

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 Mackinac County Road Commission		County Mackinac County	
Fiscal Year End December 31, 2007		Opinion Date May 9, 2008		Date Audit Report Submitted to State May 27, 2008			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

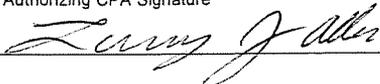
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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"/>	Audit Communication Letter	
Other (Describe) Internal Control		<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple P.C.			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

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

ANNUAL FINANCIAL REPORT
with Supplementary Information

FOR THE YEAR ENDED DECEMBER 31, 2007

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of Mackinac County
St. Ignace, Michigan

We have audited the accompanying basic financial statements of the Road Commission of Mackinac, Michigan, a component unit of Mackinac County, Michigan, as of December 31, 2007, and for the year 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 Mackinac, Michigan, as of December 31, 2007, and the results of its operations 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 May 9, 2008, on our consideration of the Road Commission of Mackinac, 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules on pages 26-28 are presented for purpose of additional analysis and are not a required part of the basic financial statements of the Road Commission of Mackinac 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

May 9, 2008

MACKINAC COUNTY ROAD COMMISSION

A Component Unit of Mackinac County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Mackinac 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 year ended December 31, 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 Mackinac 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 to 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 Mackinac 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 10-25 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 \$32,517,427 at the end of the year.

The net assets are separated into three major components: invested in capital assets net of related debt, which amounted to \$29,920,764 or 92% of net assets, restricted net assets of \$575,645 or 2% of net assets, and finally, unrestricted net assets of \$2,019,928 or 6%. 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 year, 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 \$3,712,514 from a year ago.

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

Condensed Statement of Net Assets	<u>2007</u>	<u>2006</u>
Assets		
Current and other unrestricted assets	\$ 3,291,785	\$ 2,985,302
Capital Assets	<u>32,327,026</u>	<u>28,743,064</u>
Total Assets	<u>35,618,811</u>	<u>31,728,366</u>
Liabilities		
Long-term liabilities outstanding	2,486,618	2,539,844
Other liabilities	<u>615,856</u>	<u>384,699</u>
Total Liabilities	<u>3,102,474</u>	<u>2,924,543</u>
Net Assets		
Invested in capital assets	29,920,764	26,302,809
Restricted	575,645	796,550
Unrestricted	<u>2,019,928</u>	<u>1,704,464</u>
Total Net Assets	<u>\$ 32,516,337</u>	<u>\$ 28,803,823</u>

The following table presents a comparison of revenues, expenses and changes in net assets for the years ended December 31, 2007 and 2006 in a condensed format:

Condensed Statement of Activities		
Revenues		
Intergovernmental -		
Federal Sources	\$ 3,180,730	\$ 759,435
State Sources	2,740,370	2,877,316
Other Sources	1,295,245	1,017,590
Charges for Services	298,170	273,249
Other	<u>201,508</u>	<u>254,686</u>
	<u>7,716,023</u>	<u>5,182,276</u>
Expenses		
Maintenance	2,431,649	2,234,912
Administration	302,073	370,201
Equipment - net	(669,982)	(527,819)
Depreciation	1,594,677	1,555,726
Interest and Other	<u>345,092</u>	<u>126,375</u>
	<u>4,003,509</u>	<u>3,759,395</u>
Change in Net Assets	<u>\$ 3,712,514</u>	<u>\$ 1,422,881</u>

Financial Analysis of 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 year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$2,593,417, which was the result of \$25,220 in revenues over expenditures for 2007. \$575,645 of the fund balance has been reserved for expenditures related to primary and local roads and forest funds as required by the Michigan Department of Transportation. \$1,055,125 of the fund balance has been designated by the Board of County Road Commissioners for specific purposes. The remaining \$962,647 of fund balance is unreserved and is available for spending at the Road Commission's discretion. See Notes 16 and 17 to the financial statements for further detail.

BUDGETARY HIGHLIGHTS

The final amended budget changed from the original budget primarily resulting from a reduction in anticipated federal and state revenues. Actual revenues were \$1,105,237 less than anticipated. Expenditures were \$643,216 less than anticipated. The difference in total expenditures was attributable to the specific function primary preservation-structural improvements and was the result of projects not materializing in 2007. The reduction in Federal revenue also relates to the projects.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Road Commission had \$32,327,026 in capital assets at the end of the year. The reason for the increase from the previous year was the capitalization of the preservation-structural improvements to roads and bridges funded by federal, state and local revenues. A summary of capital assets net of accumulated depreciation at December 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Land and Land Improvements	\$ 15,956,859	\$ 15,306,172
Depletable Assets	10,775	10,775
Buildings and Improvements	1,389,562	1,421,754
Equipment - Road	1,502,258	1,693,124
Equipment - Other	18,659	20,642
Infrastructure	<u>13,448,913</u>	<u>10,290,597</u>
Total Capital Assets	<u>\$ 32,327,026</u>	<u>\$ 28,743,064</u>

Additional information on the Road Commission's Capital Assets may be found in Note 7 to the financial statements.

Long-Term Liabilities - At the end of the current year, the Road Commission had total MTF MTHF Bonds outstanding of \$1,580,000 and installment note debt of \$824,887. The debt is backed by the full faith and credit of Mackinac County. Additional information on the Road Commission's long-term liabilities may be found in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Road Commission's major revenue streams are declining, while others are somewhat stable. The anticipated decline in MTF revenue again in 2008 is due to more efficient and alternative fueled vehicles, modification trailer licensing changes, and lower usage due to high fuel costs. Long-term state fiscal crises are also affecting the local abilities to provide increased levels of maintenance, and are also affecting cost sharing programs currently in effect with township transportation partners.

For 2008, MTF Revenues are budgeted with a 4% decrease. In trying to maintain the 2008 budget expenditures (especially for maintenance), all seasonal help will be laid off from the end of March through the end of October 2008. Five full time employees will be laid off until construction projects are able to start up. Pending construction project's work and maintaining routine maintenance at the budget amount, the Road commission could be looking at another layoff in the fall. There are no major capital outlay purchases approved except for a salt shed that MDOT is participating in the cost. Other cost cutting measures through union contract negotiations for the 2008 contract are the reduction of medical insurance and other cost cutting options along with management contracts also due at the end of 2008.

Already significant cuts were made in 2007 re: engineer/managers salary and benefits i.e.: retirement and time off changes. Salt shed will be at east garage so loading of trucks for winter months will be more efficient due to not having to travel to Cedarville to get salt-savings of 15 miles one way per truck for trucks that head west toward St. Ignace and Brevort townships.

CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designated to provide a general overview of the Mackinac 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 Mackinac County Road Commission, 706 North State Street, St. Ignace, Michigan, 47981.

BASIC FINANCIAL STATEMENTS

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2007

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 1,386,125	\$ -	\$ 1,386,125
Due from other governmental units -			
Federal	4,250	-	4,250
State	392,934	-	392,934
Local	590,818	-	590,818
Accounts receivable	37,923	-	37,923
Prepaid items	-	69,493	69,493
Inventory	810,242	-	810,242
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	15,956,859	15,956,859
Assets being depreciated	-	16,370,167	16,370,167
Total Assets	\$ 3,222,292	\$ 32,396,519	\$ 35,618,811
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	\$ 330,762	\$ -	\$ 330,762
Accrued liabilities	64,060	-	64,060
Accrued interest payable	-	26,767	26,767
Due to other governmental units	45,131	-	45,131
Advances and deposits	149,136	-	149,136
Deferred revenue	39,786	(39,786)	-
Noncurrent Liabilities:			
Due within one year	-	209,245	209,245
Due in more than one year	-	2,277,373	2,277,373
Total Liabilities	628,875	2,473,599	3,102,474
Fund Balance:			
Fund Balance -			
Reserved -			
Primary Roads/ Forest Funds	575,645	(575,645)	-
Unreserved -			
Designated	1,055,125	(1,055,125)	-
Undesignated	962,647	(962,647)	-
Total Fund Balance	2,593,417	(2,593,417)	-
Total Liabilities and Fund Balance	\$ 3,222,292		
Net Assets:			
Invested in capital assets net of related debt		29,920,764	29,920,764
Restricted -			
Primary/Forest Funds		575,645	575,645
Unrestricted		2,019,928	2,019,928
Total Net Assets		\$ 32,516,337	\$ 32,516,337

See Notes to Financial Statements

MACKINAC ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Permits	\$ 3,314	\$ -	\$ 3,314
Intergovernmental -			
Federal sources	3,180,730	-	3,180,730
State sources	2,740,370	-	2,740,370
Local sources	1,296,208	(963)	1,295,245
Charges for services	298,170	-	298,170
Interest and rents	45,286	-	45,286
Other	6,801	146,107	152,908
Total Revenues	7,570,879	145,144	7,716,023
Other Financing Sources:			
Insurance recovery	146,107	(146,107)	-
Installment note proceeds	136,675	(136,675)	-
	282,782	(282,782)	-
Total Revenues and Other Sources	7,853,661	(137,638)	7,716,023
Expenditures/Expenses:			
Current -			
Primary preservation - structural improvements	3,947,759	(3,947,759)	-
Local preservation - structural improvements	731,033	(731,033)	-
Primary maintenance	1,314,162	(8,791)	1,305,371
Local maintenance	842,027	(8,792)	833,235
State maintenance	293,043	-	293,043
Administrative	353,384	(51,311)	302,073
Other	224,700	-	224,700
Equipment operation	1,896,845	(717,701)	1,179,144
Less equipment rental charged to other activities	(1,849,126)	-	(1,849,126)
Depreciation	-	1,594,677	1,594,677
Capital Outlay	503,314	(503,314)	-
Less: depreciation credit and retirements	(728,355)	728,355	-
Debt Service -			
Principal	179,818	(179,818)	-
Interest	119,837	555	120,392
Total Expenditures/Expenses	7,828,441	(3,824,932)	4,003,509
Revenues over expenditures/expenses	25,220	3,687,294	3,712,514
Fund Balance/Net Assets at January 1, 2007	2,568,197	26,235,626	28,803,823
Fund Balance/Net Assets at December 31, 2007	\$ 2,593,417	\$ 29,922,920	\$ 32,516,337

See Notes to Financial Statements

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Permits	\$ 15,000	\$ 3,000	\$ 3,314	\$ 314
Intergovernmental -				
Federal sources	4,808,718	4,206,894	3,180,730	(1,026,164)
State sources	3,034,568	2,779,068	2,740,370	(38,698)
Local sources	1,175,511	1,482,045	1,296,208	(185,837)
County appropriation	108,000	5,000	-	(5,000)
Charges for services	92,300	154,101	298,170	144,069
Interest and rents	40,000	41,000	45,286	4,286
Other	-	5,008	6,801	1,793
Total Revenues	9,274,097	8,676,116	7,570,879	(1,105,237)
Other Financing Sources:				
Insurance recovery	-	146,107	146,107	
Installment note proceeds	600,000	136,675	136,675	-
	600,000	282,782	282,782	-
Total Revenues and Other Sources	9,874,097	8,958,898	7,853,661	(1,105,237)
Expenditures:				
Current -				
Primary preservation - structural improvements	5,012,090	4,775,046	3,947,759	827,287
Local preservation - structural improvements	1,191,398	672,509	731,033	(58,524)
Primary maintenance	980,000	1,058,000	1,314,162	(256,162)
Local maintenance	575,700	775,700	842,027	(66,327)
State maintenance	209,617	275,617	293,043	(17,426)
Administrative-net	243,700	296,700	353,384	(56,684)
Equipment - net	556,000	486,000	47,719	438,281
Other	-	296,000	224,700	71,300
Capital Outlay - net	(950,000)	(500,000)	(225,041)	(274,959)
Debt Service	336,085	336,085	299,655	36,430
Total Expenditures	8,154,590	8,471,657	7,828,441	643,216
Revenues and other sources over expenditures	1,719,507	487,241	25,220	(462,021)
Fund Balance at January 1, 2007	2,688,862	2,560,552	2,568,197	7,645
Fund Balance at December 31, 2007	\$ 4,408,369	\$ 3,047,793	\$ 2,593,417	\$(454,376)

See Notes to Financial Statements

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting methods and procedures adopted by the Mackinac County Road Commission conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the Road Commission's basic financial statements.

A. Description of Road Commission Operations –

The Mackinac County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Mackinac, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, Federal Financial Assistance, reimbursements from the Department of State Highways for work performed by the County on State trunklines and contributions from other local units of government for work performed by the Road Commission workforce. 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 service to eleven (11) Townships in Mackinac County and maintains 649 miles of state, local and primary roads.

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 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.

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 90 days or less from the date of purchase.

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 average cost.

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

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

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 estimated useful life in excess of 2 years. Road equipment is capitalized as defined by the Michigan Department of Transportation without consideration of a 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

Infrastructure is reported retrospectively from 1980, except for right-of-ways and bridges, 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.

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 expenditures 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.

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

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

Advances From The State Of Michigan - The State of Michigan advances funds on a State maintenance agreement it has with the Mackinac County Road Commission for specified maintenance, which the Road Commission will perform during the year, and for equipment purchases. These advances are considered current liabilities because they are 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, individual employees have a vested right upon termination of employment to receive payments for unused sick leave and vacation under formulas and conditions specified in the contracts. 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.

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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond 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.

Fund Equity – Designation of fund balance represents tentative management plans that may be subject to change.

Equipment Rental - 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.

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 reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

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

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

Fund Balance – governmental fund	\$ 2,593,417
Capital assets used in the governmental fund activities that are not financial resources and therefore not reported in the governmental fund financial statements	
Add – capital assets	45,336,010
Deduct – accumulated depreciation	(13,008,984)
Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements	(2,486,618)
Accrued interest payable on long-term liabilities not reported in the governmental fund statements	(26,767)
Prepaid expenses not reported in the governmental fund statements	69,493
Revenues that have been deferred to the government fund statement because they are not “available”	<u>39,786</u>
 Net Assets	 <u>\$ 32,516,337</u>

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 under expenditures - governmental fund statement	\$ 25,220
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	5,182,106
Deduct – depreciation and retirements	(1,598,144)
Revenues are deferred in the governmental fund statements because they do not provide current financial resources; however, are reported in the government-wide Statement of Activities	(963)
Loan proceeds reported as another financing source in the Governmental fund statements, but not in the government-wide Statements where it is reported as long-term liability	(136,675)
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	(555)
Insurance Expenses for claims incurred but not reported are accrued in the government-wide Statement of Activities; however, they are reported in the governmental fund statements only when payment is due.	45,100

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

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

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)	\$ 179,818
Prepaid expense adjustment not reported in the governmental fund statements	(976)
Accrued vacation and sick time expenses not reported in the governmental fund statements because they will not be paid with current financial resources	<u>17,583</u>
Change in Net Assets	<u>\$ 3,712,514</u>

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 prepares from data submitted by the administrative staff, a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

The budget for the General Operating Fund is adopted on the modified accrual basis, which is consistent with accounting principles generally accepted in the United States of America.

Prior to December 31, the proposed budget is 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.

The Road Commission's approved budget was adopted at the activity level. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act since amendments to the budget at the activity level must be approved by the Board of County Road Commissioners.

The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – (cont’d):

Michigan Public Act 621 of 1978, Section 18(1) as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. During the year ended December 31, 2007, the Road Commission had expenditures over budget 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 December 31, 2007, the carrying amount of deposits and investments is as follows:

Cash on Hand	
Petty Cash	\$ 150
Deposits with Financial Institutions	
Imprest Checking	4,000
Savings maintained by County Treasurer	95,526
Certificates of deposit maintained by County Treasurer	<u>1,286,449</u>
	<u>\$ 1,386,125</u>

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 Mackinac County Treasurer’s Office, and in order to make disbursements, the Mackinac County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll investment trust sweep account with vendor or payroll checking account. The investing of cash is performed by the County Treasurer.

Custodial Credit Risk - Deposits - is the risk that in the event of a bank failure, the Road Commission’s deposits may not be returned to it. Michigan Public Acts authorize Road Commissions to deposit into the accounts of federally insured banks, insured credit unions, and savings and loan associations with an office in Michigan. The Road Commission’s investment policy does not have a custodial credit risk requirement.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

The Road Commission’s deposits consist of demand accounts, savings accounts and certificates of deposit. At December 31, 2007, the carrying amount of the Road Commission’s deposits is \$1,385,975, and the bank balance is \$1,520,944. As a component unit of Mackinac County, all Road Commission cash is part of the accounts maintained by Mackinac 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.

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk. The County uses only those financial institutions with an acceptable estimated risk level as depositories.

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 5 - INVENTORIES:

The Inventory balance of \$810,242 at December 31, 2007 consisted of \$647,930 of road materials and \$162,312 of equipment parts and materials.

NOTE 6 - FEDERAL AWARDS:

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended December 31, 2007, the Road Commission of Mackinac County had less than \$500,000 of force account expenditures applicable to federal awards (local force revenue). As a result, an audit for compliance under the Single Audit Act has not been performed.

The federal revenues of \$3,406,899 represents the Department of Transportation Federal Highway grant money of \$770,457 and \$2,636,442 of Federal Forest Highway money expended on public road improvement projects which were administered by the Michigan Department of Transportation; however, required to be reported by the Road Commission.

NOTE 7 - CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Balance January 1, 2007	Additions	Deletions	Removals/ Adjustments	Balance December 31, 2007
Capital Assets, not being depreciated –					
Land	\$ 268,222	\$ -	\$ -	\$ -	\$ 268,222
Land Improvements	15,037,950	649,027	-	-	15,686,977
Construction in Progress	-	1,660	-	-	1,660
Total Capital Assets, not being depreciated	<u>15,306,172</u>	<u>650,687</u>	<u>-</u>	<u>-</u>	<u>15,956,859</u>
Capital Assets, being depreciated –					
Buildings and Improvements	1,640,367	4,286	-	-	1,644,653
Road Equipment	5,953,742	494,313	151,569	-	6,296,486
Shop Equipment	21,847	-	-	-	21,847
Office Equipment	69,759	4,715	-	-	74,474
Engineering Equipment	21,528	-	-	-	21,528
Infrastructure -					
Roads	13,775,744	4,028,105	-	(210,351)	17,593,498
Bridges	3,684,837	-	-	-	3,684,837
Depletable assets	41,828	-	-	-	41,828
	<u>25,209,652</u>	<u>4,531,419</u>	<u>151,569</u>	<u>(210,351)</u>	<u>29,379,151</u>

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 7 - CAPITAL ASSETS – (cont'd):

	Balance January 1, 2007	Additions	Deletions	Removals/ Adjustments	Balance December 31, 2007
Less – accumulated depreciation for –					
Buildings	\$ 218,613	\$ 36,478	\$ -	\$ -	\$ 255,091
Road Equipment	4,260,618	681,712	148,102	-	4,794,228
Shop Equipment	18,670	801	-	-	19,471
Office Equipment	60,398	3,785	-	-	64,183
Engineering Equipment	13,424	2,112	-	-	15,536
Infrastructure –					
Roads	5,607,430	798,628	-	(210,351)	6,195,707
Bridges	1,562,554	71,161	-	-	1,633,715
Depletable Assets	<u>31,053</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,053</u>
	<u>11,772,760</u>	<u>1,594,677</u>	<u>148,102</u>	<u>(210,351)</u>	<u>13,008,984</u>
Total Capital Assets, being depreciated, net	<u>13,436,892</u>	<u>2,936,742</u>	<u>3,467</u>	<u>-</u>	<u>16,370,167</u>
Governmental activity capital assets net	<u>\$ 28,743,064</u>	<u>\$ 3,587,429</u>	<u>\$ 3,467</u>	<u>\$ -</u>	<u>\$ 32,327,026</u>

Total depreciation for the year ended December 31, 2007 was \$1,594,677.

NOTE 8 - LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2007:

	Balance January 1, 2007	Additions	Deletions	Balance December 31, 2007	Due Within One Year
Installment Notes -					
Equipment 2006	\$ 777,161	\$ -	\$ 78,009	\$ 699,152	\$ 96,222
Equipment 2007	<u>-</u>	<u>136,675</u>	<u>10,940</u>	<u>125,735</u>	<u>14,998</u>
	<u>777,161</u>	<u>136,675</u>	<u>88,949</u>	<u>824,887</u>	<u>111,220</u>
Bonds and Notes Payable -					
MTF Bonds 2001	830,000	-	40,000	790,000	40,000
MTF Bonds 2001A	<u>830,000</u>	<u>-</u>	<u>40,000</u>	<u>790,000</u>	<u>40,000</u>
	<u>1,660,000</u>	<u>-</u>	<u>80,000</u>	<u>1,580,000</u>	<u>80,000</u>
Other Liabilities -					
Accrued sick and vacation	81,289	-	17,583	63,706	-
MDOT settlement	18,300	-	9,150	9,150	9,150
Capital lease 2004	3,094	-	1,719	1,375	1,375
Self Insurance	<u>52,600</u>	<u>-</u>	<u>45,100</u>	<u>7,500</u>	<u>7,500</u>
	<u>155,283</u>	<u>-</u>	<u>73,552</u>	<u>81,731</u>	<u>18,025</u>
Total	<u>\$ 2,592,444</u>	<u>\$ 136,675</u>	<u>\$ 242,501</u>	<u>\$ 2,486,618</u>	<u>\$ 209,245</u>

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 8 - LONG-TERM LIABILITIES – (cont’d):

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

Installment Notes -

In January 2006, the Road Commission borrowed \$93,892 for the purchase of a tractor and compactor. The note is payable in monthly installments until January 2011 in the amount of \$4,427. The balance at December 31, 2007 is \$60,122.

In August 2006, the Road Commission borrowed \$428,104 for the purchase of equipment related to the five dump trucks purchased in August 2006. The note is payable in monthly installments until August 2016 in the amount of \$3,079. The balance at December 31, 2007 is \$376,385.

In December 2006, the Road Commission borrowed \$287,806 for the purchase of equipment related to the five dump trucks purchased in August 2006. The note is payable in monthly installments until August 2016 in the amount of \$3,079. The balance at December 31, 2007 is \$262,645.

In March 2007, the Road Commission borrowed \$136,675 for the purchase of a road grader. The note is payable in monthly installments until March 2015 in the amount of \$1,701. The balance at December 31, 2007 is \$125,735.

The annual requirements to amortize the installment notes liability outstanding at December 31, 2007 are as follows:

<u>Year Ending December 31,</u>	<u>Installment Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 111,220	\$ 35,129
2009	100,570	30,782
2010	105,113	26,238
2011	90,383	21,831
2012	92,693	17,781
2013-2016	<u>324,908</u>	<u>28,356</u>
	<u>\$ 824,887</u>	<u>\$ 160,117</u>

MTF Bonds –

The County of Mackinac, Michigan issued \$995,000 of Michigan Transportation Fund Bonds, Series 2001, dated July 11, 2001 pursuant to the provision of Act 202, Public Acts of Michigan of 1943, as amended. The Bonds are issued in anticipation of and are payable from monies derived from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction and work incidental thereto pursuant to Act 202. The proceeds from the bonds were for the construction, improvement and repair of various roads in Mackinac County and to purchase equipment, which is necessary and incidental thereto.

Principal on the bonds is due on July 1, 2007 through 2021 with interest due semi-annually on January 1 and July 1 at interest rates ranging from 4.1% to 5.55%.

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 8 - LONG-TERM LIABILITIES – (cont'd):

The County of Mackinac, Michigan issued \$995,000 of Michigan Transportation Fund Bonds, Series 2001A, dated June 12, 2001 pursuant to the provision of Act 202 Public Acts of Michigan 1943, as amended. The bonds are issued in anticipation of and are payable from money derived from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction and work incidental thereto pursuant to Act 202. The proceeds from the bonds were for the construction, improvement, and repair of various roads in Mackinac County and to construct a garage, which is necessary and incidental thereto.

Principal on the bonds is due on June 1, 2007 through 2021 with interest due semi-annually on June 1 and December 1 at interest rates ranging from 4.1% to 5.25%.

As additional security for the payment of the principal of and interest on both Bond issues, in the event and to the extent that Michigan Transportation Fund money is not sufficient to pay such principal and interest, the County is obligated to advance from its general fund money sufficient to pay such principal and interest. The County does not have the power to levy taxes to pay principal of and interest on the bonds over and above its authorized tax rate established pursuant to law. To the extent such an advance is made from the County's general fund, the general fund shall be reimbursed from the first subsequent revenues received by the Road Commission from Michigan Transportation Fund money not pledged or required to be set aside and used for the payment of bonds or notes of other evidence of indebtedness.

The MTF Series 2001 in 2007 through 2011 shall not be subject to redemption prior to maturity. Bonds maturing on or after July 1, 2012 shall be subject to redemption prior to maturity at the option of the County, in such order as shall be determined by the County, on any one or more interest payment dates on or after July 1, 2011. Bonds of a denomination greater than \$50,000 may be partially redeemed in the amount of \$5,000 or any integral multiple thereof. If less than all of the Bonds maturing in any year are to be redeemed, the Bonds or portions of bonds to be redeemed shall be selected by lot. The redemption price shall be the par value of the bonds or portion of the bonds called to be redeemed plus interest to the date fixed for redemption.

The MTF Series 2001A in 2007 through 2011 shall not be subject to redemption prior to maturity. Bonds maturing on or after June 1, 2012 shall be subject to redemption prior to maturity at the option of the County, in such order as shall be determined by the County, on any one or more interest payment dates on or after June 1, 2011. Bonds of a denomination greater than \$50,000 may be partially redeemed in the amount of \$5,000 or any integral multiple thereof. If less than all of the Bonds maturing in any year are to be redeemed, the Bonds or portions of bonds to be redeemed shall be selected by lot. The redemption price shall be the par value of the bonds or portion of the bonds called to be redeemed plus interest to the date fixed for redemption.

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 8 - LONG-TERM LIABILITIES – (cont’d):

The annual requirements to amortize the bonds outstanding at December 31, 2007, including interest payments, are as follows:

<u>Year Ending December 31,</u>	<u>MTF Bonds Series 2001</u>		<u>MTF Bond Series 2001A</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 40,000	\$ 41,260	\$ 40,000	\$ 38,168
2009	40,000	39,420	40,000	36,456
2010	45,000	37,540	45,000	32,561
2011	45,000	35,380	45,000	30,363
2012	50,000	33,175	50,000	30,363
2013-2021	<u>570,000</u>	<u>166,926</u>	<u>570,000</u>	<u>148,664</u>
	<u>\$ 790,000</u>	<u>\$ 353,701</u>	<u>\$ 790,000</u>	<u>\$ 316,575</u>

Accrued Sick and Vacation -

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 vacation and sick leave under formulas and conditions specified in the contracts. Union Employees are compensated 100%, up to a maximum of 240 hours, of their vested vacation leave upon termination for any reason. Administrative employees are compensated 100%, up to a maximum of 240 hours of their vested vacation leave upon termination for any reason. In addition, they are compensated 50% of their vested vacation leave in excess of 240 hours upon termination for any reason. Sick leave vests upon death or retirement limited to 50% of their total accumulated sick time, up to a maximum of 1200 hours. The dollar amount of these vested rights, which have been accrued on the financial statements in the Long-Term Debt Account Group, amounts to approximately \$63,706 for sick and vacation at December 31, 2007.

MDOT Settlement -

The Michigan Department of Transportation audited the Road Commission’s Trunkline Maintenance contracts for the periods October 1, 1998 through September 30, 2003. As a result of the audits, an agreement was made for \$36,600 to be repaid to MDOT over four years effective March 1, 2005 through March 1, 2008. The balance at December 31, 2007 is \$9,150.

Capital Lease -

The Road Commission is obligated for a capital lease agreement to finance the acquisition of a copy machine. The minimum annual payments for the capital lease are summarized in Note 9.

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 9 - CAPITAL LEASE:

In 2004, the Road Commission entered into a lease purchase agreement to finance the acquisition of a copy machine with capitalized costs totaling \$6,643. This lease agreement qualifies as a capital lease for accounting purposes (the agreement provides for either title transfer or a bargain purchase option at the end of the lease terms); therefore, it has been recorded at the present value of future minimum lease payments as of the date of inception.

The following is a schedule of future minimum lease payments, together with the present value of the minimum lease payments as of December 31, 2007:

<u>Year Ending</u> <u>December 31,</u>		
2008		\$ 1,862
2009		<u>200</u>
		2,062
Amount representing interest		<u>(687)</u>
Present value of minimum lease payments		<u>\$ 1,375</u>

NOTE 10 - EMPLOYEE PENSION PLAN:

Plan Description -

The Mackinac County Road Commission participates in the Michigan Municipal Employees Retirement System (MERS); a 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.

Funding Policy -

The plan adopted by the Board of County Road Commissioners requires general employees to contribute 4.36% of their annual compensation with 0% to 2% required for salaried and supervisory employees. The Road Commission is required to contribute at an actuarially determined rate; the weighted average rate for 2007 was 0% for general employees, 30.90% for salaried employees. 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.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 10 - EMPLOYEE PENSION PLAN – (cont'd):

Annual Pension Costs -

For the year ended December 31, 2007, the Road Commission's annual pension cost of \$204,190 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2004 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 4.16% 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 E-1 or E-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 over a period of 30 years for positive unfunded liabilities and 10 years for negative unfunded liabilities.

Three-Year Trend Information

Fiscal Year Ending <u>December 31,</u>	Annual Pension <u>Costs (APC)</u>	Percentage of APC <u>Contribution</u>	Net Pension <u>Obligation</u>
2005	\$ 220,345	100 %	-
2006	223,711	100	-
2007	204,190	100	-

Schedule of Funding Progress

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Entry Age <u>(b)</u>	Unfunded (Overfunded) Accrued Liability (UAAL) <u>(b-a)</u>	Funded Ratio (AAL) <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>[(b-a)/c]</u>
2004	3,393,555	5,687,076	2,293,521	60	868,595	264
2005	3,590,890	5,795,076	2,204,186	62	866,581	254
2006	3,844,294	6,112,150	2,267,856	63	844,312	269

NOTE 11 - POSTEMPLOYMENT BENEFITS:

In addition to the pension benefits described in Note 8, the Mackinac County Road Commission provides postemployment health care to eligible employees who retire from the Road Commission on or after attaining retirement age with at least six years vesting with MERS for service. Expenditures for post-retirement health care benefits are recognized on a pay-as-you-go basis. For the year ended December 31, 2007, these costs amounted to approximately \$73,519 with four eligible participants.

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 12 - ADVANCES AND DEPOSITS:

Advances and Deposits of \$149,136 at December 31, 2007, represent money advanced by the State of Michigan under the maintenance contract the Road Commission has with the State for working capital and 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 -	
Trunkline maintenance	\$ 23,601
Equipment	<u>113,794</u>
	<u>137,395</u>
Local -	
Township advances	309
Contractors and individuals	<u>11,432</u>
	<u>11,741</u>
	<u>\$ 149,136</u>

NOTE 13 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

In the normal course of its operations, the Mackinac 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 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 14 - RISK MANAGEMENT:

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan, which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

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

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 14 - RISK MANAGEMENT – (cont'd):

The Mackinac County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also 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 is self-insured for health care benefits. The health insurance company performs the administrative services for the self-insured program. The Road Commission makes monthly payments based on estimated claims and a stop-loss provision, which are adjusted quarterly.

NOTE 15 - EQUIPMENT OPERATIONS EXPENDITURE/EXPENSE 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 in the various maintenance activities. An expenditure credit is reported as an offset against the equipment expenditure activities. Accordingly, the equipment rental does not affect total expenditures or the available operating equity of the Road Commission's General Operating Fund. The balance for the year ended December 31, 2007 is as follows:

	<u>Governmental Fund</u>	<u>Statement of Activities</u>
Equipment -		
Direct	\$ 1,221,802	\$ 540,089
Indirect	353,911	317,923
Operating	<u>321,132</u>	<u>321,132</u>
	1,896,845	1,179,144
Less - equipment rental	<u>(1,849,126)</u>	<u>(1,849,126)</u>
	<u>\$ 47,719</u>	<u>\$(669,982)</u>

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 16 - FUND BALANCE – DESIGNATED:

The Road Commission fund balance at December 31, 2007 had been designated as follows:

Sick and vacation pay out for employees retiring	\$ 28,719
Building fund	30,000
Equipment purchases	488,135
Emergency contingency	<u>508,271</u>
	<u>\$ 1,055,125</u>

NOTE 17 - FUND BALANCE – RESERVED/NET ASSETS – RESTRICTED:

The Road Commission has fund balance reserved/net assets restricted at December 31, 2007 as follows:

Primary Roads (including forest funds of \$163,493)	<u>\$ 575,645</u>
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SUPPLEMENTARY INFORMATION

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

DETAIL SCHEDULE OF REVENUES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Revenues:		
Licenses and permits	\$ 3,314	\$ 23,308
Federal Sources -		
D Funds	299,516	-
STP funds	244,772	480,193
National Forest	2,636,442	53,642
	3,180,730	533,835
State Sources -		
Motor Vehicle Highway Funds - Act 51 -		
Engineering	10,000	10,000
Primary roads	1,473,878	1,482,387
Local roads	726,243	730,164
Snow removal	103,135	103,383
State Critical Bridge	-	502,428
Federal Aid Funds Sold to State	225,600	225,600
Economic Development Fund	171,100	48,954
Jobs Today	30,414	-
	2,740,370	3,102,916
Local Sources -		
City and Village	64,134	-
Township contributions	1,229,274	1,017,590
County appropriations	2,800	102,214
	1,296,208	1,119,804
Charges for Services -		
Trunkline maintenance	295,239	254,966
Trunkline Non- maintenance	-	5,386
Salvage sales	2,931	22,047
	298,170	282,399
Interest and rents	45,286	46,902
Other -		
Sundry Refunds	5,992	441
Gain on disposal of equipment	(2,866)	69,484
Other	3,675	11,374
	6,801	81,299
Total Revenues	7,570,879	5,190,463
Other Financing Sources:		
Installment Purchases/Leases	136,675	809,802
Insurance Recovery	146,107	-
	282,782	809,802
Total Revenues and Other Sources	\$ 7,853,661	\$ 6,000,265

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

DETAIL SCHEDULE OF EXPENDITURES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Expenditures:		
Preservation - structural improvements		
Primary roads, structures and safety projects	\$ 3,947,759	\$ 959,807
Local roads and structures	731,033	1,429,089
	<u>4,678,792</u>	<u>2,388,896</u>
Maintenance -		
Primary roads and structures, winter and traffic control	1,314,162	1,125,752
Local roads and structures, winter and traffic control	842,027	845,704
	<u>2,156,189</u>	<u>1,971,456</u>
State Maintenance -		
Trunkline maintenance	293,043	254,966
Non-Maintenance	-	5,408
	<u>293,043</u>	<u>260,374</u>
Equipment -		
Direct	1,221,802	1,071,442
Indirect	353,911	429,374
Operating	321,132	312,104
Less - equipment rental	(1,849,126)	(1,722,702)
	<u>47,719</u>	<u>90,218</u>
Administrative -		
Administration	449,940	394,734
Less - overhead	(35,162)	(29,919)
- handling	-	(18,709)
- other	(61,394)	-
	<u>353,384</u>	<u>346,106</u>
Other	<u>224,700</u>	<u>9,374</u>
Capital Outlay -		
Land improvements, building and equipment	503,314	1,206,512
Less		
Depreciation	(724,888)	(641,916)
Equipment retirements	(3,467)	-
	<u>(225,041)</u>	<u>564,596</u>
Debt Service -		
Principal retirement	179,818	488,599
Interest	119,837	106,275
	<u>299,655</u>	<u>594,874</u>
Total Expenditures	<u><u>\$ 7,828,441</u></u>	<u><u>\$ 6,225,894</u></u>

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BY FUND BALANCE SUB-ACCOUNTS
GENERAL OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Primary Road Fund	Local Road Fund	County Road Fund	Total
Revenues:				
Licenses and permits	\$ -	\$ -	\$ 3,314	\$ 3,314
Intergovernmental -				
Federal Sources	3,180,730	-	-	3,180,730
State Sources	1,976,793	763,577	-	2,740,370
Local Sources	520,073	773,335	2,800	1,296,208
Charges for services	295,239	-	2,931	298,170
Interest and rents	-	-	45,286	45,286
Other	5,992	3,675	(2,866)	6,801
	<u>5,978,827</u>	<u>1,540,587</u>	<u>51,465</u>	<u>7,570,879</u>
Other Financing Sources:				
Insurance recovery	-	-	146,107	146,107
Installment note proceeds	-	-	136,675	136,675
	<u>-</u>	<u>-</u>	<u>282,782</u>	<u>282,782</u>
 Total Revenues and Other Sources	<u>5,978,827</u>	<u>1,540,587</u>	<u>334,247</u>	<u>7,853,661</u>
 Expenditures:				
Preservation - Structural Improvements	3,947,759	731,033	-	4,678,792
Maintenance	1,314,162	842,027	-	2,156,189
State Non-Maintenance	293,043	-	-	293,043
Equipment - net	29,409	15,905	2,405	47,719
Administrative - net	272,053	81,331	-	353,384
Other	223,156	-	1,544	224,700
Capital outlay - net	-	-	(225,041)	(225,041)
Debt principal -				
Principal retirement	9,150	-	170,668	179,818
Interest	-	-	119,837	119,837
Total Expenditures	<u>6,088,732</u>	<u>1,670,296</u>	<u>69,413</u>	<u>7,828,441</u>
 Excess of revenues and other sources over (under) expenditures before optional transfers	(109,905)	(129,709)	264,834	25,220
 Optional Transfers	<u>(25,793)</u>	<u>25,793</u>	<u>-</u>	<u>-</u>
 Excess of revenues and other sources over (under) expenditures	(135,698)	(103,916)	264,834	25,220
 Fund balance at beginning of year	702,363	94,187	1,771,647	2,568,197
 Inter sub-account transfer	<u>8,980</u>	<u>9,729</u>	<u>(18,709)</u>	<u>-</u>
 Fund Balance at end of year	<u>575,645</u>	<u>-</u>	<u>2,017,772</u>	<u>2,593,417</u>

**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 Mackinac County
St. Ignace, Michigan

We have audited the financial statements of Mackinac County Road Commission as of and for the year ended December 31, 2007, and have issued our report thereon, dated May 9, 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 Mackinac 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 Mackinac County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mackinac 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 Mackinac 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 Mackinac County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Mackinac County Road Commission's internal control. We consider the deficiency described as follows to be a significant deficiency in internal control over financial reporting.

The Road Commission prepares various financial information to assess operations and the financial condition of the Road Commission including the completion of the MDOT ACT 51 Report at year end. However, that information is not required to be a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, 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 and determine that the financial report is accurate, however, has not reviewed and determined that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles, which has been the practice with many governmental units, including Road Commissions. As a result, the Road Commission is considered to have a significant control deficiency, since reporting errors or omissions could occur in the presentation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Road Commission would 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 Mackinac 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 not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mackinac 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 Mackinac County Road Commission in a separate letter dated May 9, 2008.

This report is intended for the information and use of the management and Board of County Road Commissioners of Mackinac 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

May 9, 2008



AUDIT COMMUNICATION LETTER

May 9, 2008

To the County Road Commissioners of
Mackinac County Road Commission
St. Ignace, Michigan

We have audited the financial statements of the Road Commission of Mackinac County for the year ended December 31, 2007, and have issued our report thereon dated May 9, 2008. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated November 13, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Mackinac 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 Mackinac 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 Audit

We performed the audit according to the planned scope and timing previously communicated to you in our Preliminary Audit Communication Letter, and discussions with management.

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Mackinac 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 in 2007. We noted no transactions entered into by the Mackinac County Road Commission 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 basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic 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:

As part of the implementation of GASB 34, the Road Commission was required to record infrastructure as a capital asset. As a result, the original costs of roads, bridges, traffic signals, land improvements and right-of-way had to be determined. Because the supporting data for original cost was not always available, estimates were required to be made based on available data. We evaluated the key factors and assumptions used to develop the cost estimates for infrastructure and determined that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of depreciation is based on Michigan Department of Transportation guidelines. We evaluated the key factors and assumptions used to develop the depreciation estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Adjustments Governmental Fund Financial Statements

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. There were no proposed audit adjustments.

Assistance with GASB 34 Presentation

As a result of our assistance with GASB 34 presentation, we proposed several entries, to the December 31, 2007 account balances to reflect the difference between the Governmental Fund and the Government-wide financial statements. These entries are described in Note 2 to the financial statements.

Statement on Auditing Standards No. 112

Statement on Auditing Standards No. 112 "Communicating Internal Control Related Matters Identified in and Audit" implementation was first effective for your year end December 31, 2006. Under SAS 112 internal control over financial reporting includes the annual audited financial statements including the notes being presented in accordance with Generally Accepted Accounting Principles.

If a governmental organization relies on our firm to present the financial statements in accordance with generally accepted accounting principles, we are required to report that there is a significant deficiency in internal control. We, again, fulfilled this responsibility in your internal control letter for the year ended December 31, 2007.

A substantial portion of our clients are receiving this comment, and per discussion with other CPA firms, a substantial number of their clients are also receiving the comment. This is the result of it being the practice in the past to rely on the auditor since the annual financial report is prepared once a year and we stay current on generally accepted accounting principles. We recommend that the Road Commission evaluate the cost versus the benefit of expanding internal control over financial reporting to include presentation under GAAP, especially since there were no audit adjustments proposed and the Act 51 Report is prepared by the Road Commission.

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 May 9, 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 Road Commission'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 factors. To our knowledge, there were not such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

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

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

Other Internal Control Comments

In addition to the Report on Internal Control, we noted a few other items that although are not considered significant deficiencies could improve controls, the operational efficiency and/or compliance with laws and regulations. These items are discussed in Attachment A.



Certified Public Accountants

Attachment A

The following item that we discussed with administration, that is not considered a significant deficiency, however, is an item that could improve controls, the operational efficiency of the accounting department and/or compliance with laws and regulations:

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 procedures 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.