noncompliance material to financial statements noted? Yes No ✓

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No ✓
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes ✓ None reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No ✓

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.766	Community Facilities Loans and Grants

Dollar threshold used to distinguish Between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No ✓

KEWEENAW COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II--Financial Statement Findings

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 could adversely affect Keweenaw County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Keweenaw County's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

SIGNIFICANT DEFICIENCIES

Capital Assets--Repeat From Prior Audits

Finding 2007-1

Condition: The county does not maintain adequate internal controls for capital assets and a capital asset listing is not maintained in accordance with generally accepted accounting principles.

Condition: The county and Keweenaw Mountain Lodge do not maintain adequate internal controls for capital assets in accordance with generally accepted accounting principles and does not have a completed updated list of land, buildings, and equipment. The Mountain Lodge had an unwritten policy that uses a threshold of over \$500 and a life of 2 or more years to capitalize assets. The county has a capitalization threshold of \$3,000.

Criteria: It is the responsibility of the county and the Mountain Lodge to update the capital assets listing for additions and deletions. For the governmental funds, assets purchased during the year and recorded as capital outlay should equal the additions to the capital asset records. For the enterprise funds, assets purchased during the year should be recorded as increases in the capital asset account and not as an expense. Depreciation expense is also to be recorded for the enterprise funds. Disposals should equal the reductions to the capital asset records.

Recommendation: We recommend that the county develop a property management system that includes all of the following steps:

- 1) An inventory of all capital assets owned by the county should be taken and included in the permanent records of the county and updated annually.

KEWEENAW COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCIES (Continued)

2) All assets owned by the county should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the county to be removed or used by unauthorized personnel.

3) As part of the property management system, the county should keep records on all assets owned by the county which includes the following information:

- | | |
|--------------------------|---|
| -Date of Acquisition | -Date of Disposal (when sold or scrapped) |
| -Tag Number | -Salvage Value (if any) |
| -Description of Property | -Life of Asset |
| -Original Cost of Asset | -Depreciation Method of the Asset |
| -Location of Asset | -Accumulated Depreciation of the Asset |

4) Capital assets that meet the county's capitalization policy should be included on the capital asset listing.

5) Capital outlay/assets which are purchased under the established capitalization threshold or assets with life expectancy of less than 1 year, regardless of cost, should be classified as a supply or repairs and maintenance expenditure.

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to capital assets and provide a system of protection for the assets; it will provide an excellent record for insurance and replacement purposes as well.

Views Of Responsible Officials And Planned Corrective Actions: The Mountain Lodge manager has started taking photos of our equipment, cabins and other assets and will put together a capital asset listing. We are looking for ID tags and will ID the assets so can keep good track of what we have. Hopefully this will be corrected.

Keweenaw Mountain Lodge--Inventory

Finding 2007-2

Condition: The Mountain Lodge does not maintain inventory for the Golf Pro Shop, Kitchen or Bar.

Criteria: Strong internal controls provide for the reliability of financial reporting, safeguarding of vulnerable assets, accurate and timely reporting of transactions, segregation of duties, access restrictions to and accountability for resources and records, and proper documentation of transactions. The Michigan Department of Treasury, Uniform Accounting Procedures Manual, requires perpetual inventory records be maintained and reconciled with the general ledger inventory account. A physical count of all inventory items must be taken at least annually, any differences between the physical counts and perpetual inventory records should be investigated and explained. The perpetual inventory records must also be adjusted to agree with quantities determined by the physical inventory counts.

KEWEENAW COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCIES (Continued)

Recommendation: We recommend that the Mountain Lodge maintain a perpetual inventory system. The perpetual inventory should contain:

- Description of Product
- Purchase Price
- Quantity
- The inventory should be updated for purchases as well as sales.
- A reconciliation should be completed monthly and a physical inventory should be performed at least annually.

Views of Responsible Officials and Planned Corrective Actions: We have been working on having the kitchen manager do inventory and have it set up in our system with our purveyor so that we can now do a weekly inventory. The system automatically updates all of the inventory pricing so we can get an accurate inventory system in place.

Bank Reconciliations-Mountain Lodge

Finding 2007-3

Condition: We noted that all bank reconciliations for the Mountain Lodge are prepared by the office manager and are not reviewed by another party. The office manager is also responsible for accounts payable and payroll as well as entering deposits into the general ledger. We also noted that evidence was not always available to show the bank statement had been reconciled.

Criteria: According to the Michigan Department of Treasury Accounting Procedures Manual, an authorized individual not responsible for the actual physical handling of cash should reconcile the bank statement to the general ledger.

Recommendation: We recommend that someone independent of cash handling reconcile the bank statements or that bank reconciliations prepared by the office manager be reviewed by someone independent of cash handling. We also recommend that the bank reconciliation be printed and filed with the bank statement monthly.

Views of Responsible Officials and Planned Corrective Actions: We are looking at some different options for this one, possibly having someone do the cash reconciliation and then using an independent bookkeeper to do the entries.

Accounts Payable/Disbursements--Mountain Lodge

Finding 2007-4

Condition: There is no indication on the vendor invoice that the extensions, footings, discounts and freight items were checked for accuracy or that a responsible employee approves the invoice account distribution for payment. We also found that some payments did not include adequate supporting documentation (some were either emails, statements, or a voucher prepared by the Mountain Lodge). Invoices and other disbursements are sometimes paid and mailed before approval by the board. Checks are sometimes released with only one signature.

KEWEENAW COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCIES (Continued)

Criteria: According to the Accounting Procedures Manual, the following are required procedures relating to cash disbursements:

- Dual signatures are required for all checks;
- Appropriate documentation (supporting invoices) must be attached to check copies for all disbursements. Vouchers must describe the payment to be made, indicate the account number to be charged, and be signed by the person approving the disbursement;
- Original bills, not copies, must be used for documentation;
- All disbursements must be approved by the legislative body prior to disbursement. The board may establish a formal policy to authorize limited payments prior to approval to avoid finance and late charges as well as to pay appropriated amounts and payroll (including related payroll taxes and withholdings). These disbursements must still be approved after payment is made;
- Bank accounts must be promptly reconciled by an individual not involved in the receipt/bank deposit process. In small units of government when segregation of duties is not possible, a second official must review the reconciliation;
- Adequate security must be provided over unused checks.

Recommendation: We recommend the Keweenaw Mountain Lodge revise their accounts payable policies to incorporate the controls noted above.

Views of Responsible Officials and Planned Corrective Actions: We will develop an accounts payable policy this winter.

Keweenaw Mountain Lodge--Purchasing Policy

Finding 2007-5

Condition: The Mountain Lodge does not have a written purchasing policy.

Criteria: A system of internal controls over expenditures depends upon a purchasing policy which results in methods for approving and making expenditures which are under the control of a central oversight agency, the Parks and Recreation Board. A purchasing policy is required to establish guidelines for purchasing functions and procedures.

Cause and Effect: Expenditures may or may not have been made in accordance with the Mountain Lodge's best interest. The lack of a written policy makes it difficult to determine the validity of expenditures in the future. Adequate control procedures over expenditures require that procedures for expending the Mountain Lodge's funds be clearly defined and followed by all personnel.

KEWEENAW COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCIES (Continued)

Recommendation: We recommend that the park and recreation board give consideration to developing a written purchasing policy that clearly defines the following:

- a. An amount that can be expended without board approval;
- b. The amount of expenditures that require board approval;
- c. Threshold for amounts that can be approved for payment by the general manager;
- d. Types of payments that are allowable for prepayment such as payroll, discounted invoices, utilities, etc.
- e. Documentation required for all expenditures;
- f. The amount of expenditures that require formal bid procedures; and
- g. The amounts and types of purchases that are required to be capitalized.

Other procedures that could be included are ethical standards, expense reimbursements, requisitions and purchase orders, price quotations, bids, advertising, sealed proposals, public opening, contract awarding, forms of contracts the Keweenaw Mountain Lodge is willing to enter into, other requests for proposals, emergency purchasing, local supplier preferences, purchase of surplus/used goods and/or cooperative purchasing.

Developing and implementing a written policy of this nature will not only ensure that expenditures continue to be made in accordance with Keweenaw Mountain Lodge policy, it will also serve as criteria and evidence that officials are conducting the business of the Mountain Lodge appropriately.

Views of Responsible Officials and Planned Corrective Actions: The Mountain Lodge manager is going to work on a purchasing policy for the Lodge this winter and present it to the board for approval.

Sheriff Department--Jail Commissary

Finding 2007-6

Condition: The Sheriff Department operates a commissary fund for the benefit of the inmates. Revenue from the sale of commissary items is put into a cash box and commissary supplies for inmates are paid out of the commissary check book. The cash box is under the custody of the Sheriff Department. At least once a month, as the profits have accumulated, the sheriff's department will deposit the profits into the commissary checking account. No receipts are written for funds taken in and checks are not restrictively endorsed until deposited. The county treasurer reconciles the account monthly and records transactions to the general ledger.

KEWEENAW COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCIES (Continued)

Criteria: According to the Michigan Department of Treasury Accounting Procedures Manual for Counties and Local Units of Government in Michigan, the following procedures must be in place for receipts:

- Receipt books issued to other departments must be accounted for numerically;
- The use of generic or “dime store” receipts is strictly prohibited;
- Cash, check, or credit card as the method of payment must be indicated on the receipt;
- The receipt must identify the individual receiving payment;
- The receipt must allow for immediate revenue account classification in conformity with the Uniform Chart of Accounts; and
- Checks must be restrictively endorsed (stamped for deposit only) at the point and time of collection.

Recommendation: We recommend that the Sheriff Department issue receipts for all commissary revenue collected and that checks be stamped “for deposit only” at the time of collection.

Views of Responsible Officials and Planned Corrective Actions: This will be taken care of in 2008.

Treasurer--Delinquent Taxes Receivable Records

Finding 2007-7

Condition: The delinquent taxes receivable control accounts for tax years 2004 through 2006 do not reconcile to the computer’s subsidiary records.

Criteria: The Delinquent Tax Revolving Fund control account balances for delinquent taxes receivable should agree with subsidiary record totals of delinquent taxes receivable for each individual property description for each unit of government (townships, cities, and villages). Also, the subsidiary records of taxes receivable should periodically be checked against the delinquent tax rolls.

Recommendation: We recommend that the treasurer’s office review the accounting procedures for delinquent taxes receivable and take care to assure that the general ledger entries are tied to the computer generated subsidiary records, and to delinquent tax rolls.

Views of Responsible Officials and Planned Corrective Actions: This will be corrected in 2008.

KEWEENAW COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STATUTORY NONCOMPLIANCE

Expenditures in Excess of Appropriations

Finding 2007-8

Condition: Our examination of procedures used by the county to adopt and maintain operating budgets for the county’s budgetary funds revealed the following instances of noncompliance with provisions of Public Act 2 of 1968, as amended, the Uniform Budget and Accounting Act.

The County’s 2007 General Appropriations Act (budget) provided for expenditures of the General Fund and special revenue funds to be controlled at the activity level by the county. During the fiscal year ended December 31, 2007, expenditures were incurred in excess of amounts appropriated in the amended budgets for the following special revenue fund, as follows:

<u>Fund/Function</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Expenditures Over Budget</u>
General Fund			
Recreation and Cultural	\$ 200	\$ 550	\$ 350
Special Revenue Funds			
Building Inspection			
Public Safety	42,577	69,284	26,707
County 911 Service			
Public Safety	29,040	44,338	15,298
Economic Development			
Public Safety	1,600	3,350	1,750
Capital Outlay		18,275	18,275
Revenue Sharing			
Other Uses--Operating Transfers (Out)	39,852	40,006	154

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 17 of Public Act 2 of 1968, as amended.

Directive: We direct the county to develop budgetary control procedures for the general and special revenue funds which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

Views of Responsible Officials and Planned Corrective Actions: We have put budgetary control procedures in place to insure we do not exceed budgeted amounts.

Negative Cash Balance

Finding 2007-09

Condition: The county pools all their depository cash into one common bank account at Superior National Bank. One of the county’s 16 funds (Mountain Lodge) had a negative cash book balance of \$55,700 at December 31, 2007.

KEWEENAW COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STATUTORY NONCOMPLIANCE (Continued)

A negative cash balance in a fund represents unauthorized borrowing from one fund to another. The negative cash was caused by the fact that the Mountain Lodge expended more money than what they had available.

Criteria: While it is acceptable to borrow cash from certain funds to another if the money is not restricted, it is not acceptable to incur negative cash balances. The negative cash balance also represents improper transfers between funds since they were not budgeted nor approved by the board of commissioners.

In addition, Attorney General Opinion 6009 of 1981 states: “County money is to be paid out by the treasurer only upon order of the board of county commissioners, signed by the clerk and countersigned by the chairman, or otherwise as provided by law subject to sufficient moneys being available in the fund for which the disbursement is being made.” (emphasis added)

Directive: All transfers between funds must be budgeted and approved by the board of commissioners. The Mountain Lodge should cease to make purchases from funds without cash available to pay for the resulting expense. Negative cash balances should never be incurred. A long-term advance should be established between the General Fund and the Mountain Lodge Fund to ensure that sufficient cash is available.

Views of Responsible Officials and Planned Corrective Actions: We will include the suggestion of a long-term advance on the next commissioner's meeting agenda.

KEWEENAW COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OTHER MATTERS

Keweenaw Mountain Lodge--Cross Training

Finding 2007-10

Condition: During our review of accounts payable and payroll procedures, we noted that only one person is trained in accounts payable and payroll.

Criteria: The Accounting Procedures Manual suggests that the bookkeeping duties be periodically shifted between two or more employees (e.g., during vacations, etc.).

Recommendation: We recommend that a second person be trained in the accounts payable and payroll functions for vacations or emergency situations.

Views of Responsible Officials and Planned Corrective Actions: We have been cross training someone to fill in for the bookkeeper and the assistant manager has been retrained on payroll.

Keweenaw Mountain Lodge--Computer Access

Finding 2007-11

Condition: There is no security on the computer that runs the general ledger, accounts payable and payroll functions.

Criteria: The Accounting Procedures Manual states that “for computerized accounting systems, access to the computers should be limited to only authorized personnel and/or the security system should document specific users who have initiated transactions, particularly editing or modifying transactions.

Recommendation: We recommend that password protection be added to the computer that handles the general ledger and payroll functions.

Views of Responsible Officials and Planned Corrective Actions: The computer access has been addressed in July, the bookkeeper has password protected her computer.

Keweenaw Mountain Lodge--Safeguarding Blank Checks

Finding 2007-12

Condition: Blank checks are not kept in a secure location.

Criteria: According to the Accounting Procedures Manual, blank checks should be kept in a secure (locked) location.

Recommendation: We recommend that the Mountain Lodge find a secure location to store blank checks.

Views of Responsible Officials and Planned Corrective Actions: The cabinet with the checks are now secured in the safe.

KEWEENAW COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OTHER MATTERS (Continued)

Keweenaw Mountain Lodge--Payroll Authorization

Finding 2007-13

Condition: We noted that employee time sheets are not always signed by an appropriate supervisor.

Criteria: According to the Accounting Procedures Manual, time records should be approved by authorized personnel prior to preparing payroll.

Recommendation: We recommend that all time sheets are signed by appropriate authorized personnel before preparing payroll.

Views of Responsible Officials and Planned Corrective Actions: The park manager is now reviewing these before payroll is processed.

Keweenaw Mountain Lodge--Taxable Compensation

Finding 2007-14

Condition: It was noted that tips were paid to an employee through the accounts payable function and were not taxed.

Criteria: According to IRS rules and regulations all compensation is taxable and shall be reported as wages.

Recommendation: We recommend that the Lodge pay all wages through the payroll system and withhold appropriate taxes.

Views of Responsible Officials and Planned Corrective Actions: Since introducing the POS system, we have been taxing the gratuities as it records the charge tips.

KEWEENAW COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OTHER MATTERS (Continued)

Taxable Compensation

Finding 2007-15

Condition: The county board of commissioners receives commutable (from their home to workplace) mileage reimbursement as compensation that is not included as part of their taxable wages. We could not find any support for the commutable mileage reimbursement as part of compensation for the county board of commissioners. The planning board did not have any payroll deductions for their per diems and commutable mileage.

Criteria: Travel to and from meetings (at the office) is not authorized unless part of the original compensation package. According to IRS rules and regulations, all compensation (including per diems) is taxable and shall be reported as wages.

Recommendation: We recommend that the county board of commissions review their compensation package and if commutable mileage is included as part of the compensation then the respective payroll taxes should be withheld to ensure compliance with IRS regulations and clearly identify all compensation, such as per diems, commutable mileage for in house meetings, payment in-lieu-of insurance and any other fringe benefit. If the compensation package does not include commutable mileage (from home to the workplace), then it should not be reimbursed.

Views of Responsible Officials and Planned Corrective Actions: We will review the compensation package at our next meeting.

KEWEENAW COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III--Federal Award Findings and Questioned Costs

CFDA #10.776 Department of Agriculture--Rural Development
Community Facility Loans and Grants, 2007

Finding 2007-16

Condition: The county and Mountain Lodge do not have property management policies in place that cover items A-E and a capital asset listing is not maintained. See Finding 2007-01 in Section I of this schedule.

Criteria: The USDA, Rural Housing Service, Community Facilities Grant Agreement Section I (3) requires the grantee (Keweenaw County) to have property management standards for equipment and furnishings for the community center that includes:

- A) Property records which accurately provide for:
 - a. A description of the equipment;
 - b. Manufacturer's serial number or other identification number;
 - c. Acquisition date and cost;
 - d. Sources of the equipment;
 - e. Percentage (at the end of budget year) of Federal participation in the cost of the project for which the equipment was acquired;
 - f. Location, use and condition of the equipment and the date the information was reported; and
 - g. Ultimate disposition data included in sales price or the method used to determine current fair market value if the county reimburses the grantor for its share.
- B) A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years to verify the existence, current utilization and continued need for the equipment.
- C) A control system shall be in effect to ensure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented.
- D) Adequate maintenance procedures shall be implemented to keep the equipment in good condition.
- E) Proper sales procedures shall be established for unneeded equipment which would provide for competition to the extent practicable and result in the highest possible return.

Questioned Costs: None

Context: During the course of our audit, we reviewed the capital asset listing and found that it had not been updated since the prior year when we updated the listing. Management has reviewed and approved the capital asset listing as prepared by us, but does not maintain the capital asset subsidiary records or have a property management system in place.

KEWEENAW COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Cause and Effect: The effect of not having a property management system in place is that the capital assets may not be adequately safeguarded or controlled. The capital assets could be misstated in the financial statements if the assets are not properly accounted for and reconciled.

Recommendation: We recommend that the county and Mountain Lodge maintain a property management system as described in the criteria above and in finding 07-01.

Views Of Responsible Officials And Planned Corrective Actions: The Mountain Lodge manager has started taking photos of our equipment, cabins and other assets and will put together a capital asset listing. We are looking for ID tags and will ID the assets so can keep good track of what we have.

CFDA #10.776 Department of Agriculture--Rural Development
Community Facility Loans and Grants, 2007

Finding 2007-17

Criteria: The USDA, Rural Housing Service, Community Facilities Grant reporting compliance requirement states that annual audited financial statements are due within 150 days of the entity's fiscal year end.

Condition: The county did not have an annual audit completed within 150 days after its fiscal year end.

Questioned Costs: None

Context: The county's audit started April 14, 2008, but the enterprise fund (Mountain Lodge) audit did not start until May 19, 2008, after the Mountain Lodge was open for business.

Recommendation: We recommend that the county and all of its funds be ready for an audit at the beginning of April so that an audit can be issued by the May 30 due date.

Views of Responsible Officials and Planned Corrective Actions: We will try to get this done earlier.



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

October 4, 2008

Keweenaw County Board of Commissioners
Keweenaw County Courthouse
Unit 1, Box 7
Eagle River, Michigan 49950

RE: Report to Those Charged With Governance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Keweenaw County for the year ended December 31, 2007, and have issued our report thereon dated October 4, 2008. Professional standards require that we provide you with the following information related to our audit.

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

As stated in the engagement letter dated November 26, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Keweenaw County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and do not provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Keweenaw County's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Keweenaw County's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement"

applicable to each of its major Federal programs for the purpose of expressing an opinion on Keweenaw County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Keweenaw County's compliance with those requirements.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

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

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures to specifically identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 5, 2008.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Keweenaw County are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ending December 31, 2007. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

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

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 4, 2008.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

This information is intended solely for the use of the Board of County Commissioners and management of Keweenaw County and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division