

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 type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

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 type="checkbox"/>	
The letter of Comments and Recommendations	<input type="checkbox"/>	
Other (Describe)	<input type="checkbox"/>	
Certified Public Accountant (Firm Name)		Telephone Number
Street Address	City	State Zip
Authorizing CPA Signature <i>Christina M. Kostick</i>	Printed Name	License Number

ATTACHMENT TO AUDITING PROCEDURES REPORT

A statement regarding reasons why a compliance audit is not required for the Road Commission of Macomb County follows:

The Road Commission's financial statements report \$9,805,735 of federal aid, of which all except for \$498,637 is administered by the Michigan Department of Transportation; the Road Commission has no control over these expenditures, nor does it have any administrative or other responsibilities for compliance with grant requirements. Therefore, it does not consider these to represent federal assistance to the Road Commission. The remaining federal grants, all of which are considered to represent financial assistance to the Road Commission, total less than \$500,000; therefore, no single audit was undertaken by the Road Commission.

Road Commission of Macomb County

Financial Report
September 30, 2007

Road Commission of Macomb County

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Independent Auditor's Report

To the Board of Road Commissioners
Road Commission of Macomb County

We have audited the accompanying financial statements of the governmental activities, the Road Fund (the Road Commission's only major fund), and the aggregate remaining fund information of the Road Commission of Macomb County (a component unit of Macomb County, Michigan) (the "Road Commission") as of and for the year ended September 30, 2007, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the Road Fund (the Road Commission's only major fund), and the aggregate remaining fund information of the Road Commission of Macomb County at September 30, 2007, the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the Road Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

January 7, 2008

Road Commission of Macomb County

Management's Discussion and Analysis

As management of the Road Commission of Macomb County (the "Road Commission"), we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended September 30, 2007.

Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Road Commission's basic financial statements. These statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The first two components are presented together on the governmental funds balance sheet/statement of net assets and statement of revenues, expenditures, and changes in fund balances/statement of activities.

Financial Analysis

Net assets enable governmental agencies to determine their overall fiscal position. The Road Commission of Macomb County's net assets increased by less than 1.0 percent from a year ago, increasing from \$752.6 million to \$757.8 million. This increase was due primarily to an increase in the Road Commission's cash and investments. Several large construction projects that were budgeted in fiscal year 2007 have been carried forward to fiscal year 2008. As a result, cash and investments were higher than anticipated. Although this increased the cash and investments in fiscal year 2007, these funds are earmarked for the delayed construction projects and the funds will be used in fiscal year 2008. In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of September 30, 2007 to the prior year.

Condensed Statement of Net Assets

	<u>2007</u>	<u>2006</u>
Assets		
Current assets	\$ 63.8	\$ 56.4
Capital assets	<u>707.1</u>	<u>708.1</u>
Total assets	770.9	764.5
Liabilities		
Current liabilities	10.7	8.6
Long-term liabilities outstanding	<u>2.4</u>	<u>3.3</u>
Total liabilities	<u>13.1</u>	<u>11.9</u>
Net Assets		
Invested in capital assets	707.1	708.1
Unrestricted	<u>50.7</u>	<u>44.5</u>
Total net assets	<u><u>\$ 757.8</u></u>	<u><u>\$ 752.6</u></u>

Road Commission of Macomb County

Management's Discussion and Analysis (Continued)

Net capital assets decreased from \$708.1 million in fiscal year 2006 to \$707.1 million in fiscal year 2007. This decrease was a result of new infrastructure being added at a cost that was less than the depreciation on prior year's infrastructure. Unrestricted net assets, which finance the day-to-day operations of road activity and the future growth of Macomb County for infrastructure, were \$50.7 million at September 30, 2007. This amount increased approximately 14.0 percent from last year's unrestricted net assets of \$44.5 million.

The following table shows the changes in net assets (in millions of dollars) as of September 30, 2007 and the prior year:

Condensed Statement of Activities

	2007	2006
Revenue		
State aid	\$ 39.4	\$ 42.4
Federal sources	9.9	9.0
Local and other sources	18.4	18.5
Land and roads released from developers	8.1	5.5
Total revenue	75.8	75.4
Expenses		
Maintenance and equipment	16.4	14.3
Administrative	18.8	18.2
Depreciation	35.3	35.1
Total expenses	70.5	67.6
Increase in Net Assets	\$ 5.3	\$ 7.8

Statement of Activities

The Road Commission's total revenue increased slightly from the prior year. This increase can be attributed to the land and roads released from developers, which are reported as revenue on the statement of activities. Expenses increased approximately \$2.9 million over last year. This increase is due to several non-road projects that are listed on the "Maintenance and Equipment" line. These projects include two hike/bike paths and two pedestrian bridges in Macomb County. Overall, net assets increased \$5.3 million from the prior year.

Road Commission of Macomb County

Management's Discussion and Analysis (Continued)

Road Fund Budgetary Highlights

Prior to beginning each new fiscal year, the Road Commission of Macomb County's budget is prepared based upon certain assumptions and facts available at that time. Throughout the year, the Road Commission's board amends the budget to reflect changes in these original assumptions, facts, and/or economic conditions that were unknown at the time the original budget was adopted. In addition, the board reviews and authorizes expenditures and capital equipment purchases throughout the year. The Road Commission amended its 2007 budget on several occasions during the year to reflect changes in equipment expense, maintenance expense, and status changes in budgeted construction projects. Final expenditures were \$26.7 million lower than the original budget due primarily to changes in construction projects and cost-saving measures that were implemented throughout the year. The Road Commission of Macomb County has made great efforts to reduce staffing and benefit costs through attrition. As a result, salaries and benefits were both lower in fiscal year 2007 when compared to fiscal year 2006 due to a 10 percent reduction in work force. The actual revenues for fiscal year 2007 were also lower than the budgeted amount. With several construction projects being rolled over to fiscal year 2008, the revenue sharing on these projects will also be recognized in 2008. The Road Commission secured construction contracts of approximately \$19.9 million, and actual expenditures on these contracts were less than the amended budget.

Capital Assets

The Road Commission had \$707.1 million in net capital assets at the end of the fiscal year. This amount represents a net decrease of \$1.0 million from the previous year. The Road Commission added over \$35 million to its investment in capital assets during the current year, including approximately \$32.9 million of infrastructure additions. The recorded amount of the infrastructure assets, net of depreciation contained in this report is \$502.8 million and \$507.2 million for fiscal years 2007 and 2006, respectively. The infrastructure will continue to be the largest asset class.

Economic Factors and Next Year's Budget

Reductions in revenue sharing will directly affect the local units of government. This will in turn affect the amount of funds the local units will have available to participate in road projects. In addition, the Road Commission of Macomb County experienced a decrease of approximately \$158,000 in Michigan Transportation Funds (MTF) as compared to fiscal year 2006. MTF dollars are the main source of income to cover operating expenses of the Road Commission including all road maintenance expenses and the Road Commission's share of construction expense. Without adequate increases in MTF revenue and revenue sharing, the Road Commission of Macomb County has diminishing resources for road improvements and maintenance activities. This decrease will directly impact the number of road projects that can be undertaken as well as the level of maintenance work the Road Commission of Macomb County can provide. The Road Commission continues to face difficult and challenging financial times. Revenues and expenditures will be monitored throughout the year to assure fiscal responsibility.

Road Commission of Macomb County

Management's Discussion and Analysis (Continued)

Contacting the Road Commission's Management

This financial report is designed to provide a general overview of the Road Commission's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Road Commission of Macomb County, Michelle M. Mykytiak, finance director. For more specific information regarding construction projects, contact Robert Hoepfner, county highway engineer.

Road Commission of Macomb County

	Nonmajor Funds		
	Major Fund - Road	Postemployment Benefits	Capital Projects
Assets			
Cash and investments (Note 4)	\$ 35,081,892	\$ -	\$ 3,420,171
Receivables:			
State of Michigan	7,953,894	-	-
Construction accounts receivable	786,619	-	-
Accrued interest receivable	534,371	-	-
Other	315,409	-	-
Inventory	3,651,536	-	-
Deposits	1,305,360	-	-
Surplus properties	109,039	-	-
Prepaid costs and other	1,011,818	-	-
Capital assets (Note 5):			
Assets not being depreciated	-	-	-
Assets being depreciated - Net	-	-	-
Total assets	<u>\$ 50,749,938</u>	<u>\$ -</u>	<u>\$ 3,420,171</u>
Liabilities and Fund Balances			
Liabilities			
Current liabilities:			
Accounts payable	\$ 1,839,801	\$ -	\$ -
Advances	5,897,574	-	-
Provision for uninsured losses (Note 6)	-	-	-
Accrued workers' compensation (Note 6)	16,130	-	-
Accrued liabilities and other	3,187,008	-	-
Noncurrent liabilities:			
Provision for uninsured losses (Note 6)	-	-	-
Accrued workers' compensation liabilities (Note 6)	-	-	-
Net OPEB obligation (Note 7)	-	-	-
Accrued sick and vacation	-	-	-
Total liabilities	10,940,513	-	-
Fund Balances - Unreserved - Designated (Note 9)	<u>39,809,425</u>	<u>-</u>	<u>3,420,171</u>
Total liabilities and fund balances	<u>\$ 50,749,938</u>	<u>\$ -</u>	<u>\$ 3,420,171</u>
Net Assets			
Invested in capital assets			
Unrestricted			
Total net assets			

**Governmental Funds Balance Sheet/Statement of Net Assets
September 30, 2007**

Total Governmental Funds	Adjustments (Note 2)	Statement of Net Assets
\$ 38,502,063	\$ 9,594,609	\$ 48,096,672
7,953,894	-	7,953,894
786,619	-	786,619
534,371	-	534,371
315,409	-	315,409
3,651,536	-	3,651,536
1,305,360	-	1,305,360
109,039	-	109,039
1,011,818	33,000	1,044,818
-	180,521,635	180,521,635
-	526,598,675	526,598,675
<u>\$ 54,170,109</u>	716,747,919	770,918,028
\$ 1,839,801	-	1,839,801
5,897,574	-	5,897,574
-	36,862	36,862
16,130	-	16,130
3,187,008	(279,148)	2,907,860
-	339,021	339,021
-	137,905	137,905
-	649,979	649,979
-	1,266,604	1,266,604
10,940,513	2,151,223	13,091,736
43,229,596	(43,229,596)	-
<u>\$ 54,170,109</u>	(41,078,373)	13,091,736
	707,120,310	707,120,310
	50,705,982	50,705,982
	<u>\$ 757,826,292</u>	<u>\$ 757,826,292</u>

Road Commission of Macomb County

	Nonmajor Funds		
	Major Fund - Road	Postemployment Benefits	Capital Projects
Revenue			
Licenses, permits, and fees	\$ 739,125	\$ -	\$ -
Federal aid for construction	9,805,735	-	-
State revenue:			
Michigan Transportation Fund	36,901,744	-	-
Build Michigan Fund	1,425,234	-	-
Category C Fund	204	-	-
State Critical Bridge	1,072,028	-	-
Contributions from local units:			
Cities	1,421,207	-	-
Townships	2,873,189	-	-
County	1,272,703	-	-
Charges for services:			
State trunkline maintenance	6,316,077	-	-
State nonmaintenance	958,685	-	-
Other revenue:			
Cities, townships, and other	2,556,334	-	-
Inspections	69,193	-	-
Land and roads released from developers	-	-	-
Interest	1,770,976	-	163,231
Sale of land, property, rental, and other	160,611	-	-
Total revenue	<u>67,343,045</u>	-	<u>163,231</u>
Expenditures/Expenses - Current			
Primary road	21,831,720	-	-
Local road	9,946,465	-	-
Primary bridges	1,384,192	-	-
Local bridges	330,015	-	-
Nonroad projects	3,892,777	-	-
State maintenance	4,127,238	-	-
State nonmaintenance	770,481	-	-
Equipment rental credits - Net of equipment expense, excluding fringe	(3,919,043)	-	-
Engineering	961,861	-	-
Administrative	1,165,170	-	-
Inspections and other	1,319,071	-	-
Distributive fringe benefits	16,605,303	-	-
Other distributive expense	5,027,933	-	-
Capital outlay - Net of depreciation credits	(896,589)	-	-
Depreciation expense	-	-	-
Total expenditures/expenses	<u>62,546,594</u>	-	<u>-</u>

**Statement of Governmental Revenues, Expenditures, and Changes in
Fund Balances/Statement of Activities
Year Ended September 30, 2007**

Total Governmental Funds	Adjustments (Note 2)	Statement of Activities
\$ 739,125	\$ -	\$ 739,125
9,805,735	62,782	9,868,517
36,901,744	-	36,901,744
1,425,234	-	1,425,234
204	-	204
1,072,028	-	1,072,028
1,421,207	546	1,421,753
2,873,189	-	2,873,189
1,272,703	25,689	1,298,392
6,316,077	-	6,316,077
958,685	-	958,685
2,556,334	-	2,556,334
69,193	-	69,193
-	8,129,995	8,129,995
1,934,207	-	1,934,207
160,611	41,310	201,921
<u>67,506,276</u>	<u>8,260,322</u>	<u>75,766,598</u>
21,831,720	(15,010,363)	6,821,357
9,946,465	(2,786,649)	7,159,816
1,384,192	(1,383,005)	1,187
330,015	(330,015)	-
3,892,777	-	3,892,777
4,127,238	-	4,127,238
770,481	-	770,481
(3,919,043)	-	(3,919,043)
961,861	-	961,861
1,165,170	-	1,165,170
1,319,071	-	1,319,071
16,605,303	(3,221,375)	13,383,928
5,027,933	(3,071,988)	1,955,945
(896,589)	(1,601,796)	(2,498,385)
-	35,352,990	35,352,990
<u>62,546,594</u>	<u>7,947,799</u>	<u>70,494,393</u>

Road Commission of Macomb County

	Nonmajor Funds		
	Major Fund - Road	Postemployment Benefits	Capital Projects
Excess of Revenues Over Expenditures/ Change in Net Assets	\$ 4,796,451	\$ -	\$ 163,231
Other Financing Sources (Uses) - Transfers	2,795,138	(2,795,138)	-
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	7,591,589	(2,795,138)	163,231
Fund Balances/Net Assets - October 1, 2006	32,217,836	2,795,138	3,256,940
Fund Balances/Net Assets - September 30, 2007	\$ 39,809,425	\$ -	\$ 3,420,171

**Statement of Governmental Revenues, Expenditures, and Changes in
Fund Balances/Statement of Activities (Continued)
Year Ended September 30, 2007**

Total Governmental Funds	Adjustments (Note 2)	Statement of Activities
\$ 4,959,682	\$ 312,523	\$ 5,272,205
-	-	-
4,959,682	312,523	5,272,205
38,269,914	714,284,173	752,554,087
\$ 43,229,596	\$ 714,596,696	\$ 757,826,292

Road Commission of Macomb County

Road Fund Budgetary Comparison Schedule Year Ended September 30, 2007

	Original Budget	Amended Budget	Actual
Revenue			
Licenses, permits, and fees	\$ 797,000	\$ 797,000	\$ 739,125
Federal aid for construction	23,089,853	11,176,073	9,805,735
State revenue:			
Michigan Transportation Fund	36,510,000	36,510,000	36,901,744
Build Michigan Fund	1,284,000	1,284,000	1,425,234
Category C Fund	-	204	204
State Critical Bridge	2,705,558	2,705,558	1,072,028
Contributions from local units:			
Cities	519,304	976,915	1,421,207
Townships	1,630,423	1,630,423	2,873,189
County	1,576,500	1,576,500	1,272,703
Other	1,345,041	1,345,041	-
Charges for services:			
State trunkline maintenance	5,660,918	6,268,847	6,316,077
State nonmaintenance	560,000	791,879	958,685
Other revenue:			
Cities, townships, and other	1,400,000	1,481,377	2,556,334
Inspections	775,000	550,000	69,193
Interest	724,000	1,100,000	1,770,976
Sale of land, property, rental, and other	99,100	212,342	160,611
Total revenue	<u>78,676,697</u>	<u>68,406,159</u>	<u>67,343,045</u>
Expenditures - Current			
Primary road	44,818,756	27,982,156	21,831,720
Local road	10,270,816	10,270,816	9,820,232
Primary bridges	1,955,000	2,150,763	1,384,192
Local bridges	1,962,500	962,500	330,015
Local drain	100,000	150,000	126,233
Primary drain	100,000	100,000	-
Nonroad projects	-	3,657,430	3,892,777
State maintenance	3,984,391	4,495,863	4,127,238
State nonmaintenance	586,000	783,650	770,481
Equipment rental credits - Net of equipment expense, excluding fringe	(1,600,000)	(1,600,000)	(3,919,043)
Engineering	955,000	1,100,000	961,861
Administrative	1,509,672	1,509,672	1,165,170
Inspections and other	1,846,401	1,846,401	1,319,071
Distributive fringe benefits	18,943,280	18,943,280	16,605,303
Other distributive expense	5,337,689	5,337,689	5,027,933
Capital outlay - Net of depreciation credits	(1,510,843)	(1,510,843)	(896,589)
Total expenditures	<u>89,258,662</u>	<u>76,179,377</u>	<u>62,546,594</u>
Excess of Expenditures Over (Under) Revenue	(10,581,965)	(7,773,218)	4,796,451
Other Financing Sources - Operating transfers	-	2,795,138	2,795,138
Excess of Revenue and Other Financing Sources Over (Under) Expenditures	(10,581,965)	(4,978,080)	7,591,589
Fund Balance - October 1, 2006	<u>32,217,836</u>	<u>32,217,836</u>	<u>32,217,836</u>
Fund Balance - September 30, 2007	<u>\$ 21,635,871</u>	<u>\$ 27,239,756</u>	<u>\$ 39,809,425</u>

Road Commission of Macomb County

Proprietary Fund - Internal Service Fund General Liability Self-insurance Fund Statement of Net Assets September 30, 2007

Assets - Current

Cash and investments (Note 4)	\$ 9,594,609
Prepaid costs and other assets	<u>33,000</u>
Total assets	9,627,609

Liabilities

Current liabilities - Provision for uninsured losses (Note 6)	36,862
Noncurrent liabilities - Provision for uninsured losses (Note 6)	<u>339,021</u>
Total liabilities	<u>375,883</u>

Net Assets - Unrestricted

\$ 9,251,726

Road Commission of Macomb County

Proprietary Fund - Internal Service Fund General Liability Self-insurance Fund Statement of Revenues, Expenses, and Changes in Net Assets Year Ended September 30, 2007

Operating Expenses	
Settlements, premiums, and other	\$ 202,877
Change in allowance for unsettled claims incurred but not reported	<u>(1,251,740)</u>
Operating Income	1,048,863
Nonoperating Revenues - Interest income	<u>458,606</u>
Increase in Net Assets	1,507,469
Net Assets - Beginning of year	<u>7,744,257</u>
Net Assets - End of year	<u><u>\$ 9,251,726</u></u>

Road Commission of Macomb County

Proprietary Fund - Internal Service Fund General Liability Self-insurance Fund Statement of Cash Flows Year Ended September 30, 2007

Cash Flows from Operating Activities - Claims, settlements, premiums, and other items paid	\$ (202,877)
Cash Flows from Investing Activities	
Interest received on investments	458,606
Net proceeds and purchases of investment securities	<u>(255,729)</u>
Net cash provided by investing activities	<u>202,877</u>
Net Change in Cash and Cash Equivalents	-
Cash and Cash Equivalents - Beginning of year	<u>-</u>
Cash and Cash Equivalents - End of year	<u><u>\$ -</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 1,048,863
Adjustments to reconcile operating income to net cash from operating activities - Change in provision for uninsured losses and liabilities	<u>(1,251,740)</u>
Net cash used in operating activities	<u><u>\$ (202,877)</u></u>
Reconciliation to Balance Sheet	
Cash and investments recorded on balance sheet/statement of net assets	\$ 9,594,609
Less fixed-term investments	<u>(9,594,609)</u>
Total	<u><u>\$ -</u></u>

Noncash Investing, Capital, and Financing Activities - During the year ended September 30, 2007, there were no noncash investing, capital, or financing activities.

Road Commission of Macomb County

**Notes to Financial Statements
September 30, 2007**

Note I - Significant Accounting Policies

The Road Commission of the County of Macomb, Michigan (the "Road Commission") is a governmental agency responsible for the maintenance and construction of the road system in Macomb County. The Road Commission's financial statements will be included in the basic financial statements of the County of Macomb, Michigan as a discretely presented component unit. Transactions between the Road Commission and the County of Macomb primarily relate to the cost sharing of Road Commission administered construction projects, which were not significant during the year.

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

Reporting Entity

The Road Commission is governed by an appointed three-member board of commissioners. As required by accounting principles generally accepted in the United States of America, these financial statements present the Road Commission of Macomb County. In accordance with accounting principles generally accepted in the United States of America, there are no component units included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. For the most part, the effect of interfund activity has been removed from these statements. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided for governmental funds and are included in the government-wide financial statements. Major and nonmajor individual governmental funds are reported as separate columns. Separate financial statements are provided for the proprietary fund.

Road Commission of Macomb County

**Notes to Financial Statements
September 30, 2007**

Note I - Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Amounts collected beyond this time period are recorded as deferred revenue. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Billings on the contracts include a provision for fringe benefits and overhead. No profit is recognized on these contracts. Interest associated with the current fiscal period is considered susceptible to accrual and has been recognized as revenue of the current fiscal period. Other revenue is recorded when received.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditures for construction and work orders are recognized as the work progresses. Amounts billed to other governmental units for participation in construction or for work orders include equipment usage charges based on predetermined rates. These rates are designed to cover direct equipment operating costs, which include depreciation recorded within the government-wide statements. However, expenditures related to compensated absences and claims and judgments, accounted for within the Road Fund, are recorded only when payment is due.

The Road Fund is the Road Commission's only major governmental fund and is used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Road Commission of Macomb County

**Notes to Financial Statements
September 30, 2007**

Note I - Significant Accounting Policies (Continued)

Additionally, the Road Commission reports the following fund type:

Internal Service Fund - The Internal Service Fund is a proprietary fund type and accounts for risk management services provided to the Road Fund on a cost-reimbursement basis.

Proprietary funds distinguish operating revenue and operating expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash Equivalents - For the purpose of the statement of cash flows, the Road Commission does not include fixed-term investments (such as certificates of deposit) as cash equivalents. Only cash items (cash on hand, checking accounts, and savings accounts) are included.

Investments - Investments are reported at fair value, based on quoted market prices.

Inventory and Prepaid Costs - Inventory consists principally of road material, salt, signs, and equipment maintenance materials and is valued at the lower of average cost or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

Surplus Properties - Surplus properties are recorded at the lower of acquisition cost or market.

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

Road Commission of Macomb County

Notes to Financial Statements September 30, 2007

Note I - Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Land improvements	20 years
Road and other equipment	5-25 years
Infrastructure	8-50 years

Compensated Absences (Vacation and Sick Leave) - It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. The government-wide statement of net assets accrues all vacation and personal pay as it is earned and sick pay as it is used or vested (whichever is earlier.) A liability for these amounts is reported in governmental funds as it comes due for payment (when time is taken off or the employee is terminated.)

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, such as provision for uninsured losses, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Fund Equity - In the fund financial statements, governmental funds report designations of fund balance for amounts that represent tentative management plans that are subject to change.

Other accounting policies are disclosed in other notes to the financial statements.

Road Commission of Macomb County

Notes to Financial Statements September 30, 2007

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Amounts reported in the government-wide financial statements are different from amounts reported in the governmental funds because of the following:

Governmental funds fund balance	\$ 43,229,596
Capital assets used in governmental activities are not financial resources and are not reported in the funds	707,120,310
State and local receivables are not available to pay for current year expenditures and are therefore deferred in the governmental funds	279,148
Noncurrent compensated absences and provisions for workers' compensation uninsured losses are not reported in the funds	(1,404,509)
Other long-term liabilities, such as net OPEB obligations, do not present a claim on current financial resources and are not reported as fund liabilities	(649,979)
Internal Service Funds are included as governmental activities	<u>9,251,726</u>
Government-wide net assets	<u>\$ 757,826,292</u>

Road Commission of Macomb County

Notes to Financial Statements September 30, 2007

Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

Net change in fund balances - Total government funds	\$ 4,959,682
Governmental funds report capital outlay as an expenditure; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay expenditures	26,223,055
Depreciation expense	(35,352,990)
In the governmental funds, state and local revenues not collected within 60 days of year end are not available to pay for current year expenditures, whereas in the statement of activities, revenue is recognized when earned	130,327
In the statement of activities, land and roads released from developers are reported as revenue at the fair market value and the fixed asset is capitalized	8,129,995
Changes in accumulated employee sick and vacation pay are recorded when earned in the statement of activities and reported in the fund statements when they come due for payment	324,646
Changes in other liabilities, such as net OPEB obligations, reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements	(649,979)
Internal Service Funds are also included as governmental activities	<u>1,507,469</u>
Change in net assets of governmental activities	<u>\$ 5,272,205</u>

Note 3 - Stewardship, Compliance, and Accountability

The annual budget is prepared by the finance and MIS director and adopted by the Board of Road Commissioners; subsequent amendments are approved by the Board of Road Commissioners. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at September 30, 2007 has not been calculated. The budget was amended in a legally permissible manner.

Road Commission of Macomb County

**Notes to Financial Statements
September 30, 2007**

Note 3 - Stewardship, Compliance, and Accountability (Continued)

The Road Fund budget has been adopted on an activity basis and prepared in accordance with accounting principles generally accepted in the United States of America; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. There were no significant budget variances in the Road Fund. The budgetary comparison schedule as presented on page 12 is shown on a condensed basis from the budget as formally adopted. Copies of the adopted budget are available for comparison at the Road Commission offices.

Note 4 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Road Commission is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Road Commission has adopted an investment policy in accordance with the statutory authority.

The Road Commission has designated 17 banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in certificates of deposit, U.S. Treasury bills, and bank investment pools, but not the remainder of state statutory authority as listed above. The Road Commission's deposits and investment policies are in accordance with statutory authority.

The Road Commission's cash and investments are subject to custodial credit risk, which is examined in more detail below:

Road Commission of Macomb County

Notes to Financial Statements September 30, 2007

Note 4 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission has adopted a deposit policy for custodial credit risk which limits the Road Commission's investment in an individual institution to no more than 1 percent of the institution's equity and no more than 15 percent of the Road Commission's total deposit balance. At year end, \$47,935,124 of the Road Commission's deposit balance (certificates of deposit, checking, and savings accounts) of \$49,335,124 was uninsured and uncollateralized. 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 deposits. As a result, the Road Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 5 - Capital Assets

Capital asset activity for the current year was as follows:

Governmental Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated - Land	\$ 176,209,865	\$ 4,311,770	\$ -	\$ 180,521,635
Capital assets being depreciated:				
Land improvements	1,319,384	-	-	1,319,384
Buildings	25,077,564	79,457	-	25,157,021
Road equipment	23,035,035	1,269,877	652,047	23,652,865
Other equipment	2,979,260	256,818	1,554	3,234,524
Infrastructure	832,296,049	28,439,486	-	860,735,535
Subtotal	884,707,292	30,045,638	653,601	914,099,329
Less accumulated depreciation for:				
Land improvements	748,372	66,102	-	814,474
Buildings	5,525,522	502,636	-	6,028,158
Road equipment	19,361,227	1,625,735	647,896	20,339,066
Other equipment	2,100,318	264,582	1,347	2,363,553
Infrastructure	325,061,468	32,893,935	-	357,955,403
Subtotal	352,796,907	35,352,990	649,243	387,500,654
Net capital assets being depreciated	531,910,385	(5,307,352)	4,358	526,598,675
Net capital assets	\$ 708,120,250	\$ (995,582)	\$ 4,358	\$ 707,120,310

Road Commission of Macomb County

**Notes to Financial Statements
September 30, 2007**

Note 5 - Capital Assets (Continued)

Construction Commitments - The Road Commission has 16 significant active projects at year end totaling \$8,962,832. The Road Commission's cumulative expenditures and remaining commitment with these contractors as of September 30, 2007 are \$5,465,176 and \$3,497,656, respectively.

Note 6 - Risk Management

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits provided to employees but is self-funded for general liability incidents and workers' compensation claims up to a retention amount, at which time the Road Commission's reinsurance begins. Retention amounts during the year ended September 30, 2007 were \$5,000,000 and \$325,000 for general liability and workers' compensation, respectively. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

General Liability Claims

Beginning January 17, 1993, the Road Commission assumes costs for general liability claims, including all cost associated with those claims, within certain limits. The Road Commission is liable for losses up to a retention amount per claim and is liable for losses in excess of the maximum insurance coverage.

The Road Commission estimates the liability for general liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The Road Commission has been named defendant in numerous claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. It is the opinion of legal counsel and management that reasonable estimates of the Road Commission's liability for these matters have been recorded in the General Liability Self-insurance Fund as outlined below.

Road Commission of Macomb County

Notes to Financial Statements September 30, 2007

Note 6 - Risk Management (Continued)

Changes in the estimated recorded liability for the past two fiscal years were as follows:

	<u>2007</u>	<u>2006</u>
Estimated liability - Beginning of year	\$ 1,627,623	\$ 1,620,538
(Decrease) increase in estimated claims incurred, including changes in estimates	(1,222,013)	28,823
Claim payments	<u>(29,727)</u>	<u>(21,738)</u>
Estimated liability - End of year	<u>\$ 375,883</u>	<u>\$ 1,627,623</u>

There are also certain property and employment-related lawsuits currently pending against the Road Commission claiming amounts for damages and relief without stated limitations. These lawsuits have not yet progressed to the point where a legal opinion can be reached as to the ultimate liability, if any, which may result from the resolution of these cases. Hence, no provision has been made in the financial statements as of September 30, 2007 for any ultimate liability related to these matters in excess of the estimated liability discussed above. However, in the opinion of Road Commission management and legal counsel, the probable additional exposure of the Road Commission for these lawsuits is immaterial to the financial statements.

The Road Commission recognizes liabilities for environmental remediation costs when such obligations are probable and reasonably estimable. During the year ended June 30, 2001, the Road Commission sold certain property. An environmental assessment was performed subsequent to the sale, which indicated the presence of certain compounds in excess of applicable limits. In its status as former owner and operator and as a generator of solid waste, the Road Commission could be found to be a potentially responsible party. During the year ended September 30, 2007, the Road Commission incurred immaterial costs for cleanup of this property. Preliminary cost estimates related to further remediation are immaterial and have been accrued for as of September 30, 2007.

Road Commission of Macomb County

Notes to Financial Statements
September 30, 2007

Note 6 - Risk Management (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The new pronouncement provides guidance for local units of government in recognizing pollution remediation expenses and obligations to address current or potential detrimental effects of pollution. The new pronouncement is effective for the year ending September 30, 2009. Management is currently assessing the impact of this new accounting standard on the Road Commission's financial statements for future reporting periods.

Workers' Compensation Claims

The Road Commission assumes costs for workers' compensation claims within certain limits.

The Road Commission estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The current portion of these estimates is recorded in the Road Fund. The government-wide balance sheet/statement of net assets includes the current and long-term portions of these estimates. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2007</u>	<u>2006</u>
Estimated liability - Beginning of year	\$ 337,360	\$ 388,303
Increase in estimated claims incurred, including changes in estimates	(60,195)	164,598
Claim payments	<u>(123,130)</u>	<u>(215,541)</u>
Estimated liability - End of year	<u>\$ 154,035</u>	<u>\$ 337,360</u>

Note 7 - Other Postemployment Benefits

The Commission provides retiree healthcare benefits to eligible employees and their spouses through the Road Commission of Macomb County Retiree Health Care Plan (the "Plan"). This is an agent multiple employer defined benefit plan administered by the Municipal Employees' Retirement System of Michigan (MERS). The benefits are provided under collective bargaining agreements.

Road Commission of Macomb County

Notes to Financial Statements September 30, 2007

Note 7 - Other Postemployment Benefits (Continued)

The collective bargaining agreements require no contribution from employees. The Commission has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, as shown below, the Road Commission has made contributions to advance-fund these benefits, as determined by the Board of Commissioners through annual budget resolutions.

For the year ended September 30, 2007, the Road Commission has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2005. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 6,147,445
Amounts contributed:	
Payments of current premiums	(2,497,466)
Advance funding	<u>(3,000,000)</u>
Increase in net OPEB obligation	649,979
OPEB obligation - Beginning of year	<u>-</u>
OPEB obligation - End of year	<u><u>\$ 649,979</u></u>

The annual other postemployment benefits (OPEB) costs, the percentage contributed to the Plan, and the net OPEB obligation for the year ended September 30, 2007 was as follows:

Annual OPEB costs	\$ 6,147,445
Percentage contributed	89.42%
Net OPEB obligation	\$ 649,979

Road Commission of Macomb County

Notes to Financial Statements September 30, 2007

Note 7 - Other Postemployment Benefits (Continued)

The funding progress of the Plan as of the most recent valuation date is as follows:

Valuation as of December 31, 2005:

Actuarial value of assets	\$	-
Actuarial accrued liability	\$	76,651,082
Unfunded AAL	\$	76,651,082
Funded ratio		0%
Annual covered payroll	\$	15,548,979
Ratio of UAAL to covered payroll		493%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2005 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return (net of administrative expenses), and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after 10 years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005 was 30 years.

Road Commission of Macomb County

**Notes to Financial Statements
September 30, 2007**

Note 8 - Defined Benefit Pension Plan

Plan Description

The Road Commission contributes to the Macomb County Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all full-time employees of the Road Commission. The Macomb County Employees' Retirement System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Macomb County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the Macomb County Employees' Retirement System. That report may be obtained by writing to the Retirement Commission at 10 N. Main, Mt. Clemens, Michigan 48043.

Funding Policy

The obligation to contribute to and maintain the Macomb County Employees' Retirement System for these employees was established by negotiation with the Road Commission's competitive bargaining units and requires a contribution from the employees of 3.5 percent of gross wages from all covered employees.

Annual Pension Cost

For the valuation year ended December 31, 2006, the Road Commission's annual pension cost of \$2,665,713 for the plan was equal to the Road Commission's required and actual contribution of \$2,665,713, which was remitted to the County of Macomb. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 5 percent per year, compounded annually and attributable to inflation, (c) additional projected salary increases of up to 5 percent per year, depending on service and attributable to seniority/merit, and (d) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The remaining UAAL (or overfunding) was amortized by level percentage of payroll contributions over 20 years.

Road Commission of Macomb County

Notes to Financial Statements September 30, 2007

Note 8 - Defined Benefit Pension Plan (Continued)

Additional pension plan information for the Road Commission is as follows:

	Fiscal Year Ended September 30		
	2007	2006	2005
Annual pension cost (APC)	\$ 2,665,713	\$ 2,903,247	\$ 2,008,363
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

	Valuation Year Ended December 31		
	2006	2005	2004
Actuarial value of assets	\$ 100,222,610	\$ 93,200,366	\$ 87,876,994
Actuarial accrued liability (AAL) (entry age)	\$ 98,836,355	\$ 97,873,919	\$ 94,783,521
(Underfunded) Overfunded AAL	\$ 1,386,255	\$ (4,673,553)	\$ (6,906,527)
Funded ratio	101.40%	95.22%	92.71%
Covered payroll	\$ 15,297,108	\$ 15,788,396	\$ 16,363,729
UAAL as a percentage of covered payroll	-	29.60%	42.21%

Note 9 - Designated Fund Balance

Fund balances at September 30, 2007 have been designated for the following purposes:

	Major Fund - Road Fund	Nonmajor Fund - Capital Projects Fund
Subsequent year's expenditures	\$ 8,390,616	\$ 1,002,000
Bridge projects	7,500,000	-
Traffic signal upgrades	5,735,000	-
Salt storage	-	550,000
Pavement management study	725,000	-
Sign inventory	800,000	-
County-wide pavement repair	4,500,000	-
Road widening/congestion relief	11,208,809	-
Building demolition and construction	-	475,000
Service center renovation	-	1,393,171
Guardrail replacement	950,000	-
Total	\$ 39,809,425	\$ 3,420,171



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January 7, 2008

Board of Road Commissioners
Road Commission of Macomb County
117 S. Groesbeck Highway
Mt. Clemens, Michigan 48043

Dear Commissioners:

We have recently completed our audit of the Road Commission of Macomb County for the year ended September 30, 2007. In addition to our audit report, we offer the following comments and recommendations for your consideration as the policy making body of the Road Commission:

Financial Condition and Long-Term Budgeting Considerations

During the year ended September 30, 2007, fund balance of the Road Commission's Road Fund increased nearly \$7.6 million to approximately \$39.8 million, all of which is designated for various projects. Included in this increase is a transfer from the Postemployment Benefits Fund in the amount of approximately \$2.8 million which was used toward the funding of retiree health care through MERS. Although fund equity increased during the year due to a decrease in active construction projects, there are numerous projects for which the Road Commission is committed to participate in upcoming years. The Road Fund's fund equity provides an essential source of working capital and allows the Road Commission the ability to maintain its desired level of services, while having the ability to respond to unforeseen needs. It is critically important to maintain adequate levels of fund balance as economic difficulties continue with the state's budget challenges and future revenue uncertainties.

New Auditing Standards

Major and comprehensive changes were made to auditing rules in 2006. These new *Statements on Auditing Standards* (SAS) require significant changes in how audits are done and how the results of the auditor's work are communicated to clients, bringing auditing rules for governmental units into closer alignment with the standards imposed on audits of public companies under Sarbanes-Oxley.

Some of these new standards were effective for the Road Commission's audit this year. As a result, we were required to comply with very specific rules related to the form, content and extent of audit documentation, including more thorough documentation of auditing procedures and results as described in SAS 103. Other new guidelines in SAS 103 affected the audit evidence that we needed to obtain before we could consider the audit complete.

Another new rule effective for the Road Commission's current year audit (SAS 112) requires auditors to more formally communicate matters they observe about their clients' accounting procedures and internal controls. This rule would require us to communicate to you formally if we had we identified any "significant deficiencies" in accounting procedures or internal controls during the audit. Significant deficiency is a defined term that includes any flaw creating more than a remote risk of errors in financial statements that could reasonably matter to a user of the statements. Auditors must now communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for operations, in addition to management.

The remainder of the new rules (SAS 104-111) will become effective for the Road Commission's September 30, 2008 audit. SAS 104-111, which are known collectively as the Risk Assessment Standards, significantly change the procedures auditors must perform in all financial statement audits. Under these new rules, auditors will be required to:

- More thoroughly examine and evaluate clients' accounting processes and controls, including the overall control environment, key controls over significant transactions and the quality of internal oversight of the financial reporting process
- More thoroughly assess and document conditions in clients' systems and processes that create risks of material misstatement in their financial statements, and perform additional testing in response to these risks
- Design and perform more analytical tests of accounting and financial data
- Apply more stringent standards in identifying, assessing and communicating internal control deficiencies
- Communicate more information about the results of the auditor's work to individuals involved in overseeing strategic direction and accountability for operations

As a practical effect of these new rules, auditors will need to make more detailed and specific requests for information from clients, particularly about processes and controls, and clients will need to do more work to be well prepared for their audits. The Risk Assessment Standards also require increased audit testing and more thorough auditing procedures, and will increase the amount of related documentation that auditors must prepare and maintain.

Plante & Moran began analyzing these new standards and incorporating the necessary changes into our audit process and tools more than a year ago. It is clear that the new rules will require us to perform more audit procedures than we have in the past. Our firm has invested heavily to implement our new audit methodology and train our staff on these changes. Our goal is to have our staff trained and working with our clients to prepare for the transition to these new rules well in advance of the required implementation date.

As we move forward, we will be communicating with you regularly about matters that will affect your next financial statement audit. In addition, we plan to begin to work with the Finance Department during the upcoming months in a number of areas, including review and documentation of your internal accounting procedures and controls, to ensure a smooth transition to these new standards.

The primary objective of the Risk Assessment Standards is to strengthen and enhance the independent audit of financial statements, including more thorough evaluation and information about your internal accounting and financial reporting processes and controls. We believe that these new rules, and the additional communications you will receive from us about the results of our audit work, will enhance the value you receive from your financial statement audit.

Financial Audit Preparedness

We continue to extend our compliments to the Finance Department's staff for their ongoing efforts to critically analyze many accounts and account history in preparation for the audit. These individuals spent considerable time preparing for the audit by reconciling accounts and preparing schedules. This extra effort facilitated a smooth audit process.

We sincerely thank the Commissioners for the opportunity to serve as auditors for the Road Commission as we strive to meet or exceed your expectations. We also express our appreciation for the courtesy and cooperation extended to us by Ms. Mykytiak, the Finance Department, and all personnel at the administration building during the audit. As always, we are happy to answer any questions or concerns you have regarding the annual financial report or the above comments at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Christina M. Kostiuk



Lisa C. Manetta

cc: Ms. Michelle Mykytiak