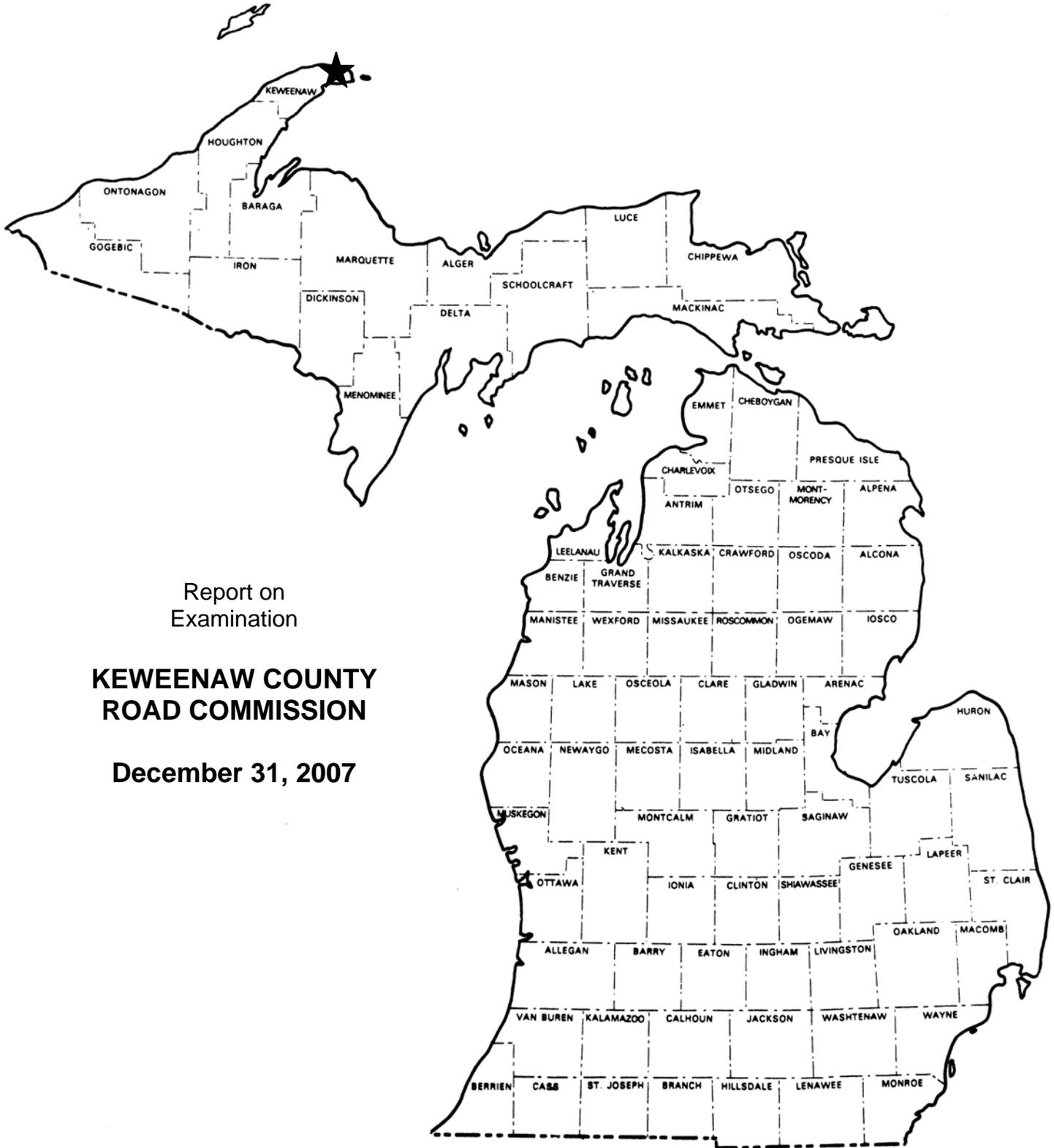


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**KEWEENAW COUNTY
ROAD COMMISSION**

December 31, 2007

KEWEENAW COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Joel Tuoriniemi
Chairperson

Eric Bjorn
Vice Chairperson

Mark McEvers
Member

Gregg M. Patrick, P.E.
Engineer/Manager

Ken Rowe
Clerk

COUNTY POPULATION--2000
2,301

STATE EQUALIZED VALUATION--2007
\$175,671,745



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

April 24, 2008

Keweenaw County Road Commission
Board of County Road Commissioners
1916 Fourth Street
P.O. Box 327
Mohawk, Michigan 49950

Independent Auditor's Report

Dear Commissioners:

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated April 24, 2008 on our consideration of the Keweenaw County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial

reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 1 through 7 and the budget comparison information in Exhibits G and H 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 an opinion on the financial statements that collectively comprise the Keweenaw County Road Commission's basic financial statements. The accompanying supplemental and related information in Exhibits I through K is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary 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 ROAD COMMISSION

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KEWEENAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

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

Overview of the Financial Statements

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

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

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

KEWEENAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Report the Road Commission's Major Fund

The fund financial statements begin on page ten and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental fund type.

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

The Road Commission as a Whole

The Road Commission's net assets increased \$1,126,403 (or 33.49%) for the year ended December 31, 2007. The net assets and change in net assets is summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, were \$1,004,126 during 2007; an increase of \$594,446 from the prior year. The change was primarily the result of an increase in contributions from private sources, and State and Federal grants as compared to 2006.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets-net or related debt) are considered restricted. The depreciation for the current year's infrastructure assets will be depreciated in the subsequent year.

The investment in capital assets for 2007, net of related debt, was \$3,486,018; an increase of \$531,957 from the prior year. The increase was primarily the result of reporting infrastructure in the amount of \$587,199 for the year 2007.

KEWEENAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Net assets as of year ended December 31, 2007, is as follows:

	2006 Governmental Activities	2007 Governmental Activities	Increase (Decrease)	% of Change
Current and Other Assets	\$ 885,491	\$ 1,494,280	\$ 608,789	68.75%
Net Capital Assets	<u>3,016,662</u>	<u>3,532,524</u>	<u>515,862</u>	<u>17.10%</u>
Total Assets	<u>3,902,153</u>	<u>5,026,804</u>	<u>1,124,651</u>	<u>28.82%</u>
Other Liabilities	45,193	82,828	37,635	83.28%
Long-Term Liabilities	<u>493,220</u>	<u>453,832</u>	<u>(39,388)</u>	<u>-7.99%</u>
Total Liabilities	<u>538,413</u>	<u>536,660</u>	<u>(1,753)</u>	<u>-0.33%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	2,954,061	3,486,018	531,957	18.01%
Restricted	<u>409,680</u>	<u>1,004,126</u>	<u>594,446</u>	<u>145.10%</u>
Total Net Assets	<u>\$ 3,363,741</u>	<u>\$ 4,490,144</u>	<u>\$ 1,126,403</u>	<u>33.49%</u>

Changes in Net Assets

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

	2006 Governmental Activities	2007 Governmental Activities	Increase (Decrease)	% of Change
Program Revenue				
Charges for Services	\$ 750,531	\$ 1,313,192	\$ 562,661	74.97%
Operating Grants and Contributions	1,430,971	1,329,742	(101,229)	-7.07%
Capital Grants and Contributions	284,268	576,842	292,574	102.92%
General Revenue				
Gain on Equipment Disposal	<u>23,000</u>	<u>7,582</u>	<u>(15,418)</u>	<u>-67.03%</u>
Total Revenue	<u>2,488,770</u>	<u>3,227,358</u>	<u>738,588</u>	<u>29.68%</u>
Expenses				
Primary Road Maintenance	511,844	622,065	110,221	21.53%
Local Road Maintenance	345,463	330,200	(15,263)	-4.42%
State Trunkline Maintenance	610,954	765,328	154,374	25.27%
Net Equipment Expense	99,890	(136,775)	(236,665)	-236.93%
Net Administrative Expense	299,168	341,894	42,726	14.28%
Infrastructure Depreciation	97,820	154,359	56,539	57.80%
Interest Expense	6,388	3,271	(3,117)	100.00%
Compensated Absences	<u>21,441</u>	<u>20,613</u>	<u>(828)</u>	<u>-3.86%</u>
Total Expenses	<u>1,992,968</u>	<u>2,100,955</u>	<u>107,987</u>	<u>5.42%</u>
Increase in Net Assets	<u>\$ 495,802</u>	<u>\$ 1,126,403</u>	<u>630,601</u>	<u>127.19%</u>
Ending Net Assets	<u>\$ 3,363,741</u>	<u>\$ 4,490,144</u>	<u>\$ 1,126,403</u>	<u>33.49%</u>

KEWEENAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Road Commission's Fund

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

For the year ended December 31, 2007, the fund balance of the General Operations Fund increased \$615,058. Total operating revenues were \$3,227,358, an increase of \$738,588 as compared to the prior year (2006). This change in revenues resulted primarily from 2007 increases in State Trunkline revenue reimbursements of \$159,987, an increase in Federal aid projects of \$312,258 and an increase in Contributions from Private Sources of \$402,668 offset by a decrease in State Economic Development Funds of \$187,500.

Total expenditures were \$2,612,300, an increase of \$69,149 as compared to 2006. This change in expenditures is primarily due to an increase in preservation and structural improvement costs of \$359,798 offset by a decrease in net capital outlay.

	<u>2006</u>	<u>2007</u>	<u>Variance</u>	<u>%</u>
Revenues				
Federal Grants	\$ 153,341	\$ 465,599	\$ 312,258	203.64%
State Grants	1,517,949	1,418,276	(99,673)	-6.57%
Contributions From Local Units	19,684		(19,684)	-100.00%
Charges for Services	721,032	881,019	159,987	22.19%
Interest and Rents	24,265	22,709	(1,556)	-6.41%
Other Revenue	52,499	439,755	387,256	737.64%
Total Revenues	<u>2,488,770</u>	<u>3,227,358</u>	<u>738,588</u>	<u>29.68%</u>
Expenditures				
Public Works	2,227,111	2,498,769	271,658	12.20%
Capital Outlay	293,873	94,165	(199,708)	-67.96%
Debt Service	22,167	19,366	(2,801)	100.00%
Total Expenditures	<u>2,543,151</u>	<u>2,612,300</u>	<u>69,149</u>	<u>2.72%</u>
Excess of Expenditures Over Revenues	<u>(54,381)</u>	<u>615,058</u>	<u>669,439</u>	<u>1231.02%</u>
Other Financing Sources				
Proceeds From Lease	57,500	-	(57,500)	100.00%
Total Other Financing Sources	<u>57,500</u>	<u>-</u>	<u>(57,500)</u>	<u>100.00%</u>
Excess of Revenues and Other Financing Sources Over Expenditures	3,119	615,058	611,939	-19619.72%
Fund Balance--Beginning	<u>579,230</u>	<u>582,349</u>	<u>3,119</u>	<u>0.54%</u>
Fund Balance--Ending	<u>\$ 582,349</u>	<u>\$ 1,197,407</u>	<u>\$ 615,058</u>	<u>105.62%</u>

KEWEENAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

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

During the 2007 budget year, the Road Commission's budget was slightly increased for both revenues (\$44,833) and expenditures (\$52,146) due to the grant received from the Michigan Department of Transportation for the new guardrail upgrading work along Cliff Drive, Gratiot River and Gay / Lac Labelle Road along with resurfacing a portion of Gay / Lac Labelle Road. The actual revenues were \$611,525 more than the final budget due to contributions from private sources, an increase in state trunkline charges for services and a refund from a State Trunkline audit. The actual expenditures were \$9,846 less than the final amended budget.

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2007, the Road Commission had \$3,532,524 invested in capital assets as follows:

	<u>2006</u>	<u>2007</u>	Total Percentage Change <u>2006-2007</u>
Capital Assets Not Being Depreciated			
Infrastructure--Land	\$ 634,505	\$ 712,128	12.23%
Infrastructure--Land Improvements	78,120	78,120	0.00%
Subtotal	<u>712,625</u>	<u>790,248</u>	<u>10.89%</u>
Capital Assets Being Depreciated			
Buildings	670,255	672,333	0.31%
Equipment	3,165,106	3,123,807	-1.30%
Shop, Office and Engineer Equipment	277,994	291,239	4.76%
Infrastructure	1,623,192	2,402,923	48.04%
Subtotal	<u>5,736,547</u>	<u>6,490,302</u>	<u>13.14%</u>
Total Capital Assets	<u>6,449,172</u>	<u>7,280,550</u>	<u>12.89%</u>
Total Accumulated Depreciation	<u>(3,432,010)</u>	<u>(3,748,026)</u>	<u>9.21%</u>
Total Net Capital Assets	<u>\$ 3,017,162</u>	<u>\$ 3,532,524</u>	<u>17.08%</u>

KEWEENAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$3,532,524. The infrastructure recorded during 2007, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions.

This year's major capital asset additions included the following:

Various Resurfacing Projects and Related Land/Right-of-Way	\$779,731
Buildings	2,078
Land & Improvements	77,624
Trucks/Equipment	1,218
Administrative and Engineering	<u>13,245</u>
Total Additions	<u><u>\$873,896</u></u>

Debt

During 2007, the Road Commission did not enter into any new installment purchase agreements. At the year end, the Road Commission had a balance of \$46,506 in installment purchase agreements versus \$62,601 for the last period as shown below:

	<u>2006</u>	<u>2007</u>	<u>Variance</u>	<u>% of Variance</u>
Installment Purchase Agreements	<u>\$ 62,601</u>	<u>\$ 46,506</u>	<u>\$ 16,095</u>	<u>25.71%</u>
Total	<u><u>\$ 62,601</u></u>	<u><u>\$ 46,506</u></u>	<u><u>\$ 16,095</u></u>	<u><u>25.71%</u></u>

More detailed information about the Road Commission's long-term liabilities is presented in Note F to the financial statements.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2008 budget. One of the factors is the economy. The Road Commission derives approximately 51% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Fund tax to be distributed.

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

KEWEENAW COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Keweenaw County Road Commission administrative offices at: 1916 Fourth Street, Keweenaw, Michigan 49950.

KEWEENAW COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
December 31, 2007

EXHIBIT A

ASSETS

Cash	\$ 588,399
Investments	100,000
Accounts Receivable	
Sundry Accounts	8,247
State--Trunkline Maintenance	126,598
Michigan Transportation Fund	165,966
State--Other	61,600
Inventories	
Road Materials	344,578
Equipment Parts and Materials	91,589
Prepaid Expenses	7,303
Capital Assets (Net of Accumulated Depreciation)	<u>3,532,524</u>
Total Assets	<u>5,026,804</u>

LIABILITIES

Current Liabilities	
Accounts Payable	34,929
Due to State of Michigan	2,091
Accrued Liabilities	45,808
Noncurrent Liabilities	
Advances From State	214,045
Installment Purchase Agreements Payable--Due Within One Year	21,929
Installment Purchase Agreements Payable--Due in More Than One Year	24,577
Vested Employee Benefits Payable	<u>193,281</u>
Total Liabilities	<u>536,660</u>

NET ASSETS

Investment in Capital Assets--Net of Related Debt Restricted for County Roads	<u>3,486,018</u> <u>1,004,126</u>
Total Net Assets	<u><u>\$ 4,490,144</u></u>

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

**KEWEENAW COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007**

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 622,065
Local Road Maintenance	330,200
State Trunkline Maintenance and Nonmaintenance	765,328
Net Equipment Expense	(136,775)
Net Administrative Expense	341,894
Infrastructure Depreciation	154,359
Compensated Absences	20,613
Interest Expense	<u>3,271</u>
Total Program Expenses	<u>2,100,955</u>
Program Revenue	
Charges for Services	
Charges for Services	1,313,186
Other Contributions	6
Operating Grants and Contributions	
Michigan Transportation Funds	1,213,042
State Buyout of Federal Funds	93,991
Investment Earnings	22,709
Capital Grants and Contributions	
Federal Grants	465,599
State Grants	111,243
Total Program Revenue	<u>3,219,776</u>
Net Program Revenue	<u>1,118,821</u>
General Revenue	
Gain on Equipment Disposal	<u>7,582</u>
Total General Revenue	<u>7,582</u>
Change in Net Assets	<u>1,126,403</u>
Net Assets	
Beginning of Year	<u>3,363,741</u>
End of Year	<u><u>\$ 4,490,144</u></u>

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

**KEWEENAW COUNTY ROAD COMMISSION
BALANCE SHEET
December 31, 2007**

EXHIBIT C

	GOVERNMENTAL FUND TYPE
	<u>General Operating Fund</u>
<u>ASSETS</u>	
Cash	\$ 688,399
Accounts Receivable	
State Trunkline Maintenance	126,598
Michigan Transportation Fund	165,966
Due From State--Other	61,600
Sundry Accounts	8,247
Inventories	
Road Materials	344,578
Equipment Parts and Materials	91,589
Prepaid Expenses	<u>7,303</u>
Total Assets	<u><u>\$ 1,494,280</u></u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 34,929
Accrued Liabilities	45,808
Due to State	2,091
Advances	
Trunkline Equipment Purchase	156,449
Trunkline Maintenance	<u>57,596</u>
Total Liabilities	<u>296,873</u>
Fund Equities	
Fund Balance	
Reserved for Inventory	436,167
Unreserved and Undesignated	<u>761,240</u>
Total Fund Equities	<u>1,197,407</u>
Total Liabilities and Fund Equities	<u><u>\$ 1,494,280</u></u>

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

**KEWEENAW COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE
TO THE STATEMENT OF NET ASSETS
For the Year Ended December 31, 2007**

EXHIBIT D

Total Governmental Fund Balance	\$1,197,407
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.	3,532,524
The long-term liability for vested employee benefits payable not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(239,787)</u>
Net Assets of Governmental Activities	<u><u>\$4,490,144</u></u>

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

**KEWEENAW COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2007**

EXHIBIT E

	Operating Fund
Revenues	
Federal Grants	\$ 465,599
State Grants	1,418,276
Charges for Services	881,019
Interest and Rents	22,709
Other Revenue	439,755
	<hr/>
Total Revenues	3,227,358
	<hr/>
Expenditures	
Public Works	2,498,769
Capital Outlay	94,165
Debt Service	19,366
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Total Expenditures	2,612,300
	<hr/>
Excess of Revenues Over (Under) Expenditures	615,058
	<hr/>
Fund Balance--January 1, 2007	582,349
	<hr/>
Fund Balance--December 31, 2007	\$ 1,197,407
	<hr/> <hr/>

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

**KEWEENAW COUNTY ROAD COMMISSION
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND BALANCE OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 For the Year Ended December 31, 2007**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ 615,058

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 515,863
 Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the Statement of Net Assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Assets. 16,095

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 governmental funds. (Increase in compensated absences and decrease in interest expense) (20,613)

Change in Net Assets of Governmental Activities \$ 1,126,403

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

KEWEENAW COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

The Keweenaw County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3 member board of county road commissioners. The Road Commission may not issue debt or levy a tax without the approval of the county board of commissioners.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Keweenaw County Road Commission, a discretely presented component unit of Keweenaw County, and include the Road Commission Operating Fund. The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

Basis of Presentation--Government-Wide Financial Statements

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to 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 the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

KEWEENAW COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

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

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

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

Measurement Focus/Basis of Accounting--Fund Financial Statements

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

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

Bank Deposits and Investments

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

KEWEENAW COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

Inventories and Prepaid Items

Inventories are priced at cost as determined on the average cost method. Inventory items are charged to road construction and equipment maintenance, and repairs and operations as used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Keweenaw County Road Commission as assets with an initial individual cost of more than \$200 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. 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
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

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

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 results could differ from those estimates.

KEWEENAW COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the board of county road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (engineer/manager) prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year, and is approved by the board. Also, the board has authorized the chief administrative officer and fiscal officer to amend the Road Commission's budget, when necessary, by transferring up to 20% from one line-item to another. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

Budget Violations

Public Act 2 of 1968, Section 19(1), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The following activities exceeded the final amended budget:

<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road Preservation/Structural Improvements	\$ 40,620	\$ 545,700	\$ (505,080)
Local Road Routing and Preventive Maintenance	325,057	330,200	(5,143)
State Trunkline Maintenance	742,403	765,328	(22,925)
Net Administrative Expense	335,268	341,894	(6,626)
Debt Service--Principal		16,095	(16,095)
Debt Service--Interest		3,271	(3,271)

NOTE D--CASH AND INTEREST-BEARING DEPOSITS

Michigan Compiled Laws 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States 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 Road Commission has designated one financial institution for the deposit of Road Commission funds. The Road Commission's deposits and investment policy are in accordance with statutory authority.

KEWEENAW COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

At year end (and during the year), the Road Commission did not have any investments other than long-term certificates of deposits. The deposits were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposits)	<u>\$ 688,399</u>
Total	<u><u>\$ 688,399</u></u>

The bank balance of the Road Commission's deposits is \$688,399, of which \$100,000 is covered by Federal depository insurance. The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy authorizes investment in all those that are authorized by law. As stated above, the Road Commission did not have any investments in the fiscal year ended December 31, 2007.

Disclosures Relating to 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 Road Commission's investment policy does not contain specific provisions to limit their exposure to credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that, changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Road Commission's investment policy does not contain specific provisions to limit their exposure to interest rate risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater.

The Road Commission's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities.

KEWEENAW COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

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 does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Road Commission's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

NOTE E--CAPITAL ASSETS

Following is a summary of the changes in the capital assets:

	Account Balances 01/31/07	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>\$ 3,016,662</u>	<u>\$ 873,895</u>	<u>\$ 358,033</u>	<u>\$3,532,524</u>

KEWEENAW COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

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

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 F--LONG-TERM DEBT

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

	<u>Balance</u> <u>1/1/07</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>12/31/07</u>	<u>Due Within</u> <u>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 \$1,100.55 at an interest rate of 5.5%.	46,941	(10,875)	36,066	11,489
Vested Employee Benefits Sick Leave Benefits	<u>172,668</u>	<u>20,613</u>	<u>193,281</u>	
Totals	<u><u>\$235,269</u></u>	<u><u>\$ 4,517</u></u>	<u><u>\$239,786</u></u>	<u><u>\$ 21,929</u></u>

KEWEENAW COUNTY ROAD COMMISSION

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	<u>12,440</u>	<u>385</u>
Total				<u>\$36,066</u>	<u>\$ 3,173</u>

Sick Leave Benefit Policy

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.

KEWEENAW COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

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.

Vacation Benefit Policies

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.

NOTE G--DEFERRED COMPENSATION PLAN

The Keweenaw County Road Commission offers all Road Commission employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. During 2003, the assets of the plan were held in a trust in a custodial account as described in IRS Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrator (PEBSCO) is agent of the employer for purposes of providing direction to the custodian of the custodial account from time to time to 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 Road Commission's financial statements.

NOTE H--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Keweenaw County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). 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 service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.50% times the final average compensation (FAC). The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2006.

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 MERS at 1134 Municipal Way, Lansing, Michigan 48917.

KEWEENAW COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Funding Policy

The Road Commission does not obligate the employees to contribute any portion of their salary to the plan. The Road Commission is required to contribute at an actuarially determined rate. The current rate was 17.71% of annual compensation at December 31, 2006.

Annual Pension Cost

During the fiscal year ended December 31, 2006, the Road Commission's contributions totaling \$144,020 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of 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 amortizing 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 or her 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

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 81,629	100%	\$0
2005	110,918	100%	0
2006	144,020	100%	0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/04	\$3,758,803	\$4,870,536	\$ 1,111,733	77%	\$ 760,162	146%
12/31/05	3,855,343	4,973,857	1,118,514	78%	760,862	147%
12/31/06	4,056,396	5,109,030	1,052,634	79%	813,214	129%

KEWEENAW COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE I--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, 15 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 J--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 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.

NOTE K--RISK MANAGEMENT

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.

KEWEENAW COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE K--RISK MANAGEMENT (Continued)

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.

NOTE L--STATE TRUNKLINE MAINTENANCE REVENUE

The \$115,691 difference between the State trunkline maintenance revenues of \$881,019 and expenditures of \$765,328 is due to a refund resulting from the Michigan Department of Transportation (MDOT) trunkline maintenance audits for the 2003 and 2004 calendar years.

NOTE K--COMMITMENTS

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.

**KEWEENAW COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2007**

EXHIBIT G

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Federal Grants				
Surface Transportation Program	\$ 275,000	\$ 275,000	\$ 277,111	\$ 2,111
D Funds	125,000	125,000	126,888	1,888
National Scenic Byways	50,000	50,000	61,600	11,600
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	870,000	923,492	923,478	(14)
Local Road	135,000	144,059	144,034	(25)
Snow Removal	130,000	135,529	135,530	1
Economic Development Funds				
Forest Funds (E)	111,000	111,243	111,243	-
Jobs Today Grant		-	93,991	93,991
Contributions--Local Units				
Townships	200,000	-	-	-
Charges for Services				
State Trunkline Maintenance	650,000	702,223	881,019	178,796
Interest and Rents				
Interest Earned	10,000	22,520	22,709	189
Other Revenue				
Contributions From Private Sources		116,767	432,167	315,400
Gain on Equipment Disposals	-	-	7,582	7,582
Other Contributions	5,000	-	6	6
Total Operating Revenue	2,571,000	2,615,833	<u>\$ 3,227,358</u>	<u>\$ 611,525</u>
Fund Balance--January 1, 2007	<u>405,205</u>	<u>588,662</u>		
Total Budget	<u>\$ 2,976,205</u>	<u>\$ 3,204,495</u>		

**KEWEENAW COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2007**

EXHIBIT H

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements		\$ 40,620	\$ 545,700	\$(505,080)
Routine and Preventive Maintenance	\$ 900,000	1,004,683	622,065	382,618
Local Road				
Preservation/Structural Improvements	400,000	239,018	234,031	4,987
Routine and Preventive Maintenance	300,000	325,057	330,200	(5,143)
State Trunkline Maintenance	680,000	742,403	765,328	(22,925)
Equipment Expense--Net	230,000	(61,579)		
Direct			\$ 442,291	
Indirect			146,481	
Operating			147,592	
Less: Equipment Rentals			<u>(889,662)</u>	91,719
Administrative Expense--Net	310,000	335,268		
Administrative Expense			445,055	
Less: Handling Charges			(4,591)	
Overhead--State Trunkline			<u>(98,570)</u>	(6,626)
Capital Outlay--Net	(250,000)	(3,324)		
Capital Outlay			94,165	
Less: Depreciation Credits			(187,138)	
Equipment Retirements			<u>(13)</u>	89,662
Debt Service				
Principal Payments		-	16,095	(16,095)
Interest Expense			3,271	(3,271)
Total Expenditures	2,570,000	2,622,146	<u>\$2,612,300</u>	\$ 9,846
Fund Balance--December 31, 2007	<u>406,205</u>	<u>582,349</u>		
Total Budget	<u>\$ 2,976,205</u>	<u>\$ 3,204,495</u>		

**KEWEENAW COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended December 31, 2007**

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 1,604,146	\$ 397,631	\$ 1,225,581	\$ 3,227,358
Total Expenditures	1,352,261	628,102	631,937	2,612,300
Excess of Revenues Over (Under) Expenditures	251,885	(230,471)	593,644	615,058
Other Financing Sources (Uses) Optional Transfers	(230,471)	230,471		-
Total Other Financing Sources (Uses)	(230,471)	230,471	-	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	21,414	-	593,644	615,058
Fund Balance--January 1, 2007	31,084	-	551,265	582,349
Fund Balance--December 31, 2007	\$ 52,498	\$ -	\$ 1,144,909	\$ 1,197,407

KEWEENAW COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES
For the Year Ended December 31, 2007

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Federal Grants				
Surface Transportation Program	\$ 277,111			\$ 277,111
"D" Funds	126,888			126,888
National Scenic Byways	61,600			61,600
State Grants				
Michigan Transportation Fund				
Engineering	8,700	\$ 1,300		10,000
Allocation	923,478	144,034		1,067,512
Snow Removal		135,530		135,530
Economic Development Funds				
Forest Funds (E)	111,243			111,243
Jobs Today Grant	93,991			93,991
Charges for Services				
State Trunkline Maintenance			\$ 881,019	881,019
Interest and Rents				
Interest Earned	1,135		21,574	22,709
Other Revenue				
Contributions From Private Sources		116,767	315,400	432,167
Other Contributions		-	6	6
Gain on Equipment Disposal			7,582	7,582
Total Operating Revenue	\$ 1,604,146	\$ 397,631	\$ 1,225,581	\$ 3,227,358

**KEWEENAW COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended December 31, 2007**

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 545,700			\$ 545,700
Routine and Preventive Maintenance	622,065			622,065
Local Road				
Preservation/Structural Improvements		\$ 234,031		234,031
Routine and Preventive Maintenance		330,200		330,200
State Trunkline Maintenance			\$ 765,328	765,328
Equipment Expense--Net (Per Exhibit H)	(46,020)	(47,507)	(59,771)	(153,298)
Administrative Expense--Net (Per Exhibit H)	230,516	111,378		341,894
Capital Outlay--Net (Per Exhibit H)			(92,986)	(92,986)
Debt Service				
Principal Payments			16,095	16,095
Interest Payments			3,271	3,271
Total Expenditures	\$ 1,352,261	\$ 628,102	\$ 631,937	\$ 2,612,300



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

April 24, 2008

Keweenaw County Road Commission
Board of County Road Commissioners
1916 Fourth Street
P.O. Box 327
Mohawk, 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 Board Members:

We have audited the financial statements of the Keweenaw County Road Commission, a component unit of Keweenaw County, as of and for the year ended December 31, 2007, and have issued our report thereon dated April 24, 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 Road Commission's internal control over financial reporting in order to determine 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 Keweenaw County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Keweenaw County Road Commission'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 internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with

generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Keweenaw County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control. We consider the deficiencies described in the accompanying Comments and Recommendations to be significant deficiencies in internal control over financial reporting which are listed as Findings 2007-1 through 2007-4.

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 Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily identify all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Findings 2007-01 through 2007-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Keweenaw County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards, and which are described in the accompanying Comments and Recommendations as Findings 2007-5 through 2007-9.

We also noted "Other Matters" that we reported to the management of Keweenaw County Road Commission's in the accompanying Comments and Recommendations as Findings 2007-10 through 2007-21.

This report is intended solely for the information of the Keweenaw County Board of Road Commissioners, the Road Commission's management and others within the Road Commission, 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

KEWEENAW COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

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 Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Keweenaw County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Listed below are significant deficiencies in the internal control that are material weaknesses.

MATERIAL WEAKNESSES

Revenue Control

Finding 2007-1

Condition:

- One person is involved in writing receipts, preparing transmittal advices, posting receipts and reconciling the receipts with the receipt register, transmittal advice and county treasurer's receipt.
- Budgeted revenues were not periodically compared to actual amounts and no one investigated the significant differences.
- Maintenance of the receivable subsidiary ledger is not independent of the general ledger maintenance.
- Recording and approval of receivables is not independent of the cash handling and other accounts receivable bookkeeping.
- The appropriate level of management does not periodically compare actual revenues to budgeted revenues or follow up on significant variances.
- Aged receivable listings was not prepared and reviewed by appropriate level of management.
- Appropriate level of management does not review reconciliations between receivable trial balances and the general ledger.

Criteria: The Government Finance Officers Association (GFOA) recommends governments establish a revenue control and management policy and review it on an annual basis. This policy should be appropriate for the size and resources of the government. The following factors, as applicable, should be considered in the development of a revenue control and management policy:

- Internal Controls--All aspects of accounts receivable and cash receipting shall be subject to proper internal controls that include segregation of duties, daily processing, timely deposits, reconciliation to applicable ledgers, automated system resources, physical security procedures and fraud reporting procedures. When possible, someone other than the person who writes receipts or posts the accounting records should be responsible to verify that collections received in the mail are properly receipted. Also when possible, collections should be reconciled by an individual not involved in the receipting process.

KEWEENAW COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES (Continued)

- Accounting Practices--All receipts and receivables should be recorded in accordance with current authoritative standards and practices.
- Billing Practices--Accounts receivables should be established for services provided in advance of payment and there should be established terms for collection.
- Depositing of Received Funds--Treasury management should serve as the primary recipient for all revenue collection sites.
- Collection--Receivables should be collected in a timely manner. Specific procedures should be established for delinquent accounts.
- Returned Checks--There should be established procedures for processing and the collection of returned checks.
- Bad Debt--An allowance for doubtful accounts and a write-off policy should be established.
- Budgetary Review Responsibilities--Revenue collections and accounts receivable should be monitored in a timely manner.

Recommendation: We recommend that there be segregation of duties over the receipting and receivables transaction cycles. Some compensating controls could be:

- When possible, someone other than the person who writes receipts or posts the accounting records should be responsible to verify that collections received in the mail are properly receipted;
- When possible, collections should be reconciled by an individual not involved in the receipting process.

Accounts receivable should be monitored in a timely manner and an aged accounts receivable should be made available to management. The collecting of accounts receivables should be performed by someone not involved in the accounts receivable billing process. The board of road commissioner's should make the final decision on any accounts receivable write-offs.

Cash Disbursements--Segregation of Duties

Finding 2007-2

Condition: The person responsible for invoice processing and accounts payable is also responsible for general ledger and there is no cross training for accounts payable.

Criteria: According to the "Accounting Procedures Manual for Local Units of Government," duties must be segregated among different people to reduce the risk of errors or misappropriations. No one person should have control over all aspects of the financial transactions. An individual is not to have responsibility for more than one of the three transaction components: authorization, custody and recordkeeping.

Recommendation: We recommend that the accounts payable duties be segregated and that cross training be implemented.

KEWEENAW COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES (Continued)

Bank Reconciliations

Finding 2007-3

Condition: We noted that all bank reconciliations are prepared by the accounting/finance director and are not reviewed by another party.

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 the accounting/finance director continue to reconcile the payroll bank statement and the payroll secretary reconcile the vendor bank statement monthly.

SIGNIFICANT DEFICIENCIES

Cash Collections

Finding 2007-4

Condition: Cash is usually only receipted by the accounting/finance director. We noted that cash and checks were kept in the vault when received and stayed there until they were entered in the receipt book, usually when ready to make a deposit. We also observed that these checks were not restrictively endorsed until they were receipted.

Criteria: According to the “Michigan Department of Treasury Accounting Procedures Manual,” the following criteria apply to cash collections:

- 1) Undeposited funds should be secured in a locked place such as a safe;
- 2) A receipt should be written for all funds immediately upon receipt; and
- 3) Checks must be restrictively endorsed (stamped for deposit only) at the point and time of collection.

Recommendation: We recommend that cash be receipted in the cash receipt book and restrictively endorsed by the accounting/finance director immediately upon collection or receipt. These funds should then continue to be immediately placed in a secure location until they are to be deposited.

KEWEENAW COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS

Our examination revealed the following instances of noncompliance with State statutes and regulations.

Excess Expenditures Over Appropriations

Finding 2007-5

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

The Road Commission’s General Appropriations Act (budget) provided for expenditures of the General Fund and special revenue funds to be controlled to the activity level by the Road Commission. As detailed below, actual 2007 expenditures exceeded the board’s approved budget allocations for several general fund and special revenue fund activities.

During the fiscal year ended December 31, 2007, expenditures were incurred in excess of amounts appropriated in the amended budgets as follows:

<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road Preservation/Structural Improvements	\$ 40,620	\$ 545,700	\$ (505,080)
Local Road Routing and Preventive Maintenance	325,057	330,200	(5,143)
State Trunkline Maintenance	742,403	765,328	(22,925)
Net Administrative Expense	335,268	341,894	(6,626)
Debt Service--Principal		16,095	(16,095)
Debt Service--Interest		3,271	(3,271)

The Road Commission does not review budgeted revenues and expenditures with actual revenues and expenditures on a regular basis.

Criteria: MCL 141.437, Section 17 (1), states: “Except as otherwise provided in section 19, a deviation from the original general appropriations act shall not be made without amending the general appropriations act. Subject to section 16(2), the legislative body of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined. An amendment shall indicate each intended alteration in the purpose of each appropriation item affected by the amendment. The legislative body may require that the chief administrative officer or fiscal officer provide it with periodic reports on the financial condition of the local unit.”

KEWEENAW COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS (Continued)

MCL 141.439, Section 19 (1), states:

- (1) A member of the legislative body, the chief administrative officer, an administrative officer, or an employee of a local unit shall not authorize or participate in the expenditure of funds except as authorized by a general appropriations act. An expenditure shall not be incurred except in pursuance of the authority and appropriations of the legislative body of the local unit.
- (2) The legislative body in a general appropriations act may permit the chief administrative officer to execute transfers within limits stated in the act between appropriations without the prior approval of the legislative body.

Directive: We direct the Road Commission to comply with the above statutory budgeting requirements to develop budgetary control procedures, which will ensure that expenditures will not exceed amounts authorized in the General Appropriations Act or amendments thereof. We also recommend that the Road Commission budget revenues and expenditures based on actual accounts used.

Credit Card Expenditures

Finding 2007-6

Condition: We noted instances where credit card statements were missing supporting documentation or documentation did not include the purpose of travel and/or the individual traveling. There was also an instance where the Road Commission paid sales tax on a purchase.

Criteria: The Road Commission's credit card policy *and* MCL 129.243 states the following:

- a) An officer or employee designated by the credit card policy is responsible for the local unit's credit card issuance, accounting, monitoring, and retrieval and generally for overseeing compliance with the credit card policy.
- b) ...The credit card policy may limit the specific official business for which credit cards may be used.
- c) That an officer or employee using credit cards issued by the local unit shall submit to the local unit documentation described in the credit card policy detailing the goods or services purchased, the cost of the goods or services, the date of the purchase, and the official business for which purchased.
- d) For a system of internal accounting controls to monitor the use of credit cards issued by the local unit.
- e) For approval of the credit card invoices before payment.
- f) Any other matters the governing body considers advisable.

Directive: We direct the Road Commission to adhere to the credit card policy and State statute when using the road commission's credit cards.

KEWEENAW COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS (Continued)

Unlawful Expenditures

Finding 2007-7

Condition: Contributions or appropriations, which are not specifically authorized by the constitution or State statute, cannot be authorized or issued regardless of the worthiness of the cause.

During the fiscal year ended December 31, 2007, we found that the Road Commission paid for meals for spouses of employees during the UP Road Builders' Association meeting at the Keweenaw Mountain Lodge.

Criteria: According to Attorney General Opinion No. 599, the expenditure of county road funds to provide dinner or other entertainment for guests of the members of the Road Commission is illegal.

Directive: We direct the Road Commission to not pay for meals for anyone other than its own employees in accordance of the terms of its travel policy and AGO No. 599.

Unclaimed Checks Over 1 Year Old

Finding 2007-8

Condition: There were three checks outstanding on the health reimbursement bank reconciliation that are over one year old.

Criteria: MCL 567.234 Property held by court, governmental agency, or public corporation or authority, Section 14 states: Property held for the owner by a court, state, or other government, governmental subdivision or agency, public corporation, or public authority that remains unclaimed by the owner for more than 1 year after becoming payable or distributable is presumed abandoned. MCL 567.238 Report of presumed abandoned property; duties of property holder requires that this money must be paid over to the Unclaimed Property Division of the Michigan Department of Treasury on or before November 1st of each year for the 12 month period ending on the immediately preceding June 30th.

Directive: We direct the Road Commission to investigate the unclaimed checks and take the appropriated action in accordance with the Uniform Unclaimed Property Act laws.

Winter Maintenance for Hire

Finding 2007-9

Condition: At December 31, 2007, there were accounts receivable from private individuals/companies for winter maintenance services on private property and/or private roads, which also occurred during January through March of 2008.

KEWEENAW COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS (Continued)

Criteria: In OAG, 1943-1944, No. 0-303, p 306 (March 3, 1943), the Attorney General concluded that a board of county road commissioners was not authorized to do work for or enter into contracts to work for private individuals for hire.

In OAG, 1947-1948, No. 289, p 281 (May 9, 1947), a similar question was again presented and it was held that a board of county road commissioners could not enter into a contract with a private association to maintain private roads used by the association, since there was no statutory authority to do so.

However, the Snow Removal from Private Ways Act, 1956 PA 387, Section 1, MCL 247.361, provides that the board of county road commissioners may contract to remove snow from private driveways and roads after certain conditions had been met. However, this provision is only applicable to counties in the Upper Peninsula.

In addition, the State Trunk Line Highway System Act, 1951 PA 51, Section 12(14), as amended, MCL 247.662(14), provides that:

“A county road commission may enter into an agreement with a county road commission of an adjacent county and with a city or village to perform work on a highway, road, or street, and with the state transportation commission with respect to a state trunk line and connecting links of the state trunk line within the limits of the county or adjacent to the county. The agreement may provide for the performance by each contracting party of the work contemplated by the contract including engineering services and the acquisition of right of way in connection with the work contemplated, by purchase or condemnation, by any of the contracting parties in its own name and the agreements may provide for joint participation in the costs.”

The use of public money for a private purpose is a violation of the State constitution.

Criteria: The use of public money for a private purpose without compensation has been deemed by the Michigan Supreme Court to be a violation of the State Constitution, Article 9, Section 18, "The credit of the state shall not be granted to, nor in aid of any person, association or corporation, public or private, except as authorized in this constitution." For example, in *Alan v Wayne County*, 388 Mich 210 (1972), the Michigan Supreme Court ruled that a unit of government may not give away public property of value without fair compensation. The Supreme Court in the decision of *Black Marsh Drainage District v. Rowe* [1958], 350 Mich. 470, held that this provision applies to all political subdivisions of the state.

Directive: We direct the Road Commission to make every effort to enter into contracts with all parties and collect money in advance when performing services to private roads and for private companies/individuals when allowed by State statute.

KEWEENAW COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

OTHER MATTERS

Cash Disbursements--Approval of Invoices

Finding 2007-10

Condition: Accounts payable invoices did not always contain clear indication of approval for payment.

Criteria: According to the “Accounting Procedures Manual for Local Units of Government,” someone with adequate knowledge and responsibility must approve each invoice or request for payment. This approval should be clearly indicated on the invoice or request for payment.

Recommendation: We recommend that the Road Commission make sure that the appropriate approval is clearly indicated on all invoices or requests for payment. The account classification should be clearly indicated on each invoice and initialed by the person approving the invoice

Cash Disbursements--Cancellation of Invoices

Finding 2007-11

Condition: Accounts payable invoices did not contain clear indication of payment.

Criteria: According to the “Accounting Procedures Manual for Local Units of Government,” all invoices should be initialed or marked after payment to prevent the reuse of invoices in the system (i.e, stamped paid, check number written on invoice, etc.).

Recommendation: We recommend that the Road Commission clearly mark invoices as paid.

Tool Allotment

Finding 2007-12

Condition: We found tool allotments of \$75 are paid to mechanics twice per year through accounts payable avoiding the payroll process and reporting as well as the respective payroll taxes being withheld. The tool allotments were not included in the employees’ agreement or other documentation.

Criteria: IRS Publication 15-B (page 6) states: “You can exclude the value of a de minimis benefit you provide to an employee from the employee’s wages. A de minimis benefit is any property or service you provide to an employee that has so little value (taking into account how frequently you provide similar benefits to your employees) that accounting for it would be unreasonable or administratively impracticable. Cash, no matter how little, is never excludable as a de minimis benefit, except for occasional meal money or transportation fare.”

Recommendation: We recommend that the Road Commission have a written policy regarding tool allotments and that these and any other types of cash benefits paid to employees be included as part of the employees’ wages.

KEWEENAW COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

OTHER MATTERS (Continued)

Inventory--Reconciliation

Finding 2007-13

Condition: We randomly selected 25 various stock items from parts and signs. We compared the inventory status report with the actual counts to determine the accuracy of the inventory status reports. We also compared the distribution report with the inventory status report at December 31, 2007.

Criteria: All assets must be safeguarded and detail records must be reconciled to control totals.

Findings: Four out of the 25 items counted had variances. Two of the variances were in counts of blades which had significant variations from the inventory status report. The discrepancies are the result of weaknesses over the internal control over these types of inventory items. There was also one item where the inventory status report did not reconcile into the general ledger control accounts for inventory.

Recommendation: We recommend that physical inventory be performed on the faster moving parts as well as high priced inventory on a more frequent basis. We also recommend that the inventory stock status report be reconciled to the general ledger at least on a monthly basis.

Inventory--Accounting

Finding 2007-14

Condition: Belts and filters are not maintained in the perpetual inventory system, but are instead expensed out when received.

Criteria: According to the "Accounting Procedures Manual for Road Commissions," all purchases of equipment materials, supplies and parts, purchased for future use, shall be recorded in account #110 and charged out when actually used.

Recommendation: We recommend that the inventory of belts and parts be reviewed and added to the perpetual inventory at a zero cost as these parts have already been charged out to equipment.

Inventory--Obsolete Items

Finding 2007-15

Condition: The Road Commission does not have a set procedure for assessing and disposing of slow moving, obsolete, and defective inventories.

Criteria: According to the "Accounting Procedures Manual for County Road Commissions," the stockroom clerk should be required to report on obsolete, unusable or overstocked items at least once per year. Obsolete inventory can be disposed of in various ways. Every effort should be made to sell the items at an amount equal to the costs recorded in the inventory system. Some vendors may buy it back or trade for parts that can be used on newer equipment. Another way of disposing of obsolete inventory is to sell it to whomever buys the related equipment at the time of sale.

KEWEENAW COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

OTHER MATTERS (Continued)

Recommendation: We recommend that the Road Commission establish procedures for identifying and disposing of obsolete inventory.

Capitalization Threshold Policy

Finding 2007-16

Condition: We found that the board does not have a formal capitalization threshold policy. The Road Commission does not have a policy for determining the fair value of contributed capital assets, which should be periodically reviewed by the appropriate level of management or another appropriate person.

Recommendation: We recommend that the board adopt a resolution for a capitalization policy, an example of a policy is in the “Accounting Procedures Manual for County Road Commissions in Michigan.” The policy should also address determining the fair value of contributed capital assets (including infrastructure).

Depreciation of Chemical Storage Facility (Salt Shed)

Finding 2007-17

Condition: We found that the Road Commission recorded the depreciation expense related to the chemical storage facility that was paid 100% by the State.

Criteria: The “Uniform Accounting Procedures Manual for County Road Commissions” (page 156 and 157) states that in cases where the constructing of salt sheds are reimbursed 100% by MDOT, the building is subject to depreciation. However, no depreciation is recorded in the County Road Fund; depreciation is recorded in the Capital Assets Control only.

Recommendation: We recommend that no depreciation expense be reported for the state share of the salt shed (in this case 100%), but that the depreciation be reported only as a GASB Statement No. 34 adjustment and to the accumulated depreciation account for the salt shed.

Lack of Segregation of Duties Over Capital Assets

Finding 2007-18

Condition: We found that one person handles the recording of the detail records, control records and reconciling of the assets. This person is also not independent of the general ledger, cash, purchasing, payable functions, but generally does not authorize capital purchases.

Criteria: An accounting system is designed to assemble, analyze, classify, record, and report financial data. In performing these functions, an accounting system also must maintain adequate control over a local unit of government’s assets. An accounting system is only as reliable as the underlying data it processes. A local unit of government’s internal control framework must provide assurance that the accounting system and its underlying data are reliable. An accounting system must also facilitate maintenance of internal control.

KEWEENAW COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

OTHER MATTERS (Continued)

Recommendation: We recommend that management monitor the capital outlay and capital asset listing and periodically review the reconciliation of the assets to the control accounts.

Periodic Inventory of Moveable Capital Assets

Finding 2007-19

Condition: It appears that there are many old assets included in the capital asset accounts that may not exist and are fully depreciated. Periodic physical inventories of moveable capital assets are not performed or reconciled to detailed subsidiary records. The Road Commission does not make periodic reviews and appraisals relative to insurance considerations.

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.

Recommendation: We recommend that the Road Commission inventory their capital assets and submit to the board county road commissioners a listing of assets that are not in existence and/or are no longer serve a useful purpose. The asset insurance listing should be updated to reflect assets currently on hand.

Position Description for Employees

Finding 2007-20

Condition: Some employees do not have position descriptions and/or annual evaluations.

Criteria: The “Accounting Procedures Manual for Local Units of Government in Michigan,” states the following: Personnel needs to be competent and trustworthy with clearly established lines of authority that correlate to statutory or charter requirements. Organization charts should be developed that clearly communicate the lines of authority. Job descriptions should be maintained to ensure that employees are aware of the duties they are expected to perform and where those responsibilities end:

- Provide employees with the appropriate training, guidance, and resources necessary to carry out their duties. Management needs to provide an appropriate level of direction and supervision. Employees also need to be aware of the proper channels to report suspected improprieties. Employees need to know that every employee has a responsibility for internal control;
- Make sure that policies and operating procedures in every department are written down and communicated to employees. Such documentation provides day to day guidance and will make training easier;
- Make certain that equipment, inventories, cash and other property are secured physically, counted periodically, and compared with control records. Financial records themselves are an important asset to which access should be limited;

KEWEENAW COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

OTHER MATTERS (Continued)

- Ensure that records are reviewed and reconciled routinely by someone other than the preparer to verify that transactions are properly processed;
- Decision makers need to be provided with timely and accurate financial information to make budgetary and resource allocation decisions. If someone is to be held accountable for a certain responsibility, be sure to give them the necessary authority to complete that task. This will require that separate departments work together to achieve objectives for the local unit as a whole;
- Documentation and record retention requirements should be structured to provide reasonable assurance that all information and transactions of value are accurately recorded and retained.

Recommendation: We recommend that the Road Commission establish position descriptions and at least annual evaluations for all staff. Training and guidance should be provided to employees so that they may carry out their responsibilities in accordance with current standards.

Other Post-Employment Benefits

Finding 2007-21

Condition: The Keweenaw County Road Commission has other post-employment benefits (Road Commission paid retiree insurance premiums) that meet the requirements established under Government Accounting Standards Board Statement No. 45.

Criteria: Effective during 2008, Government Accounting Standards Board (GASB) Statement No. 45 requires governmental units to retain the services of an actuary to determine and record the unfunded liability related to other post-employment benefits.

Recommendation: We recommend that the Road Commission obtain an actuarial report or use an authorized alternative method to determine the unfunded liability related to other post-employment benefits.