

### Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Lapeer County Road Commission	County Lapeer County
Fiscal Year End September 30, 2007	Opinion Date March 31, 2008	Date Audit Report Submitted to State May 7, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe) Internal Control Letter	<input checked="" type="checkbox"/>			
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC		Telephone Number (810) 984-3829		
Street Address 1979 Holland Avenue		City Port Huron	State MI	Zip 48060
Authorizing CPA Signature 		Printed Name Larry J. Allen		License Number 1101008117

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**ANNUAL FINANCIAL REPORT**  
**with Supplementary Information**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**SEPTEMBER 30, 2007**  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners  
of Lapeer County  
Lapeer, Michigan

We have audited the accompanying basic financial statements of the Lapeer County Road Commission, a component unit of Lapeer County, Michigan, as of September 30, 2007, and for the nine months then ended. These financial statements are the responsibility of the Road Commission 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we express no such opinion. 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 Road Commission of Lapeer County, Michigan, as of September 30, 2007, and the results of its operations for the nine months 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 March 31, 2008 on our consideration of the Road Commission of Lapeer County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing 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 accompanying management's discussion and analysis on pages 3-6 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 an opinion on the financial statements of the Lapeer County Road Commission. The schedules on pages 24-26 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Road Commission of Lapeer County, Michigan. 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.

*Stewart, Beauvais Whipple*  
Certified Public Accountants

March 31, 2008

# **LAPEER COUNTY ROAD COMMISSION**

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## **A Component Unit of Lapeer County, Michigan**

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

As management of the Lapeer County Road Commission (the "Road Commission"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the nine months ended September 30, 2007. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to provide a basis of understanding of the Lapeer County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

#### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Road Commission finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Road Commission assets and liabilities, with the differences 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 government'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 future fiscal periods.

#### **Governmental Financial Statements**

Unlike the government-wide financial statements, governmental financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the year. Such information may be useful in evaluating the Road Commission's near term financing requirements.

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

The Lapeer County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10-23 of this report.

## FINANCIAL HIGHLIGHTS

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$72,869,460 at the end of the nine months.

The net assets are separated into three major components, invested in capital assets net of related debt, which amounted to \$66,702,581 or 91.5% of net assets, restricted net assets of \$3,304,111 or 4.6% of net assets and finally unrestricted net assets of \$2,862,768 or 3.9%. The invested in capital assets of the Road Commission reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure) less any related debt not funded by Townships. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The restricted net assets are the net assets that resulted from Primary and Local Road activities that are restricted by the Michigan Department of Transportation to be used on the respective Primary and Local roads. The remaining balance of unrestricted net assets may be used to meet the Road Commission's on-going obligations to citizens and creditors.

At the end of the current nine months, the Road Commission is able to report positive balances in all three categories (invested in capital assets net of related debt, restricted and unrestricted net assets). The Road Commission's combined net assets increased \$1,158,279 from nine months ago.

The following table presents a comparison of the net assets at September 30, 2007 and December 31, 2006 in a condensed format:

<b>Condensed Statement of Net Assets</b>	<u><b>2007</b></u>	<u><b>2006</b></u>
Assets		
Current and other unrestricted assets	\$ 5,470,087	\$ 4,331,451
Due from townships – MTF note agreements	1,761,501	2,116,138
Capital Assets	<u>69,262,434</u>	<u>69,591,442</u>
Total Assets	<u>76,494,022</u>	<u>76,039,031</u>
Liabilities		
Long-term liabilities outstanding	2,559,853	3,172,494
Other liabilities	<u>1,064,709</u>	<u>1,155,356</u>
Total Liabilities	<u>3,624,562</u>	<u>4,327,850</u>
Net Assets:		
Invested in capital assets	66,702,581	66,418,948
Restricted	3,304,111	2,069,314
Unrestricted	<u>2,862,768</u>	<u>3,222,919</u>
Total net assets	<u>\$ 72,869,460</u>	<u>\$ 71,711,181</u>

The Road Commission elected to change its year end from December 31 to September 30, effective with September 30, 2007. As a result, the Statement of Activities reports revenues and expenses for the nine months ended September 30, 2007. The major reason for the change in year end was to be able to report winter costs in the same year and to not have to approach the end of a fiscal year with unknown winter maintenance costs. A supplemental advantage is that the Road Commission year end will coincide with the State of Michigan (MDOT) year end.

The following table presents a comparison of Statement Activities for the nine months ended September 30, 2007 and the year ended December 31, 2006 in a condensed format:

<b>Condensed Statement of Activities</b>	<u>2007</u>	<u>2006</u>
Revenues		
Federal Sources	\$ -	\$ 502,328
State Sources	6,068,050	7,530,374
Local Sources	1,441,381	1,585,075
Charges for Services and Other	<u>1,619,048</u>	<u>3,276,561</u>
	<u>9,128,479</u>	<u>12,894,338</u>
Expenses		
Maintenance	4,405,720	7,191,689
Administration	447,246	655,960
Equipment (net)	( 474,919)	( 243,388)
Other	484,436	473,372
Depreciation	<u>3,107,717</u>	<u>3,995,673</u>
	<u>7,970,200</u>	<u>12,073,306</u>
Change in Net Assets	<u>\$ 1,158,279</u>	<u>\$ 821,032</u>

### **Financial Analysis of Governmental Fund Statements**

As noted earlier, the focus of the fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the nine months.

As of the end of the nine months, the Road Commission reported an ending fund balance of \$4,643,530, an increase of \$1,372,205 from the prior year. \$1,333,818 of the fund balance constitutes unreserved fund balance, which is available for spending at the Road Commission's discretion. The remainder of the fund balance is reserved to indicate that the amount is not available for new spending because \$5,601 has been prepaid and \$3,304,111 has been reserved for expenditures related to primary and local roads as required by the Michigan Department of Transportation.

### **BUDGETARY HIGHLIGHTS**

The Road Commission amended its 2007 budget to reflect status changes resulting in a shift from preservation-structural improvement projects related to road and bridge projects to routine maintenance. The total final budget was \$228,206 more than the original budget for revenues and \$315,687 less than the original budget for expenditures primarily for these reasons. The actual 2007 revenues were \$247,136 less than the amended budget. The actual 2007 expenditures were \$315,690 less than the amended budget. This resulted in the excess of revenues over expenditures being 5% more than anticipated.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets** - The Road Commission had \$69,262,434 in capital assets at the end of the nine months. The decrease from the previous year was only \$329,008, which was only .5%.

The following table presents a summary of capital assets net of accumulated depreciation at September 30, 2007 and December 31, 2006:

	<u>2007</u>	<u>2006</u>
Land & Land Improvements	\$ 36,589,357	\$ 35,607,948
Depletable Assets	70,847	70,847
Buildings & Improvements	531,140	569,841
Equipment – Road	1,729,242	2,095,069
Infrastructure	<u>30,341,848</u>	<u>31,247,737</u>
Total Capital Assets	<u>\$ 69,262,434</u>	<u>\$ 69,591,442</u>

Additional information on the Road Commission’s capital assets may be found in Note 7 to the financial statements on page 17.

**Long-Term Liabilities** – At the end of the nine months, the Road Commission had total MTF note debt outstanding of \$1,470,000. Through agreements with several townships this debt and related interest is to be paid by them. The debt is backed by the full faith and credit of Lapeer County. Additional information on the Road Commission’s long-term liabilities may be found in Note 9 to the financial statements on pages 18-20.

### **ECONOMIC FACTORS AND NEXT YEAR’S BUDGET**

The first year will be 2008 for the Road Commission to be operating on a year from October 1 to September 30, and thus, the 2007-2008 winter maintenance will be reported all in one fiscal year.

The Road Commission major revenue streams have continued to decline. Long-term state fiscal crises has affected local townships ability to be able to fund preservation-structural improvements and projects as well as routine maintenance services. This has particularly affected our shared programs.

The 2008 budget projects an original reduction in expenditures waiting for possible approval of projects by the townships. As a result, an increase in fund balance of approximately \$1,101,597 is the preliminary projection for 2008. With the new reporting period, the Road Commission will be able to know what funds will be available for the 2008 projects after the winter maintenance season, rather than having to estimate how the year will end for winter maintenance.

### **CONTACTING THE ROAD COMMISSION MANAGEMENT**

This financial report is designed to provide a general overview of the Lapeer County Road Commission’s finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Lapeer County Road Commission, 820 Davis Lake Road, Lapeer, Michigan, 48446.

## **BASIC FINANCIAL STATEMENTS**

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2007**

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,257,298	\$ -	\$ 3,257,298
Due from other governmental units -			
State	1,343,636	-	1,343,636
Local	1,707,750	11,214	1,718,964
Due from primary government	104,429		104,429
Accounts receivable	58,930	-	58,930
Prepaid expenditures/expenses	5,601	72,412	78,013
Inventory	670,318	-	670,318
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	36,589,357	36,589,357
Assets being depreciated	-	32,673,077	32,673,077
Total Assets	\$ 7,147,962	\$ 69,346,060	\$ 76,494,022
<b>LIABILITIES AND FUND EQUITY</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 481,457	\$ -	\$ 481,457
Accrued liabilities	63,357	-	63,357
Accrued interest payable	-	30,277	30,277
Advances and deposits	489,618	-	489,618
Deferred revenue	1,470,000	( 1,470,000)	-
Noncurrent liabilities -			
Due within one year	-	763,345	763,345
Due in more than one year	-	1,796,508	1,796,508
Total Liabilities	2,504,432	1,120,130	3,624,562
<b>Fund Balance:</b>			
Fund Balance -			
Reserved -			
Prepaid expenditures	5,601	( 5,601)	-
Primary/Local Roads	3,304,111	( 3,304,111)	-
Unreserved -			
Undesignated	1,333,818	( 1,333,818)	-
Total Fund Balance	4,643,530	( 4,643,530)	-
Total Liabilities and Fund Balance	\$ 7,147,962		
<b>Net Assets:</b>			
Invested in capital assets, net of related debt		66,702,581	66,702,581
Restricted for Primary/Local Roads		3,304,111	3,304,111
Unrestricted		2,862,768	2,862,768
Total Net Assets		\$ 72,869,460	\$ 72,869,460

See Notes to Financial Statements

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
<b>Revenues:</b>			
Permits	\$ 86,192	\$ -	\$ 86,192
Intergovernmental -			
State sources	6,068,050	-	6,068,050
Local sources	1,960,266	( 518,885)	1,441,381
Charges for services	1,426,880	-	1,426,880
Interest and rents	100,878	-	100,878
Other	5,098	-	5,098
Total Revenues	9,647,364	( 518,885)	9,128,479
<b>Expenditures/Expenses:</b>			
Current -			
Primary preservation - structural improvements	1,060,822	( 1,060,822)	-
Local preservation - structural improvements	1,604,236	( 1,604,236)	-
Primary maintenance	957,282	25,891	983,173
Local maintenance	2,299,967	25,891	2,325,858
State maintenance	1,096,689	-	1,096,689
Administrative	460,839	( 13,593)	447,246
Equipment	1,721,041	( 496,153)	1,224,888
Less equipment rental charged to other activities	( 1,699,807)	-	( 1,699,807)
Depreciation	-	3,107,717	3,107,717
Other	394,320	-	394,320
Capital Outlay	113,651	( 113,651)	-
Less: depreciation credit and retirements	( 514,029)	514,029	-
Debt Service -			
Principal	666,863	( 666,863)	-
Interest	113,285	( 23,169)	90,116
Total Expenditures/Expenses	8,275,159	( 304,959)	7,970,200
Excess of revenues and other sources over (under) expenditures/expenses	1,372,205	( 213,926)	1,158,279
Fund Balance/Net Assets at January 1, 2007	3,271,325	68,439,856	71,711,181
Fund Balance/Net Assets at September 30, 2007	\$ 4,643,530	\$ 68,225,930	\$ 72,869,460

See Notes to Financial Statements

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007**

	Original Budget	Final Budget	Actual	Variance with Amended Budget Positive (Negative)
<b>Revenues:</b>				
Permits	\$ 112,500	\$ 112,500	\$ 86,192	\$( 26,308)
Intergovernmental -				
Federal sources	726,854	789,000	-	( 789,000)
State sources	5,160,000	5,600,000	6,068,050	468,050
Local sources	1,979,940	2,060,000	1,960,266	( 99,734)
Charges for services	1,615,000	1,035,000	1,426,880	391,880
Interest and rents	57,000	78,000	100,878	22,878
Other	15,000	220,000	5,098	( 214,902)
<b>Total Revenues</b>	<b>9,666,294</b>	<b>9,894,500</b>	<b>9,647,364</b>	<b>( 247,136)</b>
 <b>Expenditures:</b>				
Current -				
Primary preservation - structural improvements	2,234,612	1,500,000	1,060,822	439,178
Local preservation - structural improvements	1,704,940	1,200,000	1,604,236	( 404,236)
Primary maintenance	1,069,890	1,400,000	957,282	442,718
Local maintenance	1,715,259	2,100,000	2,299,967	( 199,967)
State maintenance	1,000,000	1,000,000	1,096,689	( 96,689)
Administrative	637,500	510,000	460,839	49,161
Equipment - net	165,187	160,000	21,234	138,766
Other	37,500	340,000	394,320	( 54,320)
Capital Outlay - net	( 438,500)	( 400,000)	( 400,378)	378
Debt Service	780,148	780,849	780,148	701
<b>Total Expenditures</b>	<b>8,906,536</b>	<b>8,590,849</b>	<b>8,275,159</b>	<b>315,690</b>
 Excess of revenues and other sources over expenditures	759,758	1,303,651	1,372,205	68,554
 Fund Balance at January 1, 2007	3,294,634	3,271,325	3,271,325	-
 Fund Balance at September 30, 2007	\$ 4,054,392	\$ 4,574,976	\$ 4,643,530	\$ 68,554

See Notes to Financial Statements

## **NOTES TO FINANCIAL STATEMENTS**

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The financial statements of the Lapeer County Road Commission, a component unit of the County of Lapeer, Michigan, have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The more significant accounting policies are described as follows:

**A. Description of Road Commission Operations –**

The Lapeer County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Lapeer, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal awards, reimbursements from the Department of State Highways for work performed by the County on State trunklines and contributions from other local units of government (townships) for work performed by the Road Commission work force. The Road Fund is the only fund of the Road Commission.

The Road Commission which is established pursuant to the County Road Law (MCL224.1) operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides services to eighteen (18) Townships in Lapeer County and maintains over 1,400 miles of state, local and primary roads.

Effective for the current period, the Road Commission elected to change its year ended from December 31 to September 30. As a result, the current activity is reported for nine months. The reason for the change was to assist in budgeting and planning by having the winter season all in one fiscal year. Also, a supplemental advantage is that the Road Commission year end will now coincide with the State of Michigan's year end.

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –**

The government-wide financial statement columns (i.e., statement of net assets and statement of activities) are reported using the economic resource 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. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. 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 year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**C. Assets, Liabilities, and Fund Balance or Net Assets –**

**Cash And Cash Equivalents** - Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of ninety days or less from the date of purchase. Cash equivalents include investment trust funds and are recorded at cost, which approximates market value. The investment trust funds have the general characteristics of demand deposit accounts in that the Road Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

**Inventories** - Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at the lower of first-in, first-out (cost or market) or at average cost.

**Deferred Federal And State Aid** – On certain federal and state funded construction projects in the County and administered by the Michigan Department of Transportation, the Road Commission is required to pay the local portion of the project costs at the start of the project. The local portion is recorded as Deferred Aid at the time of payment. The expenditure is recognized upon notice from the Michigan Department of Transportation that construction has been completed.

**Prepaid Items** – Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

**Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets with an estimated useful life in excess of 2 years. Road equipment is capitalized as defined by the Michigan Department of Transportation without consideration of minimum cost. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs 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 in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other capital assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	5- 8 years
Roads	8-30 years
Bridges	25-50 years
Traffic signals	15 years

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**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges, and traffic signals, which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource (gravel).

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditure accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

**Advance From The State Of Michigan** - The State of Michigan advances funds on a State maintenance agreement it has with the Lapeer County Road Commission for equipment purchased and used in performance of the specified maintenance. This advance is considered a current liability because it is subject to repayment annually upon audit by the State of Michigan.

**Accrued Vacation And Sick** - In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. Employees are compensated 100% of their vested accumulated vacation leave upon termination for any reason, and for their vested sick leave upon retirement or death. All amounts vested are accrued in the government-wide statements (statement of net assets).

**Deferred Revenues** – In both the government-wide and the fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

**Equipment Rentals** - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be charged (allocated) to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

**Long-Term Obligations** – In the government-wide financial statements (statement of net assets), long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. MTF Note premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. MTF notes payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums discounts, and issuance costs on a prospective basis.

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**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Estimates** - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reporting amount of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

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

- A. Explanation of differences between the governmental fund balance sheet and the government-wide statement of net assets (Page 7).

Fund Balance – governmental fund	\$ 4,643,530
Capital assets used in the governmental fund statements that are not financial resources and therefore not reported in the governmental fund financial statements	
Add – capital assets	100,612,830
Deduct – accumulated depreciation	( 31,350,396)
Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements	( 2,559,853)
Accrued interest payable on long-term liabilities not reported in the governmental fund statements	( 30,277)
Prepaid expenses not reported in the governmental fund statements	72,412
Accrued interest receivable due from Townships not reported in the governmental fund statements	11,214
Revenues that have been deferred in the governmental fund statements because they are not “available”	<u>1,470,000</u>
Net Assets	<u>\$72,869,460</u>

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**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (cont’d):**

- B.** Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 8).

Excess of revenues over (under) expenditures – governmental fund statement	\$ 1,372,205
The governmental fund statements report capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Add – capital outlay and infrastructure	2,778,709
Deduct – depreciation	( 3,107,717)
Revenues deferred in the governmental fund statements because they do not provide current financial resources that are reported in the government-wide Statement of Activities	( 492,624)
Principal payments on long-term liabilities are reported as an expenditure in the governmental fund statements, but not in the government-wide Statement of Activities (where it reduces the long-term liability)	666,863
Township contribution adjustment for accrual reported in the government-wide Statement of Activities when the revenue is earned and reported in the governmental fund statements only when the revenue is available	( 26,261)
Interest expense adjustment for accrual reported in the government-wide Statement of Activities when the liability is incurred and reported in the governmental fund statements only when payment is due	23,169
Prepaid expense adjustment not reported in the governmental fund statements	( 1,843)
Accrued vacation and sick time expenses not reported in the governmental fund statements because they will not be paid with current financial resources	( <u>54,222</u> )
Change in Net Assets	<u>\$ 1,158,279</u>

**LAPEER COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**Auditing and Reporting –**

The audit was performed 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 as described in the Independent Auditor's Report, but, also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report, but also with applicable rules of the Michigan State Department of Transportation.

**Budgetary Compliance –**

The Road Commission Manager prepared from data submitted by the administrative staff a proposed operating budget for the nine months commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

Prior to September 30, the proposed budget was presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioners Resolution. After the budget is adopted, the Manager is authorized to transfer up to 25% of a line item amount of the adopted budget, subject to the approval of the Board of County Road Commissioners at the Board meeting following the amendments. The Manager is also authorized to transfer amounts between items of the adopted budget at year-end to reflect the effects of the distribution of the distributive account.

The Road Commission's approved budget was adopted at the expenditure control level by activity. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act.

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that the government unit shall not incur expenditures in excess of the amount appropriated. During the nine months ended September 30, 2007, the Road Commission had expenditures that exceeded the appropriation as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

**NOTE 4 - DEPOSITS AND INVESTMENTS:**

As of September 30, 2007, the carrying amount of deposits and investments is as follows:

Cash on Hand	
Petty Cash	\$ 350
Deposits with Financial Institutions	
Imprest Checking	5,425
Checking maintained by County Treasurer	5,001
Investments	
Government Investment Trusts	<u>3,246,522</u>
	<u>\$ 3,257,298</u>

**LAPEER COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (cont'd):**

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Lapeer County Treasurer's Office, and in order to make disbursements, the Lapeer County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. The investing of cash is performed by the County Treasurer.

The government investment trusts are used as sweep accounts and have been reported in the financial statements as a cash equivalent because they have the general characteristics of demand deposit accounts in that the County Treasurer, on behalf of the Road Commission, may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

***Custodial Credit Risk – Deposits*** - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. As an indication of the level of deposit custodial credit risk assumed by the Road Commission, as of September 30, 2007, the book value of the Road Commission's deposits was \$10,426 with a corresponding bank balance of \$100,642. As a component unit of Lapeer County, all Road Commission cash is part of the accounts maintained by Lapeer County, at bank institutes insured by federal deposit insurance. However, it cannot be determined to what extent the FDIC insurance applies to the Road Commission.

***Custodial Credit Risk - Investments*** - is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments that are in the possession of another side party. The County's policy requires securities may be held by a third party custodian designated by the treasurer and evidenced by safekeeping receipts. As of September 30, 2007, the County Treasurer on behalf of the Road Commission had \$3,501,795 invested in governmental investment trust funds. The investment trust funds carry an Aaa (Moody's) rating. The investment trust funds seek to preserve the value of investment at \$1 per unit. The Road Commission's investment policy is silent on the use of rated versus unrated investment.

***Concentration of Credit Risk - Investments*** - is the risk of loss attributed to the magnitude of the County's investment in a single issuer. The Road Commission's investment policy requires diversification by security type but does not place a fixed percentage limit for any one issuer. As of September 30, 2007, 100% of the Road Commission's investments were in investment trust funds with one bank.

***Interest Rate Risk – Investment*** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. At year-end, the County's investments on behalf of the Road Commission in investment trust funds are considered to have a maturity date of less than one year since they have the general characteristics of demand deposit accounts in that the County, on behalf of the Road Commission, may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

**NOTE 5 - TOWNSHIP NOTE PROGRAMS:**

The Due From Other Governmental Units – Local includes Township Note Programs in the amount of \$1,470,000 at September 30, 2007, which represents the amount that the Townships are participating in repayment of 1997, 2000 and 2002 MTF notes. A corresponding amount has been recorded as deferred revenue in the governmental fund statements and will be recognized as revenue as payments from the Townships become available.

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**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 6 - INVENTORY:**

The inventory balance of \$670,318 at September 30, 2007 consisted of \$349,347 of road material and \$320,971 of equipment parts and materials.

**NOTE 7 - CAPITAL ASSETS:**

Capital assets activity for the current year was as follows:

	Balance January 1, <u>2007</u>	Additions	Deletions	Balance September 30, <u>2007</u>
Capital Assets, not being depreciated –				
Land	\$ 159,507	\$ -	\$ -	\$ 159,507
Land improvements	35,268,395	981,409	-	36,249,804
Right of Ways	180,046	-	-	180,046
Construction in Progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets, not being depreciated	<u>35,607,948</u>	<u>981,409</u>	<u>-</u>	<u>36,589,357</u>
Capital Assets, being depreciated –				
Buildings and improvements	1,857,834	3,300	-	1,861,134
Road Equipment	6,716,015	110,351	77,444	6,748,922
Shop Equipment	154,591	-	-	154,591
Office Equipment	507,095	-	-	507,095
Engineering equipment	70,700	-	-	70,700
Infrastructure –				
Roads	39,847,381	1,472,113	-	41,319,494
Bridges	12,861,148	211,536	-	13,072,684
Traffic signals	83,723	-	-	83,723
Depletable assets –				
Gravel pits	<u>205,130</u>	<u>-</u>	<u>-</u>	<u>205,130</u>
	<u>62,303,617</u>	<u>1,797,300</u>	<u>77,444</u>	<u>64,023,473</u>
Less – accumulated depreciation for –				
Buildings and improvements	\$ 1,287,993	\$ 42,001	\$ -	\$ 1,329,994
Road Equipment	4,620,946	476,178	77,444	5,019,680
Shop Equipment	154,591	-	-	154,591
Office Equipment	507,095	-	-	507,095
Engineering Equipment	70,700	-	-	70,700
Infrastructure –				
Roads	17,938,965	2,339,868	-	20,278,833
Bridges	3,564,146	249,670	-	3,813,816
Traffic signals	41,404	-	-	41,404
Depletable Assets	<u>134,283</u>	<u>-</u>	<u>-</u>	<u>134,283</u>
	<u>28,320,123</u>	<u>3,107,717</u>	<u>77,444</u>	<u>31,350,396</u>
Total Capital Assets, being depreciated, net	<u>\$ 33,983,494</u>	<u>\$( 1,310,417)</u>	<u>\$ -</u>	<u>\$ 32,673,077</u>
Governmental activity capital assets, net	<u>\$ 69,591,442</u>	<u>\$( 329,008)</u>	<u>\$ -</u>	<u>\$ 69,262,434</u>

Total depreciation for the nine months ended September 30, 2007 was \$3,107,717.

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**NOTE 8 - ADVANCES AND DEPOSITS:**

Advances and Deposits of \$489,618 at September 30, 2007, represent money advanced by the State of Michigan, under the maintenance contract the Road Commission has with the State for equipment purchases, advances and deposits from Townships, contractors and individuals for various projects. The State advance is adjusted annually by the State, and must be repaid if the maintenance contract is cancelled. The following is a summary of the balance by source and use:

State -		
Equipment		<u>\$ 353,174</u>
Local -		
Other Governmental Units -		
Township advances		447
Contractors and Individuals -		
Permits		111,714
Other		<u>24,283</u>
		<u>136,444</u>
		<u>\$ 489,618</u>

**NOTE 9 - LONG-TERM LIABILITIES:**

The Road Commission has the following long-term liabilities outstanding at September 30, 2007:

	Balance January 1, <u>2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2007</u>	Due Within <u>One Year</u>
1997 MTF Note	\$ 70,000	\$ -	\$ 70,000	\$ -	\$ -
2000 MTF Note	880,000	-	220,000	660,000	220,000
2000 MTF Note Series B	280,000	-	70,000	210,000	70,000
2002 MTF Note	250,000	-	50,000	200,000	50,000
2002 MTF Note Series B	480,000	-	80,000	400,000	80,000
Installment Note	1,135,353	-	176,863	958,490	283,838
Accrued vacation	<u>77,141</u>	<u>173,305</u>	<u>119,083</u>	<u>131,363</u>	<u>59,507</u>
	<u>\$ 3,172,494</u>	<u>\$ 173,305</u>	<u>\$ 785,946</u>	<u>\$2,559,853</u>	<u>\$ 763,345</u>

Significant details regarding outstanding long-term liabilities are presented below:

**MTF Note – Series 1997**

The Road Commission is obligated for Michigan Transportation Fund Notes, Series 1997, dated October 1, 1997, in the original amount of \$700,000. The final payment was due on August 1, 2007, of \$70,000 with interest of 4.9%. At September 30, 2007, the balance is paid in full.

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**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 9 - LONG-TERM LIABILITIES – (cont'd):**

**MTF Note – Series 2000**

The Road Commission is obligated for Michigan Transportation Fund Notes, Series 2000, dated May 11, 2000, in the original amount of \$2,200,000. Principal payments are due in annual installments on August 1 of \$220,000 through 2010, with interest ranging from 4.9% to 5.0% due on February 1 and August 1 of each year. At September 30, 2007, the outstanding principal balance is \$660,000.

**MTF Note – Series 2000 B**

The Road Commission is also obligated for Michigan Transportation Fund Notes, Series 2000B, dated November 21, 2000 in the original amount of \$700,000. Principal payments are due in annual installments on August 1 of \$70,000 through 2010, with interest ranging from 4.90% to 5.0% due on February 1 and August 1 of each year. At September 30, 2007, the outstanding balance is \$210,000.

**MTF Note – Series 2002**

The Road Commission is obligated for Michigan Transportation Fund Notes, Series 2002, dated April 1, 2002, in the original amount of \$500,000. Principal payments are due in annual installments on August 1 of \$50,000 through 2011, with interest ranging from 4.15% to 4.60% due on February 1 and August 1 of each year. At September 30, 2007, the outstanding principal balance is \$200,000.

**MTF Note – Series 2002 B**

The Road Commission is also obligated for Michigan Transportation Fund Notes, Series 2002B, dated May 15, 2002 in the original amount of \$800,000. Principal payments are due in annual installments on August 1 of \$80,000 through 2012, with interest ranging from 3.50% to 4.10% due on February 1 and August 1 of each year. At September 30, 2007 the outstanding balance is \$400,000.

**Installment Purchase Agreements -**

The Road Commission entered into an Installment Purchase Agreement in connection with the purchase of 12 truck cabs and chassis, dated May 5, 2005, in the original amount of \$884,314. The payments are due in annual installments on May 5 of \$176,863 through 2010, with interest of 3.3%, also due May 5 of each year. At September 30, 2007, the outstanding principal balance was \$530,589.

The Road Commission entered into an Installment Purchase Agreement in connection with the purchase of 12 truck boxes, dated November 17, 2005 in the original amount of \$534,877. The payments are due in annual installments on November 17 of \$106,975 through 2010, with interest of 3.3% also due November 17 of each year. At September 30, 2007, the outstanding principal balance was \$427,901.

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**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 9 - LONG-TERM LIABILITIES – (cont’d):**

**Accrued Vacation -**

In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payment for unused vacation under formulas and conditions specified in the contracts. The dollar amount of these vested rights, which has been accrued on the financial statements in the government-wide statements, amounts to approximately \$131,363 at September 30, 2007.

The annual requirements to amortize MTF Notes outstanding at September 30, 2007 are as follows:

	<u>MTF Notes-Series 2000</u>		<u>MTF Notes – Series 2002</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2008	\$ 290,000	\$ 43,175	\$ 130,000	\$ 23,592	\$ 486,767
2009	290,000	28,965	130,000	18,812	467,777
2010	290,000	14,500	130,000	13,801	448,301
2011	-	-	130,000	8,562	138,562
2012	-	-	80,000	3,169	83,169
	<u>\$ 870,000</u>	<u>\$ 86,640</u>	<u>\$ 600,000</u>	<u>\$ 67,936</u>	<u>\$ 1,624,576</u>

The annual requirements to amortize Installment Purchase Contracts outstanding at September 30, 2007 are as follows:

<u>Nine Moths ended</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 106,975	\$ 14,121
2008	283,838	28,100
2009	283,838	18,733
2010	<u>283,839</u>	<u>9,367</u>
	<u>\$ 958,490</u>	<u>\$ 70,321</u>

**NOTE 10 - EMPLOYEE PENSION PLAN:**

**Plan Description -**

The Lapeer County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. 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 (800) 767-6377.

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**NOTE 10 - EMPLOYEE PENSION PLAN – (cont'd):**

**Funding Policy -**

The plan adopted by the Board of County Road Commissioners requires employees to contribute 0%-5% of their annual compensation depending on their job category. The Road Commission is required to contribute at an actuarially determined rate; the weighted average rate for 2007 was 0% - 13.28% depending on employees' job category. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

**Annual Pension Costs -**

For the nine months ended September 30, 2007, the Road Commission's pension cost of \$270,220 for MERS was equal to the Road Commission's required contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 8.4% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit B-1 or B-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll. The standard amortization period to fund the unfunded liability is 30 years for positive unfunded liabilities in the 2005 valuation. This period will be reduced by one year in each of the next five annual valuations. Beginning with the 2011 valuation the 25-year period will be reestablished with each annual valuation. The standard amortization period for negative unfunded liabilities is 10 years, with the 10-year period reestablished with each annual actuarial valuation.

**Three-Year Trend Information**

<u>Period Ending</u>	Annual Pension <u>Costs (APC)</u>	Percentage of APC <u>Contribution</u>	Net Pension <u>Obligation</u>
December 31, 2005	\$ 310,630	100	-
December 31, 2006	346,194	100	-
September 30, 2007	270,220	100	-

**Schedule of Funding Progress**

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Accrued Liability (AAL) Entry Age <u>(b)</u>	Actuarial (Overfunded) Accrued Liability (UAAL) <u>(b-a)</u>	Unfunded Funded Ratio (AAL) <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>[(b-a)/c]</u>
2004	6,906,381	10,846,781	3,940,400	64	2,512,472	157
2005	7,150,983	11,708,346	4,557,363	61	2,804,359	163
2006	7,553,887	11,990,175	4,436,288	63	2,748,943	161

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**NOTE 11 - POSTEMPLOYMENT BENEFITS:**

In addition to the pension benefits described in Note 10, the Lapeer County Road Commission provides postemployment health care, limited optical/dental reimbursement, prescription reimbursement, and life insurance to eligible employees who retire from the Road Commission on or after attaining retirement age with at least ten years of service. These expenditures are recognized on a pay-as-you-go basis. For the nine months ended September 30, 2007, health care costs amounted to approximately \$213,651 for 41 eligible participants, \$16,379 for optical/dental reimbursement for approximately 30 eligible participants, \$15,432 for prescription reimbursement for approximately 30 eligible participants and \$10,194 for life insurance costs for approximately 33 eligible participants.

**NOTE 12 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:**

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

Also as a part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State, cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

**NOTE 13 - RISK MANAGEMENT:**

The Road Commission is a member of the County Road Association Self-Insurance Fund for workers' compensation self-insurance. The Fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Fund.

The Road Commission provides for its employees dental/optical reimbursement programs for regular full-time employees, spouses and dependent children under nineteen (19) years of age. Based on their bargaining unit employees may be reimbursed for dental and/or optical up to \$650 for bills or apply their reimbursement amount to the cost of the insurance premium.

The Road Commission continues to carry commercial insurance for all risks of loss, including life, disability and health insurance, automobile liability, errors or omissions liability and bodily injury, property damage, personal injury liability and property (building and grounds). The amount of settlements (claims) for the past three years have not exceeded insurance coverage.

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**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 14 - EQUIPMENT EXPENDITURE/EXPENSE NET BALANCE:**

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure/expense in the various maintenance activities. An expenditure/expense credit is reported as an offset against the equipment expenditure/expense activities. Accordingly, the equipment rental does not affect total expenditures/expense or the available operating equity of the Road Commission's General Operating Fund. The net balance for the nine months ended September 30, 2007 is as follows:

	<u>Governmental Fund</u>	<u>Statement of Activities</u>
Equipment –		
Direct	\$ 1,097,773	\$ 621,595
Indirect	340,005	320,030
Operating	<u>283,263</u>	<u>283,263</u>
	1,721,041	1,224,888
Less-equipment rental	<u>( 1,699,807)</u>	<u>( 1,699,807)</u>
	<u>\$ 21,234</u>	<u>\$( 474,919)</u>

**NOTE 15 - CAPITAL OUTLAY EXPENDITURES BALANCE:**

On the governmental financial statements, the Road Commission reports a depreciation credit as an offset to capital outlay as a result of charging depreciation to various expenditure accounts as explained in Note 1. Retirements are also reported as a credit against capital outlay. The balance at September 30, 2007 consists of the following:

Capital Outlay –	
Land improvements, building and equipment	\$ 113,651
Less - depreciation/depletion	<u>( 514,029)</u>
	<u>\$( 400,378)</u>

## **SUPPLEMENTARY INFORMATION**

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**DETAIL SCHEDULE OF REVENUES**  
**GENERAL OPERATING FUND**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007**

	2007
<b>Revenues:</b>	
Permits	\$ 86,192
State Sources -	
Motor Vehicle Highway Funds - Act 51 -	
Engineering	10,000
Primary roads	3,416,432
Local roads	1,849,747
Primary urban roads	113,969
Local urban roads	49,774
Federal Aid Funds sold to State	628,128
	6,068,050
Local Sources -	
Township contributions	1,695,970
County appropriation	264,296
	1,960,266
Charges for Services -	
Trunkline maintenance	732,471
Trunkline nonmaintenance	364,218
Salvage sales	4,950
Other	325,241
	1,426,880
Interest and rents	100,878
Other -	
Other	5,098
	5,098
Total Revenues	\$ 9,647,364

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**DETAIL SCHEDULE OF EXPENDITURES**  
**GENERAL OPERATING FUND**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007**

	2007
<b>Expenditures:</b>	
Preservation - Structural Improvements	
Primary roads and structures	\$ 1,060,822
Local roads and structures	1,604,236
	2,665,058
Maintenance -	
Primary roads and structures, winter and traffic control	957,282
Local roads and structures, winter and traffic control	2,299,967
	3,257,249
State Maintenance -	
Trunkline maintenance	732,471
Trunkline nonmaintenance	364,218
	1,096,689
Administrative -	
Administration	622,334
Less - handling	( 53,948)
- overhead	( 107,402)
- purchase discounts	( 145)
	460,839
Equipment -	
Direct	1,097,773
Indirect	340,005
Operating	283,263
Less- equipment rental	( 1,699,807)
	21,234
Other -	
Services	394,320
Capital Outlay -	
Land improvements, building and equipment	113,651
Less - depreciation	( 514,029)
	( 400,378)
Debt Service -	
Principal retirement	666,863
Interest and fiscal charges	113,285
	780,148
 Total Expenditures	 \$ 8,275,159

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BY FUND BALANCE SUB-ACCOUNTS**  
**GENERAL OPERATING FUND**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007**

	Primary	Local	County	Total
<b>Revenues:</b>				
Licenses and permits	\$ -	\$ -	\$ 86,192	\$ 86,192
Intergovernmental -				
Federal Sources	-	-	-	-
State Sources	4,162,501	1,905,549	-	6,068,050
Local Sources	-	1,960,266	-	1,960,266
Charges for services	1,096,689	-	330,191	1,426,880
Interest & rents	-	-	100,878	100,878
Other	-	-	5,098	5,098
Total Revenues	5,259,190	3,865,815	522,359	9,647,364
<b>Expenditures:</b>				
Preservation - Structural Improvements	1,060,822	1,604,236	-	2,665,058
Maintenance	1,566,368	1,690,881	-	3,257,249
Other -				
Trunkline maintenance	732,471	-	-	732,471
Trunkline nonmaintenance	364,218	-	-	364,218
Administrative - net	204,432	256,407	-	460,839
Equipment - net	9,413	10,886	935	21,234
Other	-	-	394,320	394,320
Capital outlay - net	-	-	( 400,378)	( 400,378)
Debt principal	260,077	73,355	333,431	666,863
Interest	44,181	12,461	56,643	113,285
Total Expenditures	4,241,982	3,648,226	384,951	8,275,159
Excess of revenues over expenditures	1,017,208	217,589	137,408	1,372,205
Fund Balance at January 1, 2007	1,826,377	242,937	1,202,011	3,271,325
Fund Balance at September 30, 2007	\$ 2,843,585	\$ 460,526	\$ 1,339,419	\$ 4,643,530

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

To the Board of County Road Commissioners  
of Lapeer County  
Lapeer, Michigan

We have audited the financial statements of Lapeer County Road Commission as of and for the nine months ended September 30, 2007, and have issued our report thereon, dated March 31, 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 Lapeer County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lapeer County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lapeer County Road Commission's internal control over financial reporting.

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

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 Lapeer 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 Lapeer County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Lapeer County Road Commission's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting:

The Road Commission prepares various financial information throughout the year to assess operations and the financial condition of the Road Commission. However, prior to the closing of the year end and preparation of the MDOT ACT 51 Report, several entries material to the financial statements were proposed by our firm. Also, the Road Commission relies on our firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

The Road Commission has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Road Commission under Statement on Auditing Standards No. 112, is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Road Commission may not be in a position to detect the errors or omissions.

The Road Commission has evaluated the cost versus the benefit of expanding internal controls over the preparation of the annual financial statements to include reporting in accordance with GAAP, and has determined that it is in the best interest of the Road Commission to outsource this responsibility to the external auditors. The Road Commission will continue to carefully review the draft financial statements and notes prior to approving and accepting responsibility for their content and presentation.

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 Lapeer 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 disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

### **Compliance and Other Matters**

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

We noted certain matters that we reported to management of the Lapeer County Road Commission in a separate letter dated March 31, 2008.

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

  
Certified Public Accountants

March 31, 2008



**MANAGEMENT LETTER**

To the Board of County Road Commissioners  
of Lapeer County  
Lapeer, Michigan

We have recently completed our audit of the basic financial statements of the Lapeer County Road Commission as of and for the nine months ended September 30, 2007. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and the operational efficiency of the Road Commission's recordkeeping system or compliance with laws and regulations. These observations are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in the *Report on Internal Accounting Controls* these observations were not considered significant deficiencies in relation to the basic financial statements of the Road Commission.

**Controls over Transfer Vouchers**

At the present time, transfer vouchers (journal entries) include a description for the entry and are numbered and maintained in a binder for control purposes. However, not all transfer vouchers are required to be formally approved by a second individual.

Not having a procedure requiring that transfer vouchers be formally approved allows for the possibility of inaccurate financial reporting.

We recommend that the transfer vouchers be approved by an individual that is able to analyze the accompanying information supporting the entry. This may be accomplished by having different individuals reviewing transfer vouchers, or at a minimum, any transfers that are not standard entries.

**Insurance coverage for inventory**

The Road Commission has their inventory insured, however in the process of evaluating the volume of inventory to maintain and retain the proper efficiency, the insurance coverage should also be evaluated. We recommend that the Road Commission contact the insurer to evaluate the sufficiency of the insurance coverage.

These observations were considered in determining the nature, timing and extent of the audit tests applied in our audit of the September 30, 2007, financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

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

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss these observations with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Stewart, Beauvais &amp; Whipple'.

March 31, 2008