

# Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended.

Unit Name	Lake County Road Commission	County	LAKE	Type	OTHER	MuniCode	43-0-100
Opinion Date	June 30, 2008	Audit Submitted	June 30, 2008	Fiscal Year	December 31, 2007		

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

**Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".**

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?      14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="text" value="4076203"/>
General Fund Expenditure:	<input type="text" value="4105642"/>
Major Fund Deficit Amount:	<input type="text"/>

General Fund Balance:	<input type="text" value="1521449"/>
Governmental Activities Long-Term Debt (see instructions):	<input type="text" value="121331"/>

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Stephen	Last Name	Peacock	Ten Digit License Number	1101021255				
CPA Street Address	107 S. Cass St., Suite A	City	Traverse City	State	MI	Zip Code	49684	Telephone	(231) 946-3230
CPA Firm Name	Rehmann Robson	Unit's Street Address	1180 N. Michigan Ave.	City	Baldwin	Zip Code	49304		

**Lake County Road Commission**  
(A Component Unit of Lake County)

**Baldwin, Michigan**

**Financial Statements**

**For the Year Ended December 31, 2007**



**REHMANN ROBSON**

*Certified Public Accountants*

**LAKE COUNTY ROAD COMMISSION**  
**(A Component Unit of Lake County)**

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**REHMANN ROBSON**

*Certified Public Accountants*

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An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT**

June 30, 2008

Members of the Board of County  
Road Commissioners  
County of Lake, Michigan  
Baldwin, Michigan

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2008 on our consideration of the **Lake County Road Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Lake County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Lake County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2007. The annual report consists of a series of financial statements. The Statements of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

### Overview of the Financial Statements

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

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

Note that Lake County government-wide financial statements are not herein presented because the Road Commission is a component unit of the county. The county presents their financial statements elsewhere and in a manner partially resembling private-sector business in its government-wide financial statements in compliance with GASB Statement No. 34.

### **Government-wide Statements**

The *statement of net assets* presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related* cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The component unit financial statements are principally supported by state shared revenues (operating grants). The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within Lake County.

The government-wide financial statements include only the Road Commission itself (known as the *Primary government*). The Road Commission has no legally separate component units for which the Road Commission is financial accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Lake County which reports the Road Commission as a component unit.

The government-wide financial statements can be found on pages 10 and 12 of this report.

**Fund financial statements.** A *fund* is grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Fund).

**Governmental funds.** *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund can be found on pages 14 through 15 of this report.

The Road Commission does not maintain proprietary nor fiduciary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements can be found on pages 16 through 25 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

### Government-wide Financial Analysis

The Road Commission's net assets increased approximately 9.2% or \$395,822 from \$4,320,527 to \$4,716,349 for the year ended December 31, 2007. The net assets and change in net assets are summarized below.

#### Lake County Road Commission Net Assets:

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$ 1,843,832	\$ 1,607,299	\$ 236,533	14.7%
Capital assets	<u>3,316,231</u>	<u>2,947,641</u>	<u>368,590</u>	12.4%
Total assets	<u>5,160,063</u>	<u>4,554,940</u>	<u>605,123</u>	13.3%
Current and other liabilities	322,383	56,411	265,972	471.5%
Long-term liabilities outstanding	<u>121,331</u>	<u>178,002</u>	<u>(56,671)</u>	(31.8)%
Total liabilities	<u>443,714</u>	<u>234,413</u>	<u>209,301</u>	89.3%
Net assets:				
Invested in capital assets	3,316,231	2,911,291	404,940	(0.6)%
Unrestricted	<u>1,400,118</u>	<u>1,409,236</u>	<u>(9,118)</u>	(0.6)%
Total net assets	<u>\$ 4,716,349</u>	<u>\$ 4,320,527</u>	<u>\$ 395,822</u>	9.2%

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Lake County Road Commission, assets exceeded liabilities by \$4,716,349, at the close of the most recent fiscal year.

By far the largest portion of the Lake County Road Commission's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment).

## Governmental Activities

A summary of changes in net assets for the years ended December 31, 2007 and 2006, follows:

	<u>December 31</u> <u>2007</u>	<u>December 31</u> <u>2006</u>
Program revenue		
Charges for services	\$ 550,040	\$ 394,064
Operating grants and contributions		
State transportation funds	2,754,462	2,770,250
Capital grants and contributions		
Federal and state sources	674,986	259,509
General revenue		
Interest and rents	42,219	54,262
Contributions	45,321	50,092
Reimbursements	675	4,584
Gain on equipment disposal	<u>8,500</u>	<u>5,671</u>
Total revenue	4,076,203	3,538,432
Expenses		
Public Works	<u>3,680,381</u>	<u>3,776,485</u>
Increase (decrease) in net assets	<u>\$ 395,822</u>	<u>\$ 170,678</u>

Governmental activities increased the Lake County Road Commission's net assets by \$395,822. The key elements of this decrease are as follows:

- There was a 40% increase in charges for services from the prior year, due to increase in non-recurring maintenance projects on Township roads and State trunklines.
- There was a 160% increase in capital grants and contributions from the prior year, due to higher number of non-recurring maintenance projects that were funded with grants and contributions in the current year.

A summary of changes on the Operating fund is as follows:

	<u>For the year ended December 31, 2007</u>				<b>Actual for the Year Ended December 31 2006</b>
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>	
Revenue					
State sources	\$ 3,118,000	\$3,118,000	\$ 3,429,448	\$ 311,448	\$ 3,029,759
Contributions	97,000	97,000	41,810	(51,190)	42,701
Charges for services	371,000	371,000	508,230	137,230	351,363
Interest and rentals	1,300	1,300	42,219	40,919	54,262
Other revenue	-	-	54,496	54,496	60,347
Total revenue	<u>3,587,300</u>	<u>3,587,300</u>	<u>4,076,203</u>	<u>488,903</u>	<u>3,538,432</u>
Expenditures					
Primary road maintenance	1,270,000	1,270,000	2,033,362	(763,362)	1,682,223
Local road maintenance	1,534,200	1,534,200	1,747,567	(204,508)	1,747,567
State trunkline maintenance	380,000	380,000	347,098	(115,420)	347,098
Equipment expense (net)	337,300	337,300	(280,958)	618,258	313,833
Administrative expense (net)	260,000	260,000	304,083	(44,083)	(15,629)
Capital outlay (net)	(219,200)	(219,200)	(220,973)	1,773	(86,083)
Debt service	-	-	36,000	(36,000)	23,650
Other	25,000	25,000	-	25,000	-
Total expenditures	<u>3,587,300</u>	<u>3,587,300</u>	<u>4,105,642</u>	<u>(518,342)</u>	<u>4,080,777</u>
Revenues over (under) expenditures	-	-	(29,439)	(29,439)	(474,227)
Other financing sources	-	-	-	-	60,000
Net change in fund balance	-	-	(29,439)	(29,439)	(414,227)
Fund balances, beginning of year	<u>1,550,888</u>	<u>1,550,888</u>	<u>1,550,888</u>	-	<u>1,965,115</u>
Fund balances, end of year	<u>\$ 1,550,888</u>	<u>\$ 1,550,888</u>	<u>\$ 1,521,449</u>	<u>\$ (29,439)</u>	<u>\$ 1,550,888</u>

### **General Fund Budgetary Highlights**

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

## Capital Assets and Debt Administration

As of December 31, 2007, the Lake County Road Commission had invested \$3,316,231 in capital assets. This amount represents a net increase (including additions and deductions) of \$369,030 for 12.52% as follows:

	<u>2007</u>	<u>2006</u>	
Capital assets not being depreciated			
Land and improvements	\$ 61,825	\$ 61,825	00.00%
Construction in progress	-	8,903	100.00%
Depletable assets	<u>29,709</u>	<u>29,709</u>	0.00%
Subtotal	<u>91,534</u>	<u>100,437</u>	(9.73)%
Capital assets being depreciated			
Buildings	1,368,249	1,363,180	0.37%
Equipment	4,731,749	4,717,733	(0.30)%
Infrastructure	<u>2,542,886</u>	<u>1,776,421</u>	30.14%
Subtotal	<u>8,642,884</u>	<u>7,857,334</u>	9.09%
Total capital assets	8,734,418	7,957,771	9.76%
Total accumulated depreciation	<u>(5,418,187)</u>	<u>(5,010,570)</u>	7.52%
Total net capital assets	<u>\$ 3,316,231</u>	<u>\$ 2,947,201</u>	11.13%

Major capital asset events during the current fiscal year included the following:

Buildings	\$ 5,069
Various Resurfacing & Bridge Repair	766,465
Equipment	<u>14,016</u>
Total Additions	<u>\$ 785,550</u>

The Lake County Road Commission disposed of no capital assets (equipment) in 2007.

Additional information on the Road Commission's capital assets can be found in note III.B. on page 22.

## Long-term debt

At the year end, the Lake County Road Commission had no notes, bonds or installment purchase agreements. The balance of the Road Commission's long-term obligations include accrued vacation and sick pay leave. More detailed information about the Road Commission's long-term liabilities is presented in Note III. C. to the financial statements.

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

No significant factors influenced our preparation of the 2008 Road Commission budget.

## **Requests for Information**

This financial report is designed to provide a general overview of the Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk, Lake County Road Commission, P.O. Box 790, Baldwin, Michigan 49304.

## **BASIC FINANCIAL STATEMENTS**

**LAKE COUNTY ROAD COMMISSION**

**STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET**

**DECEMBER 31, 2007**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>ASSETS</b>			
Cash and interest bearing deposits	\$ 909,864	\$ -	\$ 909,864
Accounts receivable			
State trunkline maintenance	73,575	-	73,575
Due on county road agreements	67,540	-	67,540
Motor vehicle highway funds	413,778	-	413,778
Other	1,710	-	1,710
Inventories			
Equipment material and parts	31,384	-	31,384
Road materials	345,981	-	345,981
Capital assets			
Land and improvements	-	61,825	61,825
Depletable assets	-	29,709	29,709
Property and equipment - net of accumulated depreciation	-	1,249,782	1,249,782
Infrastructure - net of accumulated depreciation	-	1,974,915	1,974,915
<b>Total assets</b>	<u>\$ 1,843,832</u>	<u>\$ 3,316,231</u>	<u>5,160,063</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 68,707	\$ -	68,707
Accrued liabilities	38,676	-	38,676
Deferred revenue	215,000	-	215,000
Long-term liabilities			
Due within one year	-	23,934	23,934
Due after one year	-	97,397	97,397
<b>Total liabilities</b>	<u>322,383</u>	<u>121,331</u>	<u>443,714</u>
<b>Fund Balance/Net Assets</b>			
Fund balance			
Reserved for inventory	377,365	(377,365)	-
Unreserved, undesignated	1,144,084	(1,144,084)	-
<b>Total fund balance</b>	<u>1,521,449</u>	<u>(1,521,449)</u>	<u>-</u>
<b>Total liabilities and fund balance</b>	<u>\$ 1,843,832</u>		
<b>Net Assets:</b>			
Invested in capital assets		3,316,231	3,316,231
Unrestricted		1,400,118	1,400,118
<b>Total net assets</b>		<u>\$ 4,716,349</u>	<u>\$ 4,716,349</u>

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

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

**DECEMBER 31, 2007**

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<b>Fund balances - General Fund</b>	\$ 1,521,449
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Add - land	61,825
Add - depletable assets	29,709
Add - property and equipment	6,099,998
Add - infrastructure	2,542,886
Deduct - accumulated depreciation	(5,418,187)
Long-term liabilities, including bonds payable and capital leases payable are not due and payable in the current period and therefore, are not reported in the funds	
Deduct - accrued compensated absences	<u>(121,331)</u>
<b>Net assets of governmental activities</b>	<u><u>\$ 4,716,349</u></u>

The accompanying notes are an integral part of these financial statements

## LAKE COUNTY ROAD COMMISSION

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

FOR THE YEAR ENDED DECEMBER 31, 2007

	General Fund	Adjustments	Statement of Activities
<b>Expenditures/expenses</b>			
Public works	\$ 3,328,995	\$ 351,386	\$ 3,680,381
Capital outlay	776,647	(776,647)	-
<b>Total expenditures/expenses</b>	4,105,642	(425,261)	3,680,381
<b>Program revenue</b>			
Charges for services	550,040	-	550,040
<b>Operating grants and contributions</b>			
State transportation funds	2,754,462	-	2,754,462
<b>Capital grants and contributions</b>			
Federal and state sources	674,986	-	674,986
Total program revenues	3,979,488	-	3,979,488
Net program revenue			299,107
<b>General revenue</b>			
Interest and rents	42,219	-	42,219
Contributions	45,321	-	45,321
Gain on sale of assets	8,500	-	8,500
Reimbursements	675	-	675
Total general revenue	96,715	-	96,715
<b>Total revenue</b>	4,076,203		
Net change in fund balance	(29,439)	29,439	-
Changes in net assets	-	395,822	395,822
Fund balance/net assets:			
Beginning of the year	1,550,888	2,769,639	4,320,527
<b>End of the year</b>	\$ 1,521,449	\$ 3,194,900	\$ 4,716,349

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

**LAKE COUNTY ROAD COMMISSION**  
**Reconciliation of the General Fund Revenues, Expenditures**  
**and Changes in Fund Balance to the Statement of Activities**

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

**Net change in fund balance - General Fund** \$ (29,439)

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

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

Add - capital outlay	19,085
Add - Infrastructure purchases	757,562
Deduct - depreciation expense	(407,617)

Repayment of the principal on long-term debt consumes current financial resource of governmental funds. This transaction, however, does not affect net assets. This amount is the effect of this difference in the treatment of long-term debt	36,000
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The change in the accrued compensated absences is reported as an expense in the statement of activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund.	<u>20,231</u>
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**Change in net assets of governmental activities** \$ 395,822

The accompanying notes are an integral part of these financial statements

# LAKE COUNTY ROAD COMMISSION

## GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>				
<b>State sources</b>				
Michigan Transportation funds				
Engineering	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Snow removal	80,000	81,523	81,523	-
Allocation	2,700,000	2,649,160	2,662,939	13,779
Critical bridge	691,000	574,750	577,150	
Exchange of federal funds for state funds	224,000	214,999	-	(214,999)
Economic development funds				
Forest Road (E)	98,000	97,836	97,836	-
<b>Contributions</b>				
Townships	47,000	41,810	41,810	-
Other	57,000	53,700	-	(53,700)
<b>Charges for services</b>				
State trunkline maintenance	413,000	410,000	443,357	33,357
State trunkline nonmaintenance	-	62,865	62,866	1
Salvage sales	2,000	-	2,007	2,007
<b>Interest and rentals</b>				
	10,000	31,600	42,219	10,619
<b>Other revenue</b>				
Gain (loss) on equipment disposal	-	-	8,500	8,500
Contributions	-	-	45,321	45,321
Reimbursements	-	-	675	675
<b>Total revenue</b>	4,332,000	4,228,243	4,076,203	(154,440)

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

**LAKE COUNTY ROAD COMMISSION**

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

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Expenditures</b>				
<b>Primary Road</b>				
Structural maintenance	\$ 755,000	\$ 693,460	\$ 705,847	\$ (12,387)
General maintenance	-	33,890	-	
Maintenance	1,400,000	1,350,000	1,327,515	22,485
<b>Local Road</b>				
Heavy maintenance	85,000	74,437	60,617	13,820
Maintenance	1,500,000	1,610,000	1,678,091	(68,091)
<b>Total maintenance</b>	3,740,000	3,761,787	3,772,070	(10,283)
<b>State trunkline maintenance</b>	413,000	466,000	495,420	(29,420)
<b>State trunkline nonmaintenance</b>	-	62,865	62,866	(1)
<b>Equipment expense (net)</b>	25,000	(130,000)	(280,958)	150,958
<b>Administrative expense (net)</b>	300,000	295,000	304,083	(9,083)
<b>Capital outlay (net)</b>	(146,000)	(353,386)	(283,839)	(69,547)
<b>Debt service</b>	-	-	36,000	(36,000)
<b>Other</b>	-	-	-	-
<b>Total expenditures</b>	<u>4,332,000</u>	<u>4,102,266</u>	<u>4,105,642</u>	<u>(3,376)</u>
Net change in fund balance	-	125,977	(29,439)	(155,416)
Fund balances, beginning of year	<u>1,550,888</u>	<u>1,550,888</u>	<u>1,550,888</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 1,550,888</u>	<u>\$ 1,676,865</u>	<u>\$ 1,521,449</u>	<u>\$ (155,416)</u>

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

# LAKE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### A. Reporting Entity

The *Lake County Road Commission*, referred to as the Road Commission, is a discrete component unit of the County of Lake, Michigan. The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Department of State Highways for work done by the County on State trunklines, Federal Transportation funds, and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable.

The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan, to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

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

The government-wide financial *statements* (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by taxes, charges for services and intergovernmental revenues.

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

A combined financial statement is provided for the general fund balance sheet and the statement of net assets and the general fund statement of revenues, expenditures and changes in fund balance and the statement of activity. The general fund is considered to be a major fund for financial reporting purposes.

# LAKE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund statement of revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 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 not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and federal revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major *governmental* fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

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

#### **1. Deposits**

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

#### **2. Inventory**

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

# LAKE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### 3. Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Fund.

Costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets (roads, bridges, traffic signals and similar items) in 2007 were capitalized and are reported as infrastructure capital assets in the Statement of Net Assets. Infrastructure capital assets will continue to be capitalized prospectively.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

Buildings	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Office equipment	4 to 10 years
Engineering equipment	4 to 10 years
Infrastructure – bridges	12 to 50 years
Infrastructure – roads	5 to 30 years
Infrastructure – traffic signals	15 years

# LAKE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### 4. State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. The amount of the adjustments, if any, for the year ended December 31, 2007, has not been determined.

### 5. Compensated Absences

Vacation and sick leave payable is reported in the General Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. Budgetary Data

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

The Superintendent submits a proposed budget for the upcoming year to the Board of County Road Commissioners. The budget is reviewed by the Board and a public hearing is held. Prior to the beginning of the year, the budget is adopted and placed in the Board minutes by the Road Commission.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.

Variances at the legal level of control are as disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

**LAKE COUNTY ROAD COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**

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**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits**

**Deposits**

At year-end, the carrying amounts of the Road Commission's deposits were as follows:

	<b>Cash and Cash <u>Equivalents</u></b>
Certificates of deposit	\$ 614,221
Other demand accounts	<u>295,643</u>
	<b><u>\$ 909,864</u></b>

This entire balance is considered to be deposits for disclosure purposes.

**Deposit and investment risk**

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997

# LAKE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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*Interest Rate Risk.* The Road Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* The Road Commission's investment policy does not have specific limits in excess of state law on investment credit risk. At year-end, the Road Commission had no investments and was therefore, not exposed to credit risk.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. At year-end, \$887,369 of the Road Commission's bank balance of \$987,369 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk. The Road Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. At year-end, The Road Commission had no investments and was therefore, not exposed to concentration of credit risk.

# LAKE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### B. Capital Assets

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

	<u>Balance January 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2007</u>
Capital assets not being depreciated				
Land and improvements	\$ 61,825	\$ -	\$ -	\$ 61,825
Construction in progress	8,903	-	(8,903)	-
Depletable assets	<u>29,709</u>	<u>-</u>	<u>-</u>	<u>29,709</u>
Total capital assets not being depreciated	<u>100,437</u>	<u>-</u>	<u>(8,903)</u>	<u>91,534</u>
Capital assets being depreciated				
Buildings	1,363,180	5,069	-	1,368,249
Road equipment	4,322,090	14,016	-	4,336,106
Shop equipment	133,943	-	-	133,943
Engineers equipment	27,167	-	-	27,167
Yard and storage equipment	152,339	-	-	152,339
Office equipment	82,194	-	-	82,194
Infrastructure – roads	<u>1,776,421</u>	<u>766,465</u>	<u>-</u>	<u>2,542,886</u>
Total capital assets being depreciated	<u>7,857,334</u>	<u>785,550</u>	<u>-</u>	<u>8,642,884</u>
Less accumulated depreciation				
Buildings	(506,181)	(38,591)	-	(544,772)
Road equipment	(3,703,080)	(249,618)	-	(3,952,258)
Shop equipment	(107,021)	(17,189)	-	(124,210)
Engineers equipment	(21,542)	(1,063)	-	(22,605)
Yard and storage equipment	(123,051)	(9,177)	-	(132,228)
Office equipment	(73,072)	(631)	-	(73,703)
Infrastructure – roads	<u>(476,623)</u>	<u>(91,348)</u>	<u>-</u>	<u>(567,971)</u>
Total accumulated depreciation	<u>(5,010,570)</u>	<u>(407,617)</u>	<u>-</u>	<u>(5,418,187)</u>
Net capital assets being depreciated	<u>2,846,764</u>	<u>377,933</u>	<u>-</u>	<u>3,224,697</u>
Total net capital assets	<u>\$ 2,947,201</u>	<u>\$ 377,933</u>	<u>\$ (8,903)</u>	<u>\$ 3,316,231</u>

# LAKE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### C. Long-Term Debt

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

	<u>Balance January 1, 2007</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance December 31, 2007</u>	<u>Due Within One Year</u>
Installment purchase agreements	\$ 36,000	\$ -	\$ (36,000)	\$ -	\$ -
Compensated absences	<u>141,652</u>	<u>87,734</u>	<u>(108,055)</u>	<u>121,331</u>	<u>23,934</u>
Total	<u>\$ 178,002</u>	<u>\$ 87,734</u>	<u>\$ (144,405)</u>	<u>\$ 121,331</u>	<u>\$ 23,934</u>

### IV. OTHER INFORMATION

#### A. Defined Benefit Pension Plan

##### **Pension Plan**

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (888) 478-1919.

##### **Funding Policy**

The Road Commission is required to contribute at an actuarially determined rate; the current rate is 16.78% of annual covered payroll. Road Commission employees are required to contribute 2% of their annual covered payroll to the plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission.

# LAKE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Annual Pension Cost

For the year ended December 31, 2007, the Road Commission's annual pension cost of \$251,354 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2006, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 29 years.

### Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2005	\$205,693	100%	\$ -
12/31/2006	235,315	100	-
12/31/2007	251,354	100	-

# LAKE COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2004	\$ 4,854,999	\$ 6,781,539	\$ 1,926,540	72%	\$ 1,180,521	163%
12/31/2005	5,052,660	7,287,772	2,235,112	69	1,170,898	191
12/31/2006	5,305,502	7,585,093	2,279,591	70	1,274,704	191

**B. Self-Insurance Pool**

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

**C. Contingencies**

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

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## **OPERATING FUND SCHEDULES**

**LAKE COUNTY ROAD COMMISSION**

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

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

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
<b>Revenues</b>				
State sources				
Michigan transportation funds				
Engineering	\$ 5,076	\$ 4,924	\$ -	\$ 10,000
Snow removal	41,381	40,142	-	81,523
Allocation	1,351,578	1,311,361	-	2,662,939
Other				
Critical Bridge	577,150	-	-	577,150
Economic development funds				
Forest roads (E)	65,560	32,276	-	97,836
Contributions from local units				
Townships	-	-	41,810	41,810
Charges for services				
State trunkline maintenance	-	-	443,357	443,357
State trunkline non-maintenance	-	-	62,866	62,866
Salvage sales	-	-	2,007	2,007
Interest and rentals	-	-	42,219	42,219
Other				
Gain on equipment disposal	-	-	8,500	8,500
Contributions	-	-	45,321	45,321
Reimbursements	-	-	675	675
<b>Total revenues and other financing sources</b>	<b>\$ 2,040,745</b>	<b>\$ 1,388,703</b>	<b>\$ 646,755</b>	<b>\$ 4,076,203</b>

**LAKE COUNTY ROAD COMMISSION**

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

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

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
<b>Expenditures</b>				
Heavy maintenance				
Roads	\$ 21,754	\$ 60,617	\$ -	\$ 82,371
Structures	684,093	-	-	684,093
Maintenance				
Roads	998,821	1,339,191	-	2,338,012
Winter maintenance	326,136	336,190	-	662,326
Traffic control	2,558	2,710	-	5,268
Total maintenance	2,033,362	1,738,708	-	3,772,070
State trunkline maintenance	-	-	495,420	495,420
State trunkline nonmaintenance			62,866	62,866
Equipment expense (net)	(84,344)	(145,424)	(51,190)	(280,958)
Administrative expense (net)	163,918	140,165	-	304,083
Capital outlay (net)	-	-	(283,839)	(283,839)
Debt service: principal	-	-	36,000	36,000
<b>Total expenditures</b>	<b>\$ 2,112,936</b>	<b>\$ 1,733,449</b>	<b>\$ 259,257</b>	<b>\$ 4,105,642</b>

**LAKE COUNTY ROAD COMMISSION**

**GENERAL OPERATING FUND  
SCHEDULE OF CHANGES IN FUND BALANCE BY COMPONENT**

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

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Total revenues	\$ 2,040,745	\$ 1,388,703	\$ 646,755	\$ 4,076,203
Total expenditures	<u>2,112,936</u>	<u>1,733,449</u>	<u>259,257</u>	<u>4,105,642</u>
<b>Revenues over (under) expenditures</b>	(72,191)	(344,746)	387,498	(29,439)
<b>Other financing sources (uses)</b>				
Intrafund transfers	<u>-</u>	<u>347,957</u>	<u>(347,957)</u>	<u>-</u>
<b>Revenues and other sources over (under) expenditures and other (uses)</b>	(72,191)	3,211	39,541	(29,439)
<b>Fund balance, beginning of year</b>	<u>892,578</u>	<u>-</u>	<u>658,310</u>	<u>1,550,888</u>
<b>Fund balance, end of year</b>	<u>\$ 820,387</u>	<u>\$ 3,211</u>	<u>\$ 697,851</u>	<u>\$ 1,521,449</u>

# **INTERNAL CONTROL AND COMPLIANCE**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

June 30, 2008

Members of the Board of County  
Road Commissioners  
County of Lake, Michigan  
Baldwin, Michigan

We have audited the basic financial statements of the governmental activities and the major fund of the *Lake County Road Commission*, a component unit of Lake County, as of and for the year ended December 31, 2007, and have issued our report thereon dated June 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the *Lake County Road Commission's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control over financial reporting.

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 adversely affects the Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control. We consider the deficiencies described in the accompanying schedule of financial statement findings as items 2007-1 and 2007-2 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that any of the significant deficiencies described in the accompanying schedule of financial statement findings is a material weakness.

### **Compliance and Other Matters**

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

We noted certain matters that we reported to management of the Road Commission, in a separate letter dated June 30, 2008.

Lake County Road Commission's responses to the findings identified in our audit are described in the following section. We did not audit *Lake County Road Commission's* response and, accordingly, we express no opinion on them.

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

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

# Lake County Road Commission

## Financial Statement Findings

December 31, 2007

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### **Finding 2007-1: Preparation of Financial Statements in Accordance with GAAP**

- Criteria:** All Michigan governments are required to prepare financial statement in accordance with generally accepted accounting principles (GAAP.) This is a responsibility of the government's management. The preparation of financial statement in accordance to GAAP requires internal controls over both (1) recording, processing, and summarizing accounting date (i.e., maintaining internal books and records), and (2) reporting Government-wide and fund financial statements, including the related Footnotes (i.e., external financial reporting.)
- Condition:** As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based , in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.
- Cause:** This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
- Effect:** As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
- View of Responsible Officials:** The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

## **Finding 2007-2: Segregation of Duties**

- Criteria:** An important component of any internal control system is appropriate segregation of duties over key accounting functions.
- Condition:** The Road Commission Clerk currently performs several accounting functions of receipting, disbursing and posting to the general ledger. To provide a system of checks and balances, these functions are generally assigned to different employees to minimize the potential for unauthorized transactions.
- Cause:** Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the added personnel.
- Effect:** This condition provides opportunities for inaccurate or unauthorized disbursements or transfers from road funds and increases the potential for inaccurate reporting of account activity.
- Recommendation:** The Board should be aware of the potential weaknesses in the internal controls system due to this lack of segregation of duties and provide appropriate oversight or assistance to personnel when cost beneficial.
- View of Responsible Officials:** The government is aware of the weaknesses in this area and feels that the strong oversight and involvement of the Board provides necessary control.



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

June 30, 2008

Members of the Board of County  
Road Commissioners  
County of Lake, Michigan

We have audited the financial statements of the *Lake County Road Commission* for the year ended December 31, 2007, and have issued our report thereon dated June 30, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated December 28, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the *Lake County Road Commission's* compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Planned Scope and Timing of the Audit**

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

## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the **Lake County Road Commission** are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

- Management's estimate of the useful lives of depreciable capital assets is based on standard useful lives for road commissions.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements may be affected by unusual transactions, including nonrecurring transactions. We noted none of these types of unusual or nonrecurring transactions.

### *Difficulties Encountered in Performing the Audit*

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

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No such misstatements were noted during the performance of our audit.

*Disagreements with Management*

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

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 30, 2008.

*Management Consultations with Other Independent Accountants*

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

*Other Audit Findings or Issues*

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

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

Very truly yours,

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

# Lake County Road Commission

## Comments and Recommendations

For the Year Ended December 31, 2007

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In planning and performing our audit of the financial statements of the *Lake County Road Commission* as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Road Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

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

### **Other Matters**

#### **Bank Reconciliation Process**

**Criteria:** The Michigan Department of Treasury has recently issued guidance re-emphasizing its position as stated in the *Uniform Accounting Procedures Manual* that local units of government are required to prepare bank reconciliations for all cash accounts monthly. Auditors are now required to report to the Local Audit and Finance Division whether all bank reconciliations examined in connection with our audit were performed timely (i.e., within six weeks of each month end). In addition, to ensure good internal controls, bank reconciliations should be reviewed by a responsible official and both the preparer and the reviewer should initial and date the reconciliation as evidence.

# Lake County Road Commission

## Comments and Recommendations

For the Year Ended December 31, 2007

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**Condition:** We noted during our auditing procedures related to cash, that bank reconciliations are not being reviewed by a responsible official other than the preparer.

**Cause:** The cause of this condition is that the Commission has a small staff which makes independent review of bank reconciliations difficult.

**Effect:** As a result of this condition, the Commission does not have independent reconciliation of its bank statements.

**Recommendation:** We recommend that to strengthen internal controls in this area, bank reconciliations should be reviewed by a responsible official with a working knowledge of the Commission's bank accounts. To document the preparation and subsequent review, bank reconciliations should be initialed and dated by both the preparer and reviewer.

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