

Auditing Procedures Report V1.04

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Issued under Public Act 2 of 1968, as amended .

Unit Name	Missaukee County	County	MISSAUKEE	Type	COUNTY	MuniCode	57-0-000
Opinion Date-Use Calendar	Jul 17, 2008	Audit Submitted-Use Calendar	Aug 13, 2008	Fiscal Year-Use Drop List	2007		

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

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

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

General Fund Revenue:	\$ 3,835,104.00
General Fund Expenditure:	\$ 3,783,276.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 241,498.00
Governmental Activities Long-Term Debt (see instructions):	\$ 94,788.00

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

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Missaukee County, Michigan

FINANCIAL STATEMENTS

December 31, 2007

Missaukee County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
of Missaukee County
Lake City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Missaukee County, Michigan as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Missaukee County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Missaukee County Road Commission. The Missaukee County Road Commission represents 89% and 21%, respectively of the total assets and revenues of the component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for the Road Commission, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the audits of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Missaukee County, Michigan as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof 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 July 17, 2008, on our consideration of Missaukee County'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 of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Missaukee County's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 17, 2008

Missaukee County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

As management of the Missaukee County, Michigan, we offer this narrative overview and analysis of the financial activities of the County for the year ended December 31, 2007. For detailed information related to District Health Department No. 10's and the Road Commission's separately issued financial statements, it may be obtained from their respective administrative offices.

Financial Highlights of the Primary Government

- The assets of the County exceeded its liabilities at the close of the most recent year by \$10,331,293 (net assets). Of this amount, \$4,318,525 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$443,903.
- As of the close of the current year, the County's governmental funds reported combined ending fund balances of \$3,444,234, a net increase of \$413,692 from the prior year. Of this total fund balance amount of \$3,444,234 at year end, \$3,340,110, or 97 percent, is available for spending at the government's discretion (unreserved and undesignated fund balance).
- At the end of the current year, unreserved fund balance for the general fund was \$161,441, or 3.8 percent of total general fund expenditures and transfers out.
- The Primary Government's total debt decreased by a net \$13,604 during the current fiscal year. The key factor in this decrease was the annual payments on the debt and there were no new general obligation bonds issued.

Overview of the Financial Statements

The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide a broad overview of the County's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets indicate whether the financial position of the County 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.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, public works, community and economic development, health and welfare, and recreation and cultural functions. The business-type activities primarily represent the administration of the delinquent property tax system.

The government-wide financial statements include not only Missaukee County itself (known as the primary government), but also the legally separate Missaukee County Road Commission, District Health Department No. 10 and Missaukee County Commission on Aging, for which Missaukee County is financially accountable. Financial information for these *component units* is reported in separate columns from the financial information presented for the primary government itself.

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains thirty-two (32) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Sheriff Special Forces, Emergency Services, Revenue Sharing Reserve, and Housing funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The County adopts an annual appropriated budget for its General and Special Revenue Funds. A budgetary comparison schedule has been provided herein to demonstrate compliance with the County General Fund and all major Special Revenue Funds budgets.

Proprietary funds. The County maintains one type of proprietary fund. *Enterprise funds* report the same functions as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for the Missaukee Sanitary Drainage District No. 2, 2007 Tax Levy, Unpledged Enterprise Funds, which are considered to be major funds. Data from the other nonmajor enterprise funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of *combining statements* elsewhere in this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County's own programs.

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.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *other supplementary information*, including combining statements of the nonmajor governmental and enterprise funds information.

Missaukee County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Government-wide Financial Analysis

Missaukee County's Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Assets						
Current and other assets	\$ 5,506,338	\$ 4,839,940	\$ 3,883,103	\$ 3,904,809	\$ 9,389,441	\$ 8,744,749
Capital assets	3,092,707	3,085,010	-	-	3,092,707	3,085,010
Total assets	8,599,045	7,924,950	3,883,103	3,904,809	12,482,148	11,829,759
Liabilities						
Current	1,383,841	1,167,069	18,317	17,423	1,402,158	1,184,492
Noncurrent	23,697	877	725,000	737,000	748,697	737,877
Total liabilities	1,407,538	1,167,946	743,317	754,423	2,150,855	1,922,369
Net Assets						
Invested in capital assets	3,092,707	3,079,778	-	-	3,092,707	3,079,778
Restricted	2,920,061	-	-	-	2,920,061	-0-
Unrestricted	1,178,739	3,677,226	3,139,786	3,150,386	4,318,525	6,827,612
Total net assets	\$ 7,191,507	\$ 6,757,004	\$ 3,139,786	\$ 3,150,386	\$ 10,331,293	\$ 9,907,390

The County's net assets include \$3,092,707 in capital assets comprised of land, buildings, vehicles and equipment. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Certain other limitations on the use of net assets apply due primarily to legal restrictions. These restricted net assets total \$2,920,061. The remaining balance of unrestricted net assets \$4,318,525 may be used to meet the government's ongoing obligations.

Missaukee County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Missaukee County's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues						
Program revenues:						
Charges for services	\$ 1,542,711	\$ 1,872,784	\$ 192,678	\$ 273,424	\$ 1,735,389	\$ 2,146,208
Operating grants and contributions	1,543,649	1,430,040	37,844	50,673	1,581,493	1,480,713
Capital grants and Contributions	6,330	-	-	-	6,330	-0-
General revenues:						
Property taxes	3,485,276	3,706,486	-	-	3,485,276	3,706,486
Investment earnings	165,940	143,888	106,945	77,857	272,885	221,745
Miscellaneous	79,278	-	10,059	-	89,337	-0-
Transfers	280,129	145,312	(280,129)	(145,312)	-0-	-0-
Total revenues	<u>7,103,313</u>	<u>7,298,510</u>	<u>67,397</u>	<u>256,642</u>	<u>7,170,710</u>	<u>7,555,152</u>
Expenses						
General government	2,129,562	2,520,648	-	-	2,129,562	2,520,648
Public safety	2,482,647	2,989,523	-	-	2,482,647	2,989,523
Public works	102,192	21,342	-	50,673	102,192	72,015
Health and welfare	1,445,040	732,006	-	-	1,445,040	732,006
Community & Econ. Development	177,202	-	-	-	177,202	-0-
Recreation and Cultural	312,167	332,675	-	-	312,167	332,675
Other	-	-	77,997	34,409	77,997	34,409
Total expenses	<u>6,648,810</u>	<u>6,596,194</u>	<u>77,997</u>	<u>85,082</u>	<u>6,726,807</u>	<u>6,681,276</u>
Increase in net assets	454,503	702,316	(10,600)	171,560	443,903	873,876
Restated net assets, beginning of year	6,737,004	6,054,688	3,150,386	2,978,826	9,887,390	9,033,514
Net assets, end of year	<u>\$ 7,191,507</u>	<u>\$ 6,757,004</u>	<u>\$ 3,139,786</u>	<u>\$ 3,150,386</u>	<u>\$10,331,293</u>	<u>\$ 9,907,390</u>

Governmental activities. The preceding table shows that the net assets of governmental activities increased by approximately \$455,000 or 7 percent during 2007 as compared to \$702,316 in the prior year. The key element of this decrease compared to last year where these activities had a \$702,000 increase was the ever changing taxable values and second year rollover of the Reserved tax fund in combination with a higher value being placed on delinquent taxes due to the increase of the summer tax assessments.

Business-type activities. Net assets of the County's business-type activities decreased \$10,600, or less than 1%. The key element of this decrease was the inability of taxpayers, as the financial climate worsens, to buy and sell property (stimulating recording and revenue transfer tax), the inability of the populace to pay fines and costs assessed and the growing increase in crime that increases the cost of the courts, sheriff department and county staff.

Financial Analysis of the Government's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Governmental funds. The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. In particular, *unreserved fund balance* serves as a useful measure of a government's net resources available for spending at the end of the year. At the end of the current year, the County's governmental funds reported combined ending fund balances of \$3,444,234, a net increase of \$413,692. Approximately 97 percent of this total amount (\$3,340,110) constitutes *unreserved/undesignated fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is either reserved to indicate that it is not available for new spending (\$80,057), or is *designated* to support other projects (\$24,067).

The General Fund is the chief operating fund of the County. At the end of the current year, the total fund balance was \$241,498, while the unreserved/undesignated fund balance of the General Fund was \$161,441, an amount equal to 3.8 percent of total General Fund expenditures and transfers out.

The fund balance of the County's General fund increased by \$172,596 during the current fiscal year. This is primarily attributable to higher revenues and transfers in than expected.

The Sheriff Special Forces fund had an increase in fund balance for the current year of \$48,388 for an ending total of \$358,510. This was primarily due to higher grant revenues than were initially expected.

The Emergency Services fund had a decrease in fund balance for the current year of \$185,183 for an ending total of \$368,810. This decrease was primarily the result of a decrease in charges for services revenues and an increase in capital outlay expenditures.

The TNT Forfeiture fund had a net increase in fund balance of \$193,864 for an ending fund balance of \$488,900. This was primarily due to higher forfeiture revenues coming in during the current year with several properties being sold.

The Revenue Sharing Reserve fund had a decrease in fund balance for the current year of \$238,247. This was the result of planned usage of these funds as a transfer to the General Fund in compliance with State law.

The Housing fund had an increase fund balance of \$66,426. This was primarily due to added program income and grant revenues being higher than was initially expected.

General Fund Budgetary Highlights

Missaukee County's budget is a dynamic document. Although adopted in December (prior to the start of the year), the budget is frequently amended during the course of the year to reflect changing operational demands.

Actual General Fund revenue and other financing sources totaled \$4,379,400, \$162,126 above the final amended budget. Actual revenues varied from the final amended budget. There were some variations in several individual line items but the largest difference was approximately \$116,834 more in tax revenues that were received than budgeted due in part to higher taxable values and the finalization of the tax revenue shift.

The original General Fund expenditure budget of \$3,996,014 was revised to \$4,217,224 for an increase of \$221,210 or 6 percent. A majority of the amendments were simply inflationary modifications in various activities to better align the budgetary figures once up-to-date data became available with the largest being the necessary increase of the transfer out to the Child Care Fund by \$135,000 to cover added costs in that fund due to more children being cared for in 2007.

Actual County expenditures for 2007 were \$10,420 under budget. General fund actual expenditures came in at \$4,206,804 and the final amended budget was \$4,217,224, which was a 0.25% difference mainly due to good control by the County to assure budgetary expenditures were controlled in 2007.

Missaukee County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Capital Asset and Debt Administration

Capital assets. As of December 31, 2007, the County's investment in capital assets, net of accumulated depreciation, for its governmental activities amounted to \$3,092,707. (These capital asset amounts do not include those of the separately audited Road Commission and District Health Department No. 10 component units). This investment in capital assets includes land, buildings and improvements, vehicles, furniture, and equipment.

The net increase in the County's investment in capital assets for the primary government in the current fiscal year amounted to \$270,556, less a net increase of \$262,859 in accumulated depreciation, for a net increase of \$7,697.

Missaukee County's Capital Assets
(net of depreciation)

	<u>Governmental Activities</u>
Land	\$ 353,423
Buildings	2,115,536
Furniture and Equipment	225,035
Vehicles	<u>398,713</u>
Total	<u>\$ 3,092,707</u>

Long-term debt. Long-term debt. At the end of the current year, the County Primary Government had total debt outstanding of \$831,788. (This amount does not include the debt of the separately audited Road Commission and District Health Department No. 10 component units). All of the bonds are backed by the County's full faith and credit.

	<u>Balance 1/1/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/07</u>
General Obligation Bonds	\$ 748,000	\$ -	\$ 11,000	\$ 737,000
Leases Payable	5,232	-	5,232	-0-
Accrued sick and vacation	<u>92,160</u>	<u>101,155</u>	<u>98,527</u>	<u>94,788</u>
Total Primary Government	<u>\$ 845,392</u>	<u>\$ 101,155</u>	<u>\$ 114,759</u>	<u>\$ 831,788</u>

The County's total debt decreased by a net \$13,604 (1.6 percent) during the current year. No new debt was issued during the year ended December 31, 2007. Net accrued sick and vacation increased by \$2,628.

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the County's budget for the 2008 fiscal year:

- 2008 was the last year of the POLC contract and the lowest increase for those employees was a given at 2.5%. That, in conjunction with the 2.5% raise for the AFSCME employees and a 3% raise for non-union and elected officials gave the county the ability to plan for the year and decide what measures to take with layoffs. The budget was put in place with 9 people laid off partially and subsequently a reduction in the fringe benefit packages. These adjustments were necessary to live within the revenues projected and to keep the Child Care Fund at an adequate level in case it was excessive for the second year in a row.
- There was a 30% growth in Missaukee County population with the 2000 census and subsequent 2005 updated census projection and the budget was increased accordingly, taking into account the mandatory services necessary to take care of this growth.
- Increases in liability insurance, workmen's compensation and M.E.S.C. in the prior year have been reviewed and the budget was prepared with those insurances being bid out and new premiums in place that reflected a more managed benefits picture.
- Due to the shifting by the State of the collection of property taxes at the local level and the uncertainty of future revenue sharing payments and other delayed state payments, adjustments were made to work around the temporary cash flow fluctuations that these cause.

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Missaukee County Clerk, P.O. Box 800, Lake City, MI 49651.

BASIC FINANCIAL STATEMENTS

Missaukee County, Michigan

STATEMENT OF NET ASSETS

December 31, 2007

	Primary Government		Total	Component Units
	Governmental Activities	Business-type Activities		
ASSETS				
Current assets				
Cash	\$ 3,679,109	\$ 2,259,677	\$ 5,938,786	\$ 1,382,216
Receivables				
Accounts	123,484	-	123,484	-
Taxes	851,145	507,638	1,358,783	213,338
Other	754,972	60,888	815,860	714,724
Internal balances	(175,000)	175,000	-0-	-
Due from other governmental units				
Federal/State	234,981	-	234,981	913,213
Local	-	747,900	747,900	32,054
Inventories	89,590	-	89,590	581,800
Prepays	80,057	-	80,057	365,411
Total current assets	5,638,338	3,751,103	9,389,441	4,202,756
Noncurrent assets				
Internal balances	(132,000)	132,000	-0-	-
Capital assets not being depreciated	353,423	-	353,423	650
Capital assets, net of accumulated depreciation	2,739,284	-	2,739,284	20,456,870
Total noncurrent assets	2,960,707	132,000	3,092,707	20,457,520
TOTAL ASSETS	8,599,045	3,883,103	12,482,148	24,660,276
LIABILITIES				
Current liabilities				
Accounts payable	171,513	-	171,513	352,671
Accrued liabilities	50,992	6,317	57,309	356,722
Advances - State trunkline equipment purchase	-	-	-0-	109,077
Deferred revenue	1,090,245	-	1,090,245	968,365
Current portion of compensated absences	71,091	-	71,091	559,615
Current portion of long-term debt	-	12,000	12,000	-
Total current liabilities	1,383,841	18,317	1,402,158	2,346,450
Noncurrent liabilities				
Noncurrent portion compensated absences	23,697	-	23,697	117,495
Noncurrent portion of long-term debt	-	725,000	725,000	-
Total noncurrent liabilities	23,697	725,000	748,697	117,495
TOTAL LIABILITIES	1,407,538	743,317	2,150,855	2,463,945
NET ASSETS				
Invested in capital assets	3,092,707	-	3,092,707	20,457,520
Restricted for:				
Public safety	1,302,515	-	1,302,515	-
Other purposes	1,617,546	-	1,617,546	1,738,811
Unrestricted	1,178,739	3,139,786	4,318,525	-
TOTAL NET ASSETS	\$ 7,191,507	\$ 3,139,786	\$ 10,331,293	\$ 22,196,331

See accompanying notes to financial statements.

Missaukee County, Michigan

STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities								
General government	\$ 2,129,562	\$ 529,106	\$ 572,153	\$ -	\$ (1,028,303)	\$ -	\$ (1,028,303)	\$ -
Public safety	2,482,647	723,892	686,015	6,330	(1,066,410)	-	(1,066,410)	-
Public works	102,192	-	-	-	(102,192)	-	(102,192)	-
Community and economic development	177,202	-	-	-	(177,202)	-	(177,202)	-
Health and welfare	1,445,040	105	282,981	-	(1,161,954)	-	(1,161,954)	-
Recreation and cultural	312,167	289,608	2,500	-	(20,059)	-	(20,059)	-
Total governmental activities	6,648,810	1,542,711	1,543,649	6,330	(3,556,120)	-0-	(3,556,120)	-0-
Business-type activities:								
Missaukee Drainage District No. 2	35,607	-	35,607	-	-	-	-0-	-
2006 Tax Levy	3,188	128,309	-	-	-	125,121	125,121	-
Unpledged	3,873	-	-	-	-	(3,873)	(3,873)	-
Other	35,329	64,369	2,237	-	-	31,277	31,277	-
Total business-type activities	77,997	192,678	37,844	-0-	-0-	152,525	152,525	-0-
Total primary government	<u>\$ 6,726,807</u>	<u>\$ 1,735,389</u>	<u>\$ 1,581,493</u>	<u>\$ 6,330</u>	(3,556,120)	152,525	(3,403,595)	-0-
Component units:								
Road Commission	4,832,854	462,269	2,914,137	726,850	-	-	-0-	(729,598)
Health Department No. 10	14,924,023	3,604,305	8,331,881	-	-	-	-0-	(2,987,837)
Commission on aging	467,278	38,022	205,094	18,028	-	-	-0-	(206,134)
Total component units	<u>\$ 20,224,155</u>	<u>\$ 4,104,596</u>	<u>\$ 11,451,112</u>	<u>\$ 744,878</u>	-0-	-0-	-0-	(3,923,569)
General revenues:								
Property taxes					3,485,276	-	3,485,276	231,043
County appropriations					-	-	-0-	2,706,290
Cigarette tax					-	-	-0-	106,444
Investment earnings					165,940	106,945	272,885	87,191
Miscellaneous					79,278	10,059	89,337	11,596
Transfers					280,129	(280,129)	-0-	-
Total general revenues and transfers					4,010,623	(163,125)	3,847,498	3,142,564
Change in net assets					454,503	(10,600)	443,903	(781,005)
Restated net assets, beginning of the year					6,737,004	3,150,386	9,887,390	22,977,336
Net assets, end of the year					<u>\$ 7,191,507</u>	<u>\$ 3,139,786</u>	<u>\$ 10,331,293</u>	<u>\$ 22,196,331</u>

See accompanying notes to financial statements.

Missaukee County, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET

December 31, 2007

	General Fund	Sheriff Special Forces	Emergency Services
ASSETS			
Cash	\$ 212,320	\$ 453,844	\$ 422,571
Receivables			
Accounts	-	-	102,502
Taxes	116,855	524,506	209,784
Loans	-	-	-
Special assessments	-	-	-
Due from other governmental units - Federal/State	136,111	-	-
Inventories	-	-	-
Prepaid expenditures	80,057	-	-
	<u>\$ 545,343</u>	<u>\$ 978,350</u>	<u>\$ 734,857</u>
TOTAL ASSETS			
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 89,729	\$ 2	\$ 3,641
Accrued liabilities	39,116	5,930	3,487
Due to other funds	175,000	-	-
Advance from other funds	-	-	-
Deferred revenue	-	613,908	358,919
	<u>303,845</u>	<u>619,840</u>	<u>366,047</u>
TOTAL LIABILITIES			
FUND BALANCES (DEFICIT)			
Reserved for prepaid expenditures and inventories	80,057	-	-
Unreserved			
Designated for:			
Capital projects	-	-	-
Undesignated, reported in:			
General Fund	161,441	-	-
Special revenue funds	-	358,510	368,810
Capital projects fund	-	-	-
	<u>241,498</u>	<u>358,510</u>	<u>368,810</u>
TOTAL FUND BALANCES			
	<u>\$ 545,343</u>	<u>\$ 978,350</u>	<u>\$ 734,857</u>
TOTAL LIABILITIES AND FUND BALANCES			

See accompanying notes to financial statements.

TNT Forfeiture	Revenue Sharing Reserve	Housing	Nonmajor Governmental Funds	Total Governmental Funds
\$ 496,900	\$ 1,166,733	\$ 62,664	\$ 864,077	\$ 3,679,109
-	-	-	20,982	123,484
-	-	-	-	851,145
-	-	651,764	-	651,764
-	-	-	103,208	103,208
-	-	14,320	84,550	234,981
89,590	-	-	-	89,590
-	-	-	-	80,057
<u>\$ 586,490</u>	<u>\$ 1,166,733</u>	<u>\$ 728,748</u>	<u>\$ 1,072,817</u>	<u>\$ 5,813,338</u>
\$ -	\$ -	\$ -	\$ 78,141	\$ 171,513
-	-	-	2,459	50,992
-	-	-	-	175,000
-	-	-	132,000	132,000
97,590	-	651,764	117,418	1,839,599
97,590	-0-	651,764	330,018	2,369,104
89,590	-	-	-	169,647
-	-	-	24,067	24,067
-	-	-	-	161,441
399,310	1,166,733	76,984	850,732	3,221,079
-	-	-	(132,000)	(132,000)
<u>488,900</u>	<u>1,166,733</u>	<u>76,984</u>	<u>742,799</u>	<u>3,444,234</u>
<u>\$ 586,490</u>	<u>\$ 1,166,733</u>	<u>\$ 728,748</u>	<u>\$ 1,072,817</u>	<u>\$ 5,813,338</u>

Missaukee County, Michigan

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2007

Total fund balance - governmental funds \$ 3,444,234

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 5,565,153
Accumulated depreciation is	<u>(2,472,446)</u>

Capital assets, net	3,092,707
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Long-term assets are not available to pay for current period expenditures and are therefore deferred in the funds. These consist of:

Deferred revenue	749,354
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Compensated absences	<u>(94,788)</u>
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Net assets of governmental activities \$ 7,191,507

See accompanying notes to financial statements.

Missaukee County, Michigan

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2007

	General Fund	Sheriff Special Forces	Emergency Services
REVENUES			
Taxes	\$ 2,600,683	\$ 568,062	\$ 227,363
Licenses and permits	6,695	-	
Intergovernmental			
Federal/State	572,863	38,798	-
Local	-	-	-
Charges for services	376,518	-	141,732
Interest and rents	129,520	19,910	18,305
Fines and forfeits	55,024	-	-
Other			
Special assessments	-	-	-
Other	93,801	1,564	6,340
	<u>3,835,104</u>	<u>628,334</u>	<u>393,740</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
General government	1,781,672	-	-
Public safety	883,560	508,008	-
Public works	19,335	-	-
Community and economic development	35,267	-	-
Health and welfare	181,616	-	497,769
Recreation and cultural	34,048	-	-
Other	795,638	-	-
Capital outlay	52,140	71,938	81,154
	<u>3,783,276</u>	<u>579,946</u>	<u>578,923</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES			
	51,828	48,388	(185,183)
OTHER FINANCING SOURCES (USES)			
Transfers in	544,296	-	-
Transfers out	(423,528)	-	-
	<u>120,768</u>	<u>-0-</u>	<u>-0-</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES			
	172,596	48,388	(185,183)
Fund balances, beginning of year	68,902	310,122	553,993
Prior period adjustment	-	-	-
Fund balances, end of year	<u>\$ 241,498</u>	<u>\$ 358,510</u>	<u>\$ 368,810</u>

See accompanying notes to financial statements.

TNT Forfeiture	Revenue Sharing Reserve	Housing	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 3,396,108
-	-	-	-	6,695
-	-	122,556	416,063	1,150,280
-	-	-	144,993	144,993
348,637	-	-	665,315	1,532,202
17,188	21,074	-	27,816	233,813
-	-	-	2,500	57,524
-	-	-	89,170	89,170
35,506	-	63,686	992	201,889
401,331	21,074	186,242	1,346,849	6,812,674
-	173	-	36,788	1,818,633
195,439	-	-	495,170	2,082,177
-	-	-	70,047	89,382
-	-	119,816	-	155,083
-	-	-	524,065	1,203,450
-	-	-	186,194	220,242
-	-	-	-	795,638
-	-	-	89,274	294,506
195,439	173	119,816	1,401,538	6,659,111
205,892	20,901	66,426	(54,689)	153,563
30,639	-	-	610,786	1,185,721
(22,667)	(259,148)	-	(200,249)	(905,592)
7,972	(259,148)	-0-	410,537	280,129
213,864	(238,247)	66,426	355,848	433,692
295,036	1,404,980	10,558	386,951	3,030,542
(20,000)	-	-	-	(20,000)
\$ 488,900	\$ 1,166,733	\$ 76,984	\$ 742,799	\$ 3,444,234

Missaukee County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

Net change in fund balances - total governmental funds \$ 433,692

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$	291,656
Depreciation expense		<u>(283,959)</u>

Excess of capital outlay over depreciation expense	7,697
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Increase in deferred revenue	10,510
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Lease principal retirement		5,232
(Increase) in accrued compensated absences		<u>(2,628)</u>

	<u>2,604</u>
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Change in net assets of governmental activities	<u>\$ 454,503</u>
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See accompanying notes to financial statements.

Missaukee County, Michigan

Proprietary Funds

STATEMENT OF NET ASSETS

December 31, 2007

	Business-type		
	Missaukee Drainage District No. 2	2006 Tax Levy	Unpledged
ASSETS			
Current assets			
Cash	\$ -	\$ 3,716	\$ 2,121,252
Receivables			
Taxes	-	464,401	250
Interest	-	46,596	19
Due from other governmental units			
Local	700,792	2,143	-
Due from other funds	-	40,000	605,000
Total current assets	700,792	556,856	2,726,521
Noncurrent assets			
Advance to other funds	-	-	-
TOTAL ASSETS	700,792	556,856	2,726,521
LIABILITIES			
Current liabilities			
Accrued liabilities	5,792	-	-
Due to other funds	-	470,000	-
Current portion of long-term debt	-	-	-
Total current liabilities	5,792	470,000	-0-
Noncurrent liabilities			
Noncurrent portion of long-term debt	695,000	-	-
TOTAL LIABILITIES	700,792	470,000	-0-
NET ASSETS			
Unrestricted	\$ -0-	\$ 86,856	\$ 2,726,521

See accompanying notes to financial statements.

Activities	
Nonmajor Enterprise Funds	Total Enterprise Funds
\$ 134,709	\$ 2,259,677
42,987	507,638
14,273	60,888
44,965	747,900
-	645,000
236,934	4,221,103
132,000	132,000
368,934	4,353,103
525	6,317
-	470,000
12,000	12,000
12,525	488,317
30,000	725,000
42,525	1,213,317
<u>\$ 326,409</u>	<u>\$ 3,139,786</u>

Missaukee County, Michigan

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2007

	Business-type		
	Missaukee Drainage District No. 2	2006 Tax Levy	Unpledged
OPERATING REVENUES			
Intergovernmental - Local	\$ 35,607	\$ -	\$ -
Charges for services	-	38,549	-
Interest and penalties on taxes	-	89,760	-
Other	-	2,164	-
TOTAL OPERATING REVENUES	35,607	130,473	-0-
OPERATING EXPENSES			
Other	-	3,188	3,873
OPERATING INCOME (LOSS)	35,607	127,285	(3,873)
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	-	2,391	15,709
Interest expense	(35,607)	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(35,607)	2,391	15,709
INCOME BEFORE TRANSFERS	-0-	129,676	11,836
TRANSFERS IN (OUT)			
Transfer in	-	-	133,864
Transfers out	-	(42,820)	(5,650)
TOTAL TRANSFERS IN (OUT)	-0-	(42,820)	128,214
CHANGE IN NET ASSETS	-0-	86,856	140,050
Net assets, beginning of year	-	-	2,586,471
Net assets, end of year	\$ -0-	\$ 86,856	\$ 2,726,521

See accompanying notes to financial statements.

Activities	
Nonmajor Enterprise Funds	Total Enterprise Funds
\$ 2,237	\$ 37,844
64,369	102,918
-	89,760
7,895	10,059
74,501	240,581
33,092	40,153
41,409	200,428
88,845	106,945
(2,237)	(37,844)
86,608	69,101
128,017	269,529
109,135	242,999
(474,658)	(523,128)
(365,523)	(280,129)
(237,506)	(10,600)
563,915	3,150,386
<u>\$ 326,409</u>	<u>\$ 3,139,786</u>

Missaukee County, Michigan

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended December 31, 2007

	Business-type		
	Missaukee Drainage District No. 2	2006 Tax Levy	Unpledged
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 35,575	\$ (382,667)	\$ 314
Cash received/paid for interfunds	-	430,000	1,754,130
Cash paid to suppliers	32	(3,188)	(3,873)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	35,607	44,145	1,750,571
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES			
Principal paid on debt	-	-	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	-	-	133,864
Transfers out	-	(42,820)	(5,650)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	-0-	(42,820)	128,214
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	-	2,391	15,709
Interest expense	(35,607)	-	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(35,607)	2,391	15,709
NET INCREASE (DECREASE) IN CASH	-0-	3,716	1,894,494
Cash, beginning of year	-	-	226,758
Cash, end of year	<u>\$ -0-</u>	<u>\$ 3,716</u>	<u>\$ 2,121,252</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 35,607	\$ 127,285	\$ (3,873)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
(Increase) decrease in receivables	-	(510,997)	314
(Increase) decrease in due from other governments	(32)	(2,143)	-
(Increase) decrease in due from other funds	-	(40,000)	1,754,130
(Increase) in advance to other funds	-	-	-
Increase (decrease) in accrued liabilities	32	-	-
Increase (decrease) in due to other funds	-	470,000	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 35,607</u>	<u>\$ 44,145</u>	<u>\$ 1,750,571</u>

See accompanying notes to financial statements.

Activities	
Nonmajor Enterprise Funds	Total Enterprise Funds
\$ 490,644	\$ 143,866
(2,205,010)	(20,880)
<u>(33,230)</u>	<u>(40,259)</u>
(1,747,596)	82,727
(11,000)	(11,000)
109,135	242,999
<u>(474,658)</u>	<u>(523,128)</u>
(365,523)	(280,129)
88,845	106,945
<u>(2,237)</u>	<u>(37,844)</u>
86,608	69,101
(2,037,511)	(139,301)
<u>2,172,220</u>	<u>2,398,978</u>
<u>\$ 134,709</u>	<u>\$ 2,259,677</u>
\$ 41,409	\$ 200,428
405,005	(105,678)
17,258	15,083
1,160,000	2,874,130
(132,000)	(132,000)
(138)	(106)
<u>(3,239,130)</u>	<u>(2,769,130)</u>
<u>\$ (1,747,596)</u>	<u>\$ 82,727</u>

Missaukee County, Michigan

Fiduciary Funds

STATEMENT OF NET ASSETS

December 31, 2007

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 87,169
Accounts receivable	<u>46</u>
TOTAL ASSETS	<u><u>\$ 87,215</u></u>
LIABILITIES	
Undistributed collections payable	\$ 81,556
Due to other governmental units - local	994
Due to others	<u>4,665</u>
TOTAL LIABILITIES	<u><u>\$ 87,215</u></u>

See accompanying notes to financial statements.

Missaukee County, Michigan

Component Unit Funds

COMBINING STATEMENT OF NET ASSETS

December 31, 2007

	Road Commission	Health Department No. 10	Commission on Aging	Total Component Units
ASSETS				
Current assets				
Cash	\$ 815,384	\$ 487,830	\$ 79,002	\$ 1,382,216
Receivables				
Michigan transportation fund	423,856	-	-	423,856
State trunkline maintenance	56,597	-	-	56,597
Due on county road agreements	104,327	-	-	104,327
Other	4,939	125,005	-	129,944
Taxes receivable	-	-	213,338	213,338
Due from other governments				
Federal/State	-	892,955	20,258	913,213
Local	866	31,188	-	32,054
Prepays	52,247	313,164	-	365,411
Inventories				
Equipment, material, and parts	99,927	327,205	-	427,132
Road materials	154,668	-	-	154,668
	<u>1,712,811</u>	<u>2,177,347</u>	<u>312,598</u>	<u>4,202,756</u>
Total current assets				
Noncurrent assets				
Capital assets not being depreciated	650	-	-	650
Capital assets, net of accumulated depreciation	<u>20,115,605</u>	<u>341,265</u>	<u>-</u>	<u>20,456,870</u>
	<u>20,116,255</u>	<u>341,265</u>	<u>-0-</u>	<u>20,457,520</u>
Total noncurrent assets				
TOTAL ASSETS				
	<u>21,829,066</u>	<u>2,518,612</u>	<u>312,598</u>	<u>24,660,276</u>
LIABILITIES				
Current liabilities				
Accounts payable	70,239	282,432	-	352,671
Accrued liabilities	25,577	328,572	2,573	356,722
Advances - State trunkline equipment purchase	109,077	-	-	109,077
Deferred revenue	-	718,672	249,693	968,365
Current portion of compensated absences	<u>13,055</u>	<u>546,560</u>	<u>-</u>	<u>559,615</u>
	<u>217,948</u>	<u>1,876,236</u>	<u>252,266</u>	<u>2,346,450</u>
Total current liabilities				
Noncurrent liabilities				
Noncurrent portion compensated absences	<u>117,495</u>	<u>-</u>	<u>-</u>	<u>117,495</u>
TOTAL LIABILITIES				
	<u>335,443</u>	<u>1,876,236</u>	<u>252,266</u>	<u>2,463,945</u>
NET ASSETS				
Invested in capital assets	20,116,255	341,265	-	20,457,520
Restricted for other purposes	<u>1,377,368</u>	<u>301,111</u>	<u>60,332</u>	<u>1,738,811</u>
	<u>\$ 21,493,623</u>	<u>\$ 642,376</u>	<u>\$ 60,332</u>	<u>\$ 22,196,331</u>
TOTAL NET ASSETS				

See accompanying notes to financial statements.

Missaukee County, Michigan

Component Unit Funds

STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Road Commission	\$ 4,832,854	\$ 462,269	\$ 2,914,137	\$ 726,850	\$ (729,598)
Health Department No. 10	14,924,023	3,604,305	8,331,881	-	(2,987,837)
Commission on aging	467,278	38,022	205,094	18,028	(206,134)
TOTALS	<u>\$ 20,224,155</u>	<u>\$ 4,104,596</u>	<u>\$ 11,451,112</u>	<u>\$ 744,878</u>	(3,923,569)
General revenues					
Taxes					231,043
County appropriations					2,706,290
Cigarette tax					106,444
Investment earnings					87,191
Miscellaneous					11,596
Total general revenues					<u>3,142,564</u>
CHANGE IN NET ASSETS					(781,005)
Net assets, beginning of year					<u>22,977,336</u>
Net assets, end of year					<u>\$ 22,196,331</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The County of Missaukee, Michigan was organized in 1871 and covers an area of approximately 567 square miles with the County seat located in Lake City, Michigan. The County operates under an elected Board of Commissioners of seven (7) members and provides services to its approximately 14,478 residents in many areas including law enforcement, administration of justice, community enrichment and development, public works, health and welfare, and recreation and culture.

The financial statements of the County have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to County governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Missaukee County (primary government) and its component units. The component units described in Section 2 below are included in the County's reporting entity because of the significance of their operational or financial relationship with the County.

2. Discretely Presented Component Units

These component units are reported in a separate column to emphasize that, while legally separate, Missaukee County remains financially accountable for these entities, or the nature and significance of the relationship between these entities and Missaukee County is such that exclusion of these entities would render the financial statements misleading or incomplete.

The Missaukee County Road Commission is responsible for the maintenance and construction of the County road system. The Road Commission operations are financed primarily from the State distribution of gas and weight taxes, Federal financial assistance, and contributions from other local government units within the County. The three (3) Board Members of the Road Commission are elected. This component unit is audited individually and complete financial statements may be obtained from the Road Commission's administrative office.

The District Health Department No. 10 is a joint venture between 10 counties as detailed in the formation agreement between the counties, and was established to provide public health services to the 10 county regions. A copy of the agreement can be obtained at the County's clerk's office. Missaukee County appoints two (2) of the 20 members. All ten (10) Counties provide annual appropriations and pass-through the statutory amount of cigarette tax funding to subsidize operations. Missaukee County's contribution for the year ended December 31, 2007, was \$109,984. The treasury function for the District Health Department No. 10 rests with the Missaukee County Treasurer. For this reason, the District Health Department No. 10 is a discretely presented component unit in the Missaukee County Financial Statements as required by accounting principles generally accepted in the United States of America. The District Health Department No. 10 activities are reported on a fiscal year end of September 30, 2007. Separate audited financial statements for their year ended September 30, 2007, are available at the Department's administrative offices.

The Missaukee County Council on Aging (MCCOA) was created in 1999 when the County of Missaukee and the District Health Department #10 entered into an intergovernmental agreement under the authority of Public Act 7 of 1967. The MCCOA provides activities and services to all persons ages 60 and over who reside in Missaukee County. The MCCOA is legally separate from the County and is governed by nine (9) members, all of whom are appointed by the Missaukee County Board of Commissioners. There are no separate financial statements for the MCCOA.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Jointly Governed Organizations

The County participates jointly in the operation of the North Central Community Mental Health Authority with Grand Traverse, Leelanau, Crawford, Roscommon and Wexford Counties. All financial operations of the Authority are recorded in Wexford County financial statements. The funding formula requires the County to provide approximately 3.5% of the local unit budget appropriation requirement, which amounted to \$35,272 for the year ended December 31, 2007.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the County's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the County are:

- a. The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Sheriff Special Forces Fund accounts for the property tax millage and expenditures related to a voter approved millage to provide additional law enforcement services.
- c. The Emergency Services Fund accounts for a property tax millage, charges for services, and expenditures of the County's ambulance and emergency medical services.
- d. The Traverse Narcotics Team (TNT) Forfeiture Fund operates under a grant from the U.S. Department of Justice's Office of Drug Control Policy as a cooperative agency. It was created to interdict the flow of controlled substances in the following areas: Grand Traverse, Benzie, Missaukee, Kalkaska, Antrim, Wexford, Leelanau Counties, Traverse City, Village of Kalkaska and Grand Traverse Band of Ottawa and Chippewa Indians. The ultimate control of this fund rests with the Missaukee County Board of Commissioners along with all accounting related functions being handled by Missaukee County.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation - continued

- e. The Revenue Sharing Reserve Fund was established in 2004 to account for the shift of State Revenue Sharing dollars from State to local funding.
- f. The Housing Fund accounts for the program income and revenue from the CDBG revolving loan fund program started through federal grants received.
- g. The Missaukee Sanitary Drainage District No. 2 Fund accounts for the resources accumulated from the local municipalities and payments made for principal and interest on long-term general obligation debt.
- h. The 2006 Tax Levy Fund accounts for funds paid to each local governmental unit, including the County General Fund, for their respective amount of taxes not collected as of March 1st from the 2006 tax levy. Financing for these purchases was provided by the collection of previous years delinquent property taxes by the County Treasurer.
- i. The Unpledged Fund accounts for funds from 1998 and previous years' delinquent tax collection activity.

5. Measurement Focus

The government-wide, proprietary, and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for fiduciary funds since assets equal liabilities.

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of recognition in the governmental fund financial statements is sixty (60) days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Basis of Accounting - continued

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

7. Cash

The County pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash consists of various checking and savings accounts.

8. Receivables

Receivables consist of amounts due from governmental units for various financial assistance programs; taxes; accounts; and other receivables related to current and delinquent tax levies, charges for services, interest, and other related activities.

9. Inventories

Inventories of the Traverse Narcotic Team Forfeiture Fund consist of confiscated items seized in the line of duty.

Inventories of the Road Commission (Component Unit) consist of various operating parts, supplies, and road material and are stated at cost, as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

Inventories of the Health Department No. 10 (Component Unit) are stated at cost on a first in/first out basis. The Health Department's inventories consist of vaccines received from the State of Michigan.

10. Capital Assets

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and component unit columns. Capital assets are those with an initial individual cost of \$1,000 or more and an estimated useful life of more than one year.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Capital Assets - continued

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION) - CONTINUED

Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	5 - 40 years
Furniture and Equipment	3 - 10 years
Vehicles	5 years

COMPONENT UNIT - ROAD COMMISSION

Capital assets which include property, equipment, and infrastructure assets (road, bridges, and similar items) are reported in the government-wide statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$200 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

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

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements.

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

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

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

Buildings	30 - 50 years
Road equipment	5 - 8 years
Shop equipment	10 years
Office equipment	4 - 10 years
Engineering equipment	4 - 10 years
Infrastructure - bridges	12 - 50 years
Infrastructure - roads	5 - 30 years

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Deferred Revenue

Deferred revenue consists of amounts related to long-term receivables and inventories recorded at the fund level that are not available to finance current year expenditures and are therefore deferred or amounts that have not been earned and are deferred at the fund level and government-wide level.

12. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

13. Interfund Transactions

During the course of normal operations, the County has numerous transactions between funds and component units, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

14. Compensated Absences

In accordance with County personnel policies and/or contracts negotiated with the various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts.

Vested vacation and sick leave earned as of December 31, 2007, including related payroll taxes, is recorded in the government-wide financial statements.

15. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with the modified accrual basis used to reflect actual results in the Fund financial statements. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The County employs the following procedures in establishing budgets:

- a. Prior to October 1, County departments in conjunction with the Clerk's Office, prepare and submit their proposed operating budgets to the Ways and Means Committee who reviews and makes recommendations for the fiscal year commencing the following January 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to December 31, the budgets are legally enacted through passage of a budget resolution.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Budgets and Budgetary Accounting - continued

- d. The budgets are legally adopted at the activity, functional, and account level for the General Fund and the fund level for the Special Revenue Funds. Budgetary transfers between funds and amendments to total fund budgets are not permitted without Board approval. For control purposes, all fund budgets are maintained at the activity and account level. The Clerk is authorized to transfer budget amounts between accounts without Board approval.
- e. Budgets for certain Capital Projects Funds are made on a project basis spanning more than one year.
- f. The County does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. All unexpended appropriations lapse at year-end.
- g. Budgeted amounts are reported as originally adopted or as amended by the Board of Commissioners during the year. Individual amendments were not material to the original appropriations that were adopted.

16. Comparative Data

Comparative data for the year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

17. Federal Programs

Federal Programs are accounted for in specific Special Revenue Funds or as part of the various fund types to which the programs pertain. The County has not integrated its Single Audit Reports and financial data as part of the financial statements. The Single Audit Reports and financial data will be issued under separate cover as supplementary information to the financial statements.

NOTE B: POOLING OF CASH OVERDRAFT

The County utilizes pooled cash accounts for approximately forty (40) funds. Cash overdrafts of individual funds as of December 31, 2007, are as follows:

<u>Fund</u>	<u>Pooled Cash Overdraft</u>	<u>Nonpooled Cash</u>	<u>Financial Statements</u>
PRIMARY GOVERNMENT			
Special Revenue Funds			
2007-2008 TNT Grant	\$(18,024)	\$ -	\$(18,024)

NOTE C: CASH

The County utilizes various pooled cash accounts for approximately forty (40) funds. The County's pooled cash accounts consist of a common checking account.

The County's pooled cash accounts are utilized by the General Fund, Special Revenue Funds, Capital Project Funds, Trust and Agency Funds, and the component unit funds. Each fund's portion of these pooled accounts is included in the cash caption in the applicable balance sheet/statement of net assets.

The other funds of the County utilize separate savings and interest bearing checking accounts.

Missaukee County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE C: CASH - CONTINUED

In accordance with Michigan Compiled Laws, the County is authorized to invest in the following investment vehicles:

- a. Bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. United States government or Federal agency obligation repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. 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. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

As of December 31, 2007, the carrying amounts and bank balance for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking	\$ 3,759,726	\$ 4,691,006
Savings	<u>2,159,850</u>	<u>2,159,850</u>
Total primary government	5,919,576	6,850,856
COMPONENT UNITS		
Checking	1,381,155	1,351,893
Savings	<u>1,061</u>	<u>1,061</u>
Total component units	1,382,216	1,352,954
FIDUCIARY FUNDS		
Checking	<u>87,169</u>	<u>88,077</u>
TOTAL REPORTING ENTITY	<u>\$ 7,388,961</u>	<u>\$ 8,291,887</u>

Missaukee County, Michigan
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2007

NOTE C: CASH - CONTINUED

Deposits of the County are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the County. As of December 31, 2007, the primary government and component unit accounts were insured by the FDIC for \$418,612 and the amount of \$7,873,275 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the County held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of December 31, 2007, the County did not have any investments to rate.

Interest rate risk

The County will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing the investment portfolio with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Concentration of credit risk

The County will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

The cash referred to above has been reported in the cash caption on the combined balance sheet, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of December 31, 2007:

	Primary Government	Component Units	Fiduciary Funds	Reporting Entity
Cash	\$ 5,938,786	\$ 1,382,216	\$ 87,169	\$ 7,408,171

The primary government cash caption on the Statement of Net Assets include \$19,210 in imprest cash.

NOTE D: ACCOUNTS RECEIVABLE

The following is an analysis of accounts receivable for the Emergency Services Fund as of December 31, 2007:

Accounts receivable, gross	\$ 153,547
Less: allowance for doubtful accounts	(51,045)
Accounts receivable, net	\$ 102,502

Missaukee County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details primary government interfund receivables and payables at December 31, 2007:

Due to 2006 Tax Levy Fund from:	
General Fund	<u>\$ 40,000</u>
Due to Unpledged Fund from:	
General Fund	\$ 135,000
2006 Tax Levy Fund	<u>470,000</u>
	<u>\$ 605,000</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE F: ADVANCES RECEIVABLE AND PAYABLE

The following schedule details primary government advances receivable and payable at December 31, 2007:

Advance to nonmajor governmental funds from:	
Nonmajor enterprise funds	<u>\$ 132,000</u>

The advance to the nonmajor governmental funds from the nonmajor enterprise funds was related to the jail expansion project.

NOTE G: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business-type funds, and component units have been eliminated.

Transfers to General Fund from:	
Revenue Sharing Reserve Fund	\$ 259,148
Nonmajor governmental funds	5,019
Nonmajor enterprise funds	<u>280,129</u>
	<u>\$ 544,296</u>
Transfer to Unpledged Fund from:	
Nonmajor enterprise funds	<u>\$ 133,864</u>
Transfer to TNT Forfeiture Fund from:	
Nonmajor governmental funds	<u>\$ 30,639</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 423,528
TNT Forfeiture Fund	22,667
Nonmajor governmental funds	<u>164,591</u>
	<u>\$ 610,786</u>

Missaukee County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE G: INTERFUND TRANSFERS - CONTINUED

Transfers to nonmajor enterprise funds from:	
2006 Tax Levy Fund	\$ 42,820
Unpledged Fund	5,650
Nonmajor enterprise funds	<u>60,665</u>
	<u>\$ 109,135</u>

NOTE H: CAPITAL ASSETS

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

PRIMARY GOVERNMENT

	<u>Balance</u> <u>Jan. 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Dec. 31, 2007</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 353,423	\$ -	\$ -	\$ 353,423
Capital assets being depreciated				
Buildings and improvements	3,364,283	72,884	-	3,437,167
Furniture and equipment	827,191	111,106	-	938,297
Vehicles	<u>749,700</u>	<u>107,666</u>	<u>(21,100)</u>	<u>836,266</u>
Subtotal at historical cost	4,941,174	291,656	<u>(21,100)</u>	5,211,730
Less accumulated depreciation for:				
Buildings and improvements	(1,214,071)	(107,560)	-	(1,321,631)
Furniture and equipment	(645,097)	(68,165)	-	(713,262)
Vehicles	<u>(350,419)</u>	<u>(106,634)</u>	<u>19,500</u>	<u>(437,553)</u>
Subtotal at historical cost	<u>(2,209,587)</u>	<u>(282,359)</u>	<u>19,500</u>	<u>(2,472,446)</u>
Net capital assets being depreciated	<u>2,731,587</u>	<u>9,297</u>	<u>(1,600)</u>	<u>2,739,284</u>
Capital assets, net	<u>\$ 3,085,010</u>	<u>\$ 9,297</u>	<u>\$(1,600)</u>	<u>\$ 3,092,707</u>

The current year depreciation expense of \$282,359 has been adjusted by \$1,600 for the disposal of capital assets during the year, in accordance with GASB Statement No. 34 implementation guide which states that immaterial losses may be handled as an adjustment to the current period's depreciation expense.

Depreciation expense was charged to the following governmental activities:

General government	\$ 50,828
Public safety	102,981
Health and welfare	69,653
Recreation and cultural	<u>60,497</u>
Total depreciation expense	<u>\$ 283,959</u>

Missaukee County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE H: CAPITAL ASSETS - CONTINUED

COMPONENT UNITS

	Balance <u>Jan. 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Dec. 31, 2007</u>
Component Unit - Road Commission				
Capital assets not being depreciated:				
Land	\$ 650	\$ -	\$ -	\$ 650
Capital assets being depreciated:				
Land improvements	100,364	-	-	100,364
Buildings	1,291,094	13,665	-	1,304,759
Road equipment	4,180,800	316,551	(58,000)	4,439,351
Shop equipment	99,842	-	-	99,842
Office equipment	30,161	2,466	-	32,627
Infrastructure - bridges	3,621,333	2,184	-	3,623,517
Infrastructure - roads	<u>31,149,995</u>	<u>902,803</u>	<u>-</u>	<u>32,052,798</u>
Subtotal at historical cost	40,473,589	1,237,669	(58,000)	41,653,258
Less accumulated depreciation for:				
Land improvements	(51,463)	(3,696)	-	(55,159)
Buildings	(419,553)	(34,236)	-	(453,789)
Road equipment	(3,531,371)	(325,203)	58,000	(3,798,674)
Shop equipment	(67,258)	(7,794)	-	(75,052)
Office equipment	(39,280)	(3,536)	-	(42,816)
Infrastructure - bridges	(822,597)	(70,883)	-	(893,480)
Infrastructure - roads	<u>(14,638,562)</u>	<u>(1,580,121)</u>	<u>-</u>	<u>(16,218,683)</u>
Subtotal at historical cost	<u>(19,570,184)</u>	<u>(2,025,469)</u>	<u>58,000</u>	<u>(21,537,653)</u>
Net capital assets being depreciated	<u>20,903,405</u>	<u>(787,800)</u>	<u>-0-</u>	<u>20,115,605</u>
Capital assets, net	<u>\$ 20,904,055</u>	<u>\$(787,800)</u>	<u>\$ -0-</u>	<u>\$ 20,116,255</u>
	Balance <u>Oct. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Sept. 30, 2007</u>
Component Unit - District Health Department No. 10				
Capital assets being depreciated:				
Equipment	\$ 851,756	\$ 97,449	\$ -	\$ 949,205
Less accumulated depreciation for:				
Equipment	<u>(493,417)</u>	<u>(114,523)</u>	<u>-</u>	<u>(607,940)</u>
Capital assets, net	<u>\$ 358,339</u>	<u>\$(17,074)</u>	<u>\$ -0-</u>	<u>\$ 341,265</u>

Missaukee County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE I: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the County for the year ended December 31, 2007:

	Balance Jan. 1, 2007	Additions	Deletions	Balance Dec. 31, 2007	Amounts Due Within One Year
PRIMARY GOVERNMENT					
McBain Sanitary Sewer Bonds	\$ 53,000	\$ -	\$ 11,000	\$ 42,000	\$ 12,000
Missaukee Sanitary Drainage District No. 2 Drain Bonds	695,000	-	-	695,000	-
Lease payable	5,232	-	5,232	-0-	-
Compensated absences	<u>92,160</u>	<u>101,155</u>	<u>98,527</u>	<u>94,788</u>	<u>71,091</u>
TOTAL PRIMARY GOVERNMENT	845,392	101,155	114,759	831,788	83,091
COMPONENT UNITS					
Road Commission Compensated absences	144,369	-	13,819	130,550	13,055
District Health Department No. 10 Compensated absences	<u>467,098</u>	<u>556,727</u>	<u>477,265</u>	<u>546,560</u>	<u>546,560</u>
TOTAL COMPONENT UNITS	<u>611,467</u>	<u>556,727</u>	<u>491,084</u>	<u>677,110</u>	<u>559,615</u>
TOTAL REPORTING ENTITY	<u>\$ 1,456,859</u>	<u>\$ 657,882</u>	<u>\$ 605,843</u>	<u>\$ 1,508,898</u>	<u>\$ 642,706</u>

PRIMARY GOVERNMENT

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Bonds payable at December 31, 2007, are as follows:

\$340,000 McBain Sanitary Sewer System Bonds, dated December 18, 1978, due in annual installments ranging from \$5,000 to \$13,000 through October 1, 2011, with interest of 5.0 percent, payable semi-annually.	\$ 42,000
\$3,735,000 Missaukee Sanitary Drainage District No. 2 Drain Bonds, dated July 1, 1993, due in annual installments ranging from \$225,000 to \$240,000 through May 1, 2011; with interest ranging from 4.2 to 7 percent, payable semi-annually.	<u>695,000</u>
	<u>\$ 737,000</u>

Compensated Absences

In accordance with County personnel policies and/or contracts negotiated with various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts.

The dollar amount of these vested rights, including related payroll taxes, amounted to \$94,788 at December 31, 2007, \$71,091 has been recorded as a current liability, and \$23,697 has been reported as a noncurrent liability.

The annual requirements to pay the long-term debt principal and interest outstanding for the following bonds of the primary government at December 31, 2007, are as follows:

Missaukee County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE I: LONG-TERM DEBT - CONTINUED

Primary Government

<u>Year Ending December 31,</u>	<u>Direct County Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 12,000	\$ 36,550
2009	237,000	30,325
2010	243,000	18,325
2011	<u>245,000</u>	<u>6,125</u>
	<u>\$ 737,000</u>	<u>\$ 91,325</u>

COMPONENT UNIT - ROAD COMMISSION

Compensated Absences

In accordance with County Road Commission personnel policies and/or contracts negotiated with various employee groups of the County Road Commission, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. The dollar amount of these vested rights, including related payroll taxes amounted to \$130,550 at December 31, 2007.

COMPONENT UNIT - DISTRICT HEALTH DEPARTMENT NO. 10

Compensated Absences

In accordance with Department personnel policies, individual employees have rights upon termination of employment to receive payment for unused vacation time and sick leave under the formulas and conditions specified in the personnel policies. The dollar amount of these rights (vested and probable to vest) including related payroll taxes amounted to \$546,560 for compensated absences at September 30, 2007. This amount has been recorded in the government-wide financial statements in the appropriate District Health Department No. 10 component unit column.

Accumulated compensated absences represent a liability to the Department which is presented as current in the Statement of Net Assets. Payments to employees for accumulated compensated absences are recorded as expenditures when they are used and payments are actually made to the employees.

NOTE J: EMPLOYEE RETIREMENT SYSTEM

SHERIFF DEPARTMENT AND ELECTED OFFICIALS

Plan Description

The County participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All Sheriff Department employees and certain elected officials are covered by the retirement system.

The benefits and conditions outlined below are for general information only. Public Act 427 of 1984, as amended, covers the benefits and conditions of the Municipal Retirement systems.

Missaukee County, Michigan
 NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE J: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the County's collective bargaining unit and personnel policy, which requires employees to contribute of payroll to the plan. The County is required to contribute at an actuarially determined rate. The rate for the year ended December 31, 2007 is based on the December 31, 2005 actuarial valuation and as a percent of payroll was 15.78 percent for elected officials and 13.86 for the sheriff's department.

Annual Pension Cost

For the year ended December 31, 2007, the County's annual pension cost of \$158,189 for the plan was equal to the County's required contribution. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2005, using the entry actual age cost method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases are assumed per year, depending on age, attributable to seniority/merit. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

Three (3) Year Trend Information

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$ 1,606,551	\$ 1,844,815	\$ 2,137,638
Actuarial accrued liability (AAL) (entry age)	2,722,806	3,047,547	3,411,040
Unfunded AAL	1,116,255	1,202,732	1,273,402
Funded ratio	59%	61%	63%
Covered payroll	1,007,864	1,019,767	1,139,818
UAAL as a percentage of covered payroll	111%	118%	112%

	Year Ended December 31,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	\$ 140,080	\$ 157,499	\$ 158,189
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT SHERIFF DEPARTMENT, ELECTED OFFICIALS, ROAD COMMISSION, AND DISTRICT HEALTH DEPARTMENT NO. 10)

The County has a single employer defined contribution plan, available to employees of the County depending on their individual employee contract. A defined contribution plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE J: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Under a defined contribution pension plan, the benefits a participant will receive depends solely on the amount contributed to the participant's account, the returns earned on the investments of those contributions, and the forfeitures of other participant's account. All employees who have completed twelve months of service are eligible to participate. Plan provisions and contribution requirements are established and may be amended by the County Board of Commissioners.

Plan provisions require that the County contribute according to each active participant's compensation and do not allow for participant contributions. The County's contributions for each employee (and earnings allocated to the employee's account) depend upon the individual employee contracts that have been bargained for with the County. The County contributions for and interest forfeited by employees who leave employment before full vesting are used to reduce the County's current period contribution requirement. The plan uses the accrual basis of accounting with investments stated at market.

Employer contributions are paid to the plan monthly and for the year ending December 31, 2007 the County's contributions to the plan totaled \$67,877.

COMPONENT UNIT - ROAD COMMISSION

Defined Contribution Pension Plan

Pension Plan

The Missaukee County Road Commission Money Purchase Pension Plan, a single employer plan, covers substantially all of its full-time employees. The employer contributes 10% of covered payroll. No employee contributions are allowed. The Plan is administered by a seven member committee comprised of three Road Commissioners, the Road Commission Manager and three employees elected by the Missaukee County Road Commission Employees' Association. Plan provisions and contribution requirements are established and may be amended by the Board of County Road Commissioners.

The Road Commission's contributions for the year amounted to \$106,395 (10% of covered payroll). The contributions are invested in the Public Employers Retirement Trust/Michigan. Distributions from the plan will be made upon termination of employment or upon retirement, on or after normal retirement age of 62.

COMPONENT UNIT - DISTRICT HEALTH DEPARTMENT NO. 10

Defined Benefit Retirement Plan

Plan Description

The Department participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the Department. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Board of Public Health. The plan requires no contributions from covered employees. The Department is required to contribute all amounts necessary to fund the system.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE J: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

COMPONENT UNIT - DISTRICT HEALTH DEPARTMENT NO. 10 - CONTINUED

Annual Pension Cost

For the year ended September 30, 2007, the Department's annual pension cost of \$575,508 for the plan was equal to the Department's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry normal cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.0 % investment rate of return (b) projected salary increases of 4.5 % per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will increase 2.5% per year after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a ten (10) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll contributions over an open period of thirty (30) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$12,471,605	\$12,863,830	\$13,477,983
Actuarial accrued liability (AAL) (entry age)	18,759,839	19,592,729	20,363,714
Unfunded AAL	6,288,234	6,728,899	6,885,731
Funded ratio	66 %	66 %	66 %
Covered payroll	1,961,698	1,918,813	1,986,226
UAAL as a percentage of covered payroll	321 %	351 %	347 %

	Year Ended September 30,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	\$ 492,423	\$ 576,907	\$ 575,508
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

Defined Contribution Retirement Plan

The Department has a single employer defined contribution plan, available to all employees of the Department. A defined contribution plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive.

Under a defined contribution pension plan, the benefits a participant will receive depends solely on the amount contributed to the participant's account, the returns earned on the investments of those contributions, and the forfeitures of other participant's account. All employees who have completed twelve months of service are eligible to participate. Plan provisions and contribution requirements are established and may be amended by the County Board of Commissioners.

The plan allows each employee to determine his/her own contribution, not to exceed the lesser of \$40,000 or 100% of his or her salary, according to current provisions of the Internal Service Code. The Department contributes 5% of the employees' salary. These contributions are not dependent of the participation of the employees. Additionally, the Department will match up to 3% of employee contributions. The plan uses the accrual basis of accounting with investments stated at market.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE J: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

COMPONENT UNIT - DISTRICT HEALTH DEPARTMENT NO. 10 - CONTINUED

Defined Contribution Retirement Plan - continued

Employee and employer contributions are paid to the plan on each payroll date (bi-weekly) and for the year ending September 30, 2007; the Department's contribution to the plan was \$315,219. Employee contributions to the plan were \$117,710 for 2007.

NOTE K: OTHER POST-EMPLOYMENT BENEFITS

In accordance with the union agreement and personnel policy, upon retirement each employee will be eligible for continuation of subscriber health insurance. For health insurance to continue the employee is required to pay 100% of the premium amount applicable to their coverage on a monthly basis to the County. The County remits the full premium to the insurance carrier. The total cost was \$22,012 for 5 participating retirees. The County's policy is to finance these benefits on a pay as you go basis and these benefits are paid for fully by the retirees.

COMPONENT UNIT - ROAD COMMISSION

The Road Commission provides post-retirement hospitalization to its retired full-time employees who were hired before 1984.

The Road Commission funds 100% of the premiums of the policies on a pay-as-you-go basis. During 2007, the Road Commission paid deductibles and hospitalization premiums for 15 qualified individuals totaling \$123,870.

UPCOMING REPORTING CHANGE

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2009.

NOTE L: CONTINGENT LIABILITIES

The County participates in a number of Federal and State assisted grant programs that are subject to compliance audits. The Single Audit of the Federal programs and the periodic program compliance audits of many of the State programs have not yet been conducted, completed, or resolved. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

There are potential legal actions pending against the County and its component units. Due to the inconclusive nature of many of the actions, it is not possible for Corporation Counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. These actions, for which a reasonable estimate can be determined of the potential liability, if any, are considered by County and/or component unit management and legal counsel to be immaterial.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE M: RISK MANAGEMENT

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION AND DISTRICT HEALTH DEPARTMENT NO. 10)

The County is a voluntary member of the Michigan Municipal Risk Management Authority which is organized under Public Act 138 of 1982, as amended as a governmental group self-insurance pool. Public Act 138 authorizes local units of government to exercise jointly any power, privilege, or authority which each might exercise separately.

The administration of the Authority is directed by a nine (9) member Board of Directors composed of municipal representatives from the membership elected by the membership. The Board establishes the general policy of the Authority, creates and publishes rules to be followed by the Manager and Board, and is empowered with the authority to impose sanctions or terminate membership. The County, by resolution of the County Board of Commissioners, has designated a representative to the Authority to be responsible for the execution of all loss control measures, to ensure the payment of all annual and supplementary or other payment requirements, to ensure the filing of all required reports, and to act as a liaison between the County and the Authority.

The Authority provides risk management, underwriting, reinsurance, and claim services with member contributions allocated to meet these obligations. The Authority administers a risk management fund providing Missaukee County with loss protection for general, law enforcement and public officials liability, motor vehicle physical damage, property, and other damages. Under most circumstances the County's maximum loss per occurrence is limited as follows:

<u>Maximum Retention</u> <u>Type of Risk</u>	<u>Per Occurrence</u>
General and auto liability	\$ 5,000,000
Motor vehicle physical damage	1,500,000
Property and crime coverage	As stated in coverage document

The Authority has established a Retained Risk Program to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that losses are incurred in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess. The Authority may authorize dividends to individual members in the event that the members and individual fund balance is determined to be sufficient to do so.

Liability insurance claims are expensed as incurred. The liability is determined by the Michigan Municipal Risk Management Authority management based on an actuarial study performed using historical data and available insurance industry statistics. The liability includes a reserve for reported claims, and reported legal expenses as well as incurred, but not reported, claims.

The Authority has reserved fund balance to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that Missaukee County incurs a loss in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The County has not been informed of any special assessments being required.

At December 31, 2007, the County had no funds on deposit with the Authority because they are a State Pool Member. In 2007, the County had no reported claims.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE M: RISK MANAGEMENT - CONTINUED

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION AND DISTRICT HEALTH DEPARTMENT NO. 10) - CONTINUED

The County also participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The County has not been informed of any special assessments being required.

COMPONENT UNIT - ROAD COMMISSION

Self-Insurance Pool

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

COMPONENT UNIT - DISTRICT HEALTH DEPARTMENT NO. 10

The Department carries commercial insurance for the risk of loss due to workers' compensation claims.

The Department also participates in a State pool, the Michigan Municipal Risk Management Authority, with other municipalities for property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. Members of the State pool do not have individual self-insured retention amounts other than a \$250 deductible per occurrence of property and crime coverage. State pool members' limits of coverage (per occurrence) are \$5 million for liability and about \$5 million for property. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Department has not been informed of any special assessments being required.

NOTE N: PROPERTY TAXES AND TAX RECEIVABLE

The County property tax is levied each December 1 and July 1 on the taxable valuation of property located in the County as of the preceding December 31.

Taxable values are established annually by the local municipalities and are equalized by the County based on State statutes at an estimated percentage of the current market value. Real and personal property in Missaukee County for the 2007 levy had a taxable value of \$501,190,526 on which ad valorem taxes levied for County general operating purposes was 4.9005 mills. The Emergency Services, Sheriff Special Forces, and Commission on Aging funds levied 0.4899, 1.2249, and 0.4982 mills, respectively.

By resolution of the Board of Commissioners and agreement with various taxing authorities, the County purchased at face value the real property taxes receivable returned delinquent on March 1, 2007. Subsequent collections of delinquent taxes receivable, plus interest thereon and investment earnings, are used to repay the funds distributed by the Unpledged Fund. This activity is accounted for in the Unpledged (Enterprise) Fund.

Missaukee County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE O: FUND DEFICIT

The following fund had a fund equity deficit at December 31, 2007:

PRIMARY GOVERNMENT	
Capital Project Funds	
Capital Reserve	\$ <u>132,000</u>

NOTE P: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balance and net assets are used to earmark a portion of equity to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance and net assets indicates that portion of fund balance and net assets that the County has set aside for specific purposes.

The following are the various fund balance reserves as of December 31, 2007:

PRIMARY GOVERNMENT	
General Fund	
Reserved for prepaid expenditures	\$ 80,057
TNT Forfeiture	
Reserved for inventories	<u>89,590</u>
	<u>\$ 169,647</u>

The following are the various fund balance designations as of December 31, 2007:

PRIMARY GOVERNMENT	
Nonmajor governmental funds	
Designated for capital projects	
Courthouse Expansion Fund	\$ <u>24,067</u>

NOTE Q: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of December 31, 2007:

PRIMARY GOVERNMENT	
Governmental activities	
Restricted for	
Public safety	
Sheriff Special Forces	\$ 358,510
TNT Forfeiture	488,900
Lake City Officer	141
Jail Expansion	23,264
Enhanced E911 Wireless	402,209
Public Safety	3,041
DARE Community Grant	14,845
Equipment Grant	582
2007-2008 TNT	5,943
Local Emergency Planning	<u>5,080</u>
	<u>\$ 1,302,515</u>

Missaukee County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE Q: RESTRICTED NET ASSETS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Governmental activities - continued

Restricted for

Other purposes

Emergency Services

\$ 368,810

Revenue Sharing

1,166,733

Housing

76,984

Register of Deeds Automation

3,582

Law Library

1,437

\$ 1,617,546

COMPONENT UNITS

Other purposes

Restricted for

County Roads

\$ 1,377,368

Health Programs

301,111

Aging Programs

60,332

\$ 1,738,811

NOTE R: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

In the body of the budgetary comparison schedules shown as required supplementary information to the financial statements, the County's budgeted expenditures in the General and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the County have been adopted at the activity level for the General Fund and the fund level for the Special Revenue Funds.

During the year ended December 31, 2007, the County incurred expenditures in the General Fund and three (3) Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General Government			
Board of Commissioners	\$ 104,500	\$ 120,385	\$ 15,885
Equalization	128,150	132,575	4,425
Health and welfare			
Substance abuse	19,874	19,879	5
District Health Department No. 10	105,052	109,984	4,932
Capital outlay	48,267	52,140	3,873
Special Revenue Funds			
Revenue Sharing Reserve	251,000	259,321	8,321
Housing	10,000	119,816	109,816

Missaukee County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE 5: PRIOR PERIOD ADJUSTMENT AND RESTATED NET ASSETS

The following prior period adjustment was made during the year, which was the result of the correction of an accounting error. This adjustment was reported as a change to beginning fund balance or net assets. The effect on operations and other affected balances for the current and prior year are as follows:

	December 31,		
	<u>2007</u>	<u>2006</u>	<u>Description</u>
PRIMARY GOVERNMENT			
Governmental Funds			
TNT Forfeiture Fund			
Accounts receivable	\$ -	\$(20,000)	To correct overstated accounts receivable
Revenues over expenditures	-	(20,000)	
Fund balance - beginning	(20,000)	-	

The net assets of the governmental activities as of December 31, 2006 were reduced by \$20,000 from \$6,757,004 to \$6,737,004 as a result of this error.

REQUIRED SUPPLEMENTARY INFORMATION

Missaukee County, Michigan

General Fund

STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL

Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Amended		
REVENUES				
Taxes				
Current and delinquent property taxes	\$ 2,322,132	\$ 2,415,006	\$ 2,531,840	\$ 116,834
Tax reverted lands	68,500	68,788	68,785	(3)
Trailer tax	125	58	58	-0-
Total taxes	2,390,757	2,483,852	2,600,683	116,831
Licenses and permits				
Gun permits	1,200	1,054	1,040	(14)
Dog licenses	3,000	2,245	2,245	-0-
Marriage license fees	600	545	545	-0-
Soil permits	3,000	3,000	2,865	(135)
Total licenses and permits	7,800	6,844	6,695	(149)
Intergovernmental - Federal/State				
Probate Judge's salary	94,195	103,351	103,450	99
Circuit Court Judge's salary	83,003	63,719	63,718	(1)
Juvenile officer	27,317	27,317	27,317	-0-
Court equity	90,000	77,400	77,397	(3)
CRP - Prosecuting Attorney	28,266	29,616	30,201	585
CRP - Friend of the Court	116,087	114,081	115,415	1,334
Voter aid registration	300	400	399	(1)
Marine safety	12,640	16,000	13,218	(2,782)
Snowmobile grant	7,755	9,000	10,098	1,098
ORV grant	13,000	12,313	13,380	1,067
Public safety training grant	3,000	3,000	2,756	(244)
Emergency management grant	16,000	4,645	4,330	(315)
Secondary road patrol	55,268	48,035	48,035	-0-
Remonumentation	80,000	63,149	63,149	-0-
Total intergovernmental - Federal/State	626,831	572,026	572,863	837
Charges for services				
Circuit Court	3,200	200	555	355
District Court	61,500	46,069	45,993	(76)
Probate Court	7,200	7,842	7,839	(3)
Prosecuting attorney	30,000	30,000	29,765	(235)
Clerk	175,300	159,732	159,915	183
Treasurer	94,438	98,823	100,159	1,336
Sheriff department	23,700	32,499	32,292	(207)
Total charges for services	395,338	375,165	376,518	1,353

Missaukee County, Michigan

General Fund

STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL - CONTINUED

Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Amended		
REVENUES - CONTINUED				
Interest and rents				
Interest	\$ 40,000	\$ 61,650	\$ 61,646	\$ (4)
Rents	79,149	67,900	67,874	(26)
Total interest and rents	119,149	129,550	129,520	(30)
Fines and forfeits				
Bond forfeitures	72,000	55,050	55,024	(26)
Other				
Reimbursements and refunds	129,566	94,220	93,801	(419)
TOTAL REVENUES	3,741,441	3,716,707	3,835,104	118,397
OTHER FINANCING SOURCES				
Transfers in				
Register of Deeds	-	5,000	5,018	18
Revenue Sharing Reserve	251,000	259,148	259,148	-0-
Tax Reversion	-	-	3,874	3,874
Tax Reserve	3,573	236,369	276,256	39,887
TOTAL OTHER FINANCING SOURCES	254,573	500,517	544,296	43,779
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 3,996,014</u>	<u>\$ 4,217,224</u>	<u>\$ 4,379,400</u>	<u>\$ 162,176</u>

Missaukee County, Michigan

General Fund

STATEMENT OF EXPENDITURES AND OTHER FINANCING USES BY ACTIVITY -
BUDGET AND ACTUAL

Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Amended		
EXPENDITURES				
Current				
General government				
Board of Commissioners	\$ 98,400	\$ 104,500	\$ 120,385	\$ (15,885)
Circuit Court	363,480	387,383	383,911	3,472
District Court	108,909	93,429	93,270	159
Jury board	2,150	1,500	1,450	50
Probate Court	188,071	188,610	187,984	626
Clerk/Register of Deeds	169,225	171,620	171,110	510
Record Copy	70,000	55,200	54,951	249
Treasurer	106,176	109,692	105,858	3,834
Equalization	126,356	128,150	132,575	(4,425)
Cooperative extension	51,462	43,642	43,487	155
Elections	8,900	15,300	15,192	108
Building and grounds	129,410	156,799	156,064	735
Prosecuting Attorney	171,364	194,073	193,809	264
Survey and Remonumentation	80,000	94,572	94,571	1
Soil conservation	27,195	27,055	27,055	-0-
Plat Board	75	-	-	-0-
Total general government	1,701,173	1,771,525	1,781,672	(10,147)
Public safety				
Sheriff	189,297	177,539	177,378	161
Training grant	5,549	4,915	4,836	79
Civil defense	11,500	7,900	7,826	74
Road patrol	82,847	87,585	87,525	60
Marine safety	17,093	17,593	16,586	1,007
Snowmobile safety	11,167	10,505	10,226	279
Inmate work program	11,916	9,844	9,831	13
Jail	545,488	554,635	554,600	35
ORV	16,757	14,992	14,372	620
Animal control	500	380	380	-0-
Total public safety	892,114	885,888	883,560	2,328
Public Works				
Recycling center	15,000	19,335	19,335	-0-
Community and economic development				
Planning department	39,727	35,506	35,267	239

Missaukee County, Michigan

General Fund

STATEMENT OF EXPENDITURES AND OTHER FINANCING USES BY ACTIVITY -
BUDGET AND ACTUAL - CONTINUED

Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Amended		
EXPENDITURES - CONTINUED				
Current				
Health and welfare				
Medical examiner	\$ 10,500	\$ 2,974	\$ 2,974	\$ -0-
Veterans affairs	8,500	8,500	8,494	6
Northwest senior resources	3,013	3,013	3,013	-0-
Mental health	35,272	35,272	35,272	-0-
Department of Human Services	-	2,000	2,000	-0-
Substance abuse	21,744	19,874	19,879	(5)
District Health Department No. 10	142,471	105,052	109,984	(4,932)
Total health and welfare	221,500	176,685	181,616	(4,931)
Recreation and cultural				
Library	-	34,048	34,048	-0-
Other				
Other	14,000	1,170	1,161	9
Insurance and bonds	816,500	820,800	794,477	26,323
Total other	830,500	821,970	795,638	26,332
Capital outlay	5,000	48,267	52,140	(3,873)
TOTAL EXPENDITURES	3,705,014	3,793,224	3,783,276	9,948
OTHER FINANCING USES				
Transfers out				
Child Care Fund	250,000	385,000	385,000	-0-
Department of Human Services	2,000	-	-	-0-
Law Library Fund	4,000	4,000	4,000	-0-
2006-2007 TNT Fund	25,200	25,200	25,174	26
2007-2008 TNT Fund	9,800	9,800	9,354	446
TOTAL OTHER FINANCING USES	291,000	424,000	423,528	472
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 3,996,014	\$ 4,217,224	\$ 4,206,804	\$ 10,420

Missaukee County, Michigan

Sheriff Special Forces

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 557,959	\$ 557,959	\$ 568,062	\$ 10,103
Intergovernmental - Federal/State	5,000	5,000	38,798	33,798
Interest	9,000	9,000	19,910	10,910
Other	-	-	1,564	1,564
TOTAL REVENUES	571,959	571,959	628,334	56,375
EXPENDITURES				
Current				
Public safety	548,770	548,770	508,008	40,762
Capital outlay	60,000	60,000	71,938	(11,938)
TOTAL EXPENDITURES	608,770	608,770	579,946	28,824
NET CHANGE IN FUND BALANCE	(36,811)	(36,811)	48,388	27,551
Fund balance, beginning of year	310,122	310,122	310,122	-0-
Fund balance, end of year	\$ 273,311	\$ 273,311	\$ 358,510	\$ 27,551

Missaukee County, Michigan

Emergency Services

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 223,174	\$ 227,500	\$ 227,363	\$ (137)
Charges for services	300,000	300,000	141,732	(158,268)
Interest	6,000	18,524	18,305	(219)
Other	1,250	6,500	6,340	(160)
TOTAL REVENUES	530,424	552,524	393,740	(158,784)
EXPENDITURES				
Current				
Health and welfare	546,552	568,652	497,769	70,883
Capital outlay	-	16,128	81,154	(65,026)
TOTAL EXPENDITURES	546,552	584,780	578,923	5,857
NET CHANGE IN FUND BALANCE	(16,128)	(32,256)	(185,183)	(152,927)
Fund balance, beginning of year	553,993	553,993	553,993	-0-
Fund balance, end of year	<u>\$ 537,865</u>	<u>\$ 521,737</u>	<u>\$ 368,810</u>	<u>\$ (152,927)</u>

Missaukee County, Michigan

TNT Forfeiture

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 259,000	\$ 284,000	\$ 348,637	\$ 64,637
Interest	11,000	15,000	17,188	2,188
Other revenue	61,950	32,925	35,506	2,581
TOTAL REVENUES	331,950	331,925	401,331	69,406
EXPENDITURES				
Current				
Public safety	331,950	331,925	195,439	136,486
EXCESS OF REVENUES OVER EXPENDITURES	-0-	-0-	205,892	205,892
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	30,639	30,639
Transfers out	-	-	(22,667)	(22,667)
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	7,972	7,972
NET CHANGE IN FUND BALANCE	-0-	-0-	213,864	213,864
Fund balance, beginning of year	295,036	295,036	295,036	-0-
Prior period adjustment	-	-	(20,000)	(20,000)
Fund balance, end of year	\$ 295,036	\$ 295,036	\$ 488,900	\$ 193,864

Missaukee County, Michigan

Revenue Sharing Reserve

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ 15,000	\$ 15,000	\$ 21,074	\$ 6,074
EXPENDITURES				
Current				
General government	-	-	173	(173)
EXCESS OF REVENUES OVER EXPENDITURES	15,000	15,000	20,901	5,901
OTHER FINANCING SOURCES (USES)				
Transfers in	236,000	236,000	-	(236,000)
Transfers out	(251,000)	(251,000)	(259,148)	(8,148)
TOTAL OTHER FINANCING SOURCES (USES)	(15,000)	(15,000)	(259,148)	(244,148)
NET CHANGE IN FUND BALANCE	-0-	-0-	(238,247)	(238,247)
Fund balance, beginning of year	1,404,980	1,404,980	1,404,980	-0-
Fund balance, end of year	\$ 1,404,980	\$ 1,404,980	\$ 1,166,733	\$ (238,247)

Missaukee County, Michigan

Housing

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernment - Federal/State	\$ -	\$ -	\$ 122,556	\$ 122,556
Other	10,000	10,000	63,686	53,686
TOTAL REVENUES	10,000	10,000	186,242	176,242
EXPENDITURES				
Current				
Community and economic development	10,000	10,000	119,816	(109,816)
NET CHANGE IN FUND BALANCE	-0-	-0-	66,426	286,058
Fund balance, beginning of year	10,558	10,558	10,558	-0-
Fund balance, end of year	\$ 10,558	\$ 10,558	\$ 76,984	\$ 286,058

OTHER SUPPLEMENTARY INFORMATION

Missaukee County, Michigan
 Nonmajor Governmental Funds
 COMBINING BALANCE SHEET
 December 31, 2007

	Special		
	County Park	Friend of the Court	Lake City Officer
ASSETS			
Cash	\$ 190,899	\$ 3,393	\$ 141
Receivables			
Accounts	-	-	-
Special assessments	-	-	-
Due from governmental units - Federal/State	-	72	-
TOTAL ASSETS	\$ 190,899	\$ 3,465	\$ 141
LIABILITIES AND FUND BALANCES (DEFICIT)			
LIABILITIES			
Accounts payable	\$ 1,143	\$ -	\$ -
Accrued liabilities	905	-	-
Advance from other funds	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	2,048	-0-	-0-
FUND BALANCES (DEFICIT)			
Unreserved			
Designated for:			
Capital projects	-	-	-
Undesignated, reported in:			
Special revenue funds	188,851	3,465	141
Capital projects funds	-	-	-
TOTAL FUND BALANCES (DEFICIT)	188,851	3,465	141
TOTAL LIABILITIES AND FUND BALANCES	\$ 190,899	\$ 3,465	\$ 141

Revenue				
School Resource Officer	Public Improvement	Jail Expansion	Trial Court Improvement	County Building Department
\$ -	\$ -	\$ 1,882	\$ 39,213	\$ 18,332
-	-	20,752	-	-
-	-	-	-	-
-	-	630	-	-
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 23,264</u>	<u>\$ 39,213</u>	<u>\$ 18,332</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	1,554
-	-	-	-	-
-	-	-	-	-
-0-	-0-	-0-	-0-	1,554
-	-	-	-	-
-	-	23,264	39,213	16,778
-	-	-	-	-
<u>-0-</u>	<u>-0-</u>	<u>23,264</u>	<u>39,213</u>	<u>16,778</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 23,264</u>	<u>\$ 39,213</u>	<u>\$ 18,332</u>

Missaukee County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2007

	Homestead Audit	Special Register of Deeds Automation	Enhanced 911 Wireless
ASSETS			
Cash	\$ 176	\$ 3,582	\$ 380,383
Receivables			
Accounts	-	-	-
Special assessments	-	-	-
Due from governmental units - Federal/State	-	-	24,604
TOTAL ASSETS	\$ 176	\$ 3,582	\$ 404,987
LIABILITIES AND FUND BALANCES (DEFICIT)			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 2,778
Accrued liabilities	-	-	-
Advance from other funds	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	-0-	-0-	2,778
FUND BALANCES (DEFICIT)			
Unreserved			
Designated for:			
Capital projects	-	-	-
Undesignated, reported in:			
Special revenue funds	176	3,582	402,209
Capital projects funds	-	-	-
TOTAL FUND BALANCES (DEFICIT)	176	3,582	402,209
TOTAL LIABILITIES AND FUND BALANCES	\$ 176	\$ 3,582	\$ 404,987

Revenue				
Public Safety	DARE Community Grant	Equipment Grant	2007-2008 TNT	2006-2007 TNT
\$ 3,409	\$ 14,845	\$ 582	\$ (18,024)	\$ 2,667
230	-	-	-	-
-	-	-	-	-
-	-	-	54,286	-
<u>\$ 3,639</u>	<u>\$ 14,845</u>	<u>\$ 582</u>	<u>\$ 36,262</u>	<u>\$ 2,667</u>
\$ 598	\$ -	\$ -	\$ 30,319	\$ 2,667
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
598	-0-	-0-	30,319	2,667
-	-	-	-	-
3,041	14,845	582	5,943	-
-	-	-	-	-
<u>3,041</u>	<u>14,845</u>	<u>582</u>	<u>5,943</u>	<u>-0-</u>
<u>\$ 3,639</u>	<u>\$ 14,845</u>	<u>\$ 582</u>	<u>\$ 36,262</u>	<u>\$ 2,667</u>

Missaukee County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2007

	Law Library	Special Juvenile Justice - Basic Grant	Child Care
ASSETS			
Cash	\$ 1,437	\$ 3,053	\$ 62,394
Receivables			
Accounts	-	-	-
Special assessments	-	-	-
Due from governmental units - Federal/State	-	1,488	2,720
TOTAL ASSETS	\$ 1,437	\$ 4,541	\$ 65,114
LIABILITIES AND FUND BALANCES (DEFICIT)			
LIABILITIES			
Accounts payable	\$ -	\$ 2,040	\$ 16,009
Accrued liabilities	-	-	-
Advance from other funds	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	-0-	2,040	16,009
FUND BALANCES (DEFICIT)			
Unreserved			
Designated for:			
Capital projects	-	-	-
Undesignated, reported in:			
Special revenue funds	1,437	2,501	49,105
Capital projects funds	-	-	-
TOTAL FUND BALANCES (DEFICIT)	1,437	2,501	49,105
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,437	\$ 4,541	\$ 65,114

Revenue				
Veterans' Trust	Oil & Gas	Local Emergency Planning	Lake Level	Missaukee Lake Authority
\$ 287	\$ -	\$ 4,330	\$ 58,847	\$ 68,182
-	-	-	-	-
-	-	-	-	103,208
-	-	750	-	-
<u>\$ 287</u>	<u>\$ -0-</u>	<u>\$ 5,080</u>	<u>\$ 58,847</u>	<u>\$ 171,390</u>
\$ -	\$ -	\$ -	\$ -	\$ 22,587
-	-	-	-	-
-	-	-	-	-
-	-	-	-	117,418
-0-	-0-	-0-	-0-	140,005
-	-	-	-	-
287	-	5,080	58,847	31,385
-	-	-	-	-
<u>287</u>	<u>-0-</u>	<u>5,080</u>	<u>58,847</u>	<u>31,385</u>
<u>\$ 287</u>	<u>\$ -0-</u>	<u>\$ 5,080</u>	<u>\$ 58,847</u>	<u>\$ 171,390</u>

Missaukee County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2007

	Capital Projects		Total Nonmajor Governmental Funds
	Courthouse Expansion	Capital Reserve	
ASSETS			
Cash	\$ 24,067	\$ -	\$ 864,077
Receivables			
Accounts	-	-	20,982
Special assessments	-	-	103,208
Due from governmental units - Federal/State	-	-	84,550
TOTAL ASSETS	\$ 24,067	\$ -0-	\$ 1,072,817
LIABILITIES AND FUND BALANCES (DEFICIT)			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 78,141
Accrued liabilities	-	-	2,459
Advance from other funds	-	132,000	132,000
Deferred revenue	-	-	117,418
TOTAL LIABILITIES	-0-	132,000	330,018
FUND BALANCES (DEFICIT)			
Unreserved			
Designated for:			
Capital projects	24,067	-	24,067
Undesignated, reported in:			
Special revenue funds	-	-	850,732
Capital projects funds	-	(132,000)	(132,000)
TOTAL FUND BALANCES (DEFICIT)	24,067	(132,000)	742,799
TOTAL LIABILITIES AND FUND BALANCES	\$ 24,067	\$ -0-	\$ 1,072,817

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Missaukee County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended December 31, 2007

	Special		
	County Park	Friend of the Court	Lake City Officer
REVENUES			
Intergovernmental			
Federal/State	\$ -	\$ -	\$ -
Local	-	1,591	-
Charges for services	289,295	4,310	-
Fines and forfeitures	-	-	-
Interest and rents	6,495	-	-
Other			
Special assessments	-	-	-
Other	-	-	-
TOTAL REVENUES	295,790	5,901	-0-
EXPENDITURES			
Current			
General government	-	4,310	-
Public safety	-	-	-
Public works	-	-	-
Health and welfare	-	-	-
Recreation and cultural	186,194	-	-
Capital outlay	54,108	-	-
TOTAL EXPENDITURES	240,302	4,310	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	55,488	1,591	-0-
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	-0-
NET CHANGE IN FUND BALANCES	55,488	1,591	-0-
Fund balances (deficit), beginning of year	133,363	1,874	141
Fund balances (deficit), end of year	<u>\$ 188,851</u>	<u>\$ 3,465</u>	<u>\$ 141</u>

Revenue				
School Resource Officer	Public Improvement	Jail Expansion	Trial Court Improvement	County Building Department
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	185,956	12,090	146,811
-	-	-	-	-
-	20	778	305	1,047
-	-	-	-	-
-	-	-	-	-
-0-	20	186,734	12,395	147,858
-	81	-	15	-
166	-	17,755	-	141,530
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
166	81	17,755	15	141,530
(166)	(61)	168,979	12,380	6,328
-	-	-	-	-
-	(582)	(148,000)	-	-
-0-	(582)	(148,000)	-0-	-0-
(166)	(643)	20,979	12,380	6,328
166	643	2,285	26,833	10,450
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 23,264</u>	<u>\$ 39,213</u>	<u>\$ 16,778</u>

Missaukee County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2007

	Homestead Audit	Special Register of Deeds Automation	Enhanced 911 Wireless
REVENUES			
Intergovernmental			
Federal/State	\$ -	\$ -	\$ 108,679
Local	-	-	-
Charges for services	-	23,250	-
Fines and forfeitures	-	-	-
Interest and rents	-	512	13,294
Other			
Special assessments	-	-	-
Other	-	-	-
TOTAL REVENUES	-0-	23,762	121,973
EXPENDITURES			
Current			
General government	305	26,474	-
Public safety	-	-	20,330
Public works	-	-	-
Health and welfare	-	-	-
Recreation and cultural	-	-	-
Capital outlay	-	-	-
TOTAL EXPENDITURES	305	26,474	20,330
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(305)	(2,712)	101,643
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	(5,018)	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	(5,018)	-0-
NET CHANGE IN FUND BALANCES	(305)	(7,730)	101,643
Fund balances (deficit), beginning of year	481	11,312	300,566
Fund balances (deficit), end of year	<u>\$ 176</u>	<u>\$ 3,582</u>	<u>\$ 402,209</u>

Revenue				
Public Safety	DARE Community Grant	Equipment Grant	2007-2008 TNT	2006-2007 TNT
\$ -	\$ -	\$ -	\$ 54,286	\$ 222,730
-	-	-	-	-
3,185	-	-	-	-
-	736	-	-	-
-	-	-	-	-
-	986	6	-	-
3,185	1,722	6	54,286	222,730
-	-	-	-	-
2,036	3,088	-	77,697	219,932
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
2,036	3,088	-0-	77,697	219,932
1,149	(1,366)	6	(23,411)	2,798
-	-	-	29,354	27,841
-	-	-	-	(30,639)
-0-	-0-	-0-	29,354	(2,798)
1,149	(1,366)	6	5,943	-0-
1,892	16,211	576	-	-
\$ 3,041	\$ 14,845	\$ 582	\$ 5,943	\$ -0-

Missaukee County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2007

	Law Library	Special Juvenile Justice - Basic Grant	Child Care
REVENUES			
Intergovernmental			
Federal/State	\$ -	\$ 12,970	\$ 14,968
Local	-	-	143,402
Charges for services	313	-	105
Fines and forfeitures	2,500	-	-
Interest and rents	-	-	-
Other			
Special assessments	-	-	-
Other	-	-	-
TOTAL REVENUES	2,813	12,970	158,475
EXPENDITURES			
Current			
General government	5,498	-	-
Public safety	-	12,636	-
Public works	-	-	-
Health and welfare	-	-	522,124
Recreation and cultural	-	-	-
Capital outlay	-	-	-
TOTAL EXPENDITURES	5,498	12,636	522,124
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,685)	334	(363,649)
OTHER FINANCING SOURCES (USES)			
Transfers in	4,000	-	385,000
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	4,000	-0-	385,000
NET CHANGE IN FUND BALANCES	1,315	334	21,351
Fund balances (deficit), beginning of year	122	2,167	27,754
Fund balances (deficit), end of year	<u>\$ 1,437</u>	<u>\$ 2,501</u>	<u>\$ 49,105</u>

Revenue				
Veterans' Trust	Oil & Gas	Local Emergency Planning	Lake Level	Missaukee Lake Authority
\$ 1,680	\$ -	\$ 750	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	2,254	1,270
-	-	-	-	89,170
-	-	-	-	-
<u>1,680</u>	<u>-0-</u>	<u>750</u>	<u>2,254</u>	<u>90,440</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	2,903	67,144
1,825	-	116	-	-
-	-	-	-	-
-	-	-	-	-
<u>1,825</u>	<u>-0-</u>	<u>116</u>	<u>2,903</u>	<u>67,144</u>
(145)	-0-	634	(649)	23,296
-	-	-	-	-
-	(16,010)	-	-	-
<u>-0-</u>	<u>(16,010)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
(145)	(16,010)	634	(649)	23,296
432	16,010	4,446	59,496	8,089
<u>\$ 287</u>	<u>\$ -0-</u>	<u>\$ 5,080</u>	<u>\$ 58,847</u>	<u>\$ 31,385</u>

Missaukee County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2007

	<u>Capital Projects</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Courthouse Expansion</u>	<u>Capital Reserve</u>	
REVENUES			
Intergovernmental			
Federal/State	\$ -	\$ -	\$ 416,063
Local	-	-	144,993
Charges for services	-	-	665,315
Fines and forfeitures	-	-	2,500
Interest and rents	1,105	-	27,816
Other			
Special assessments	-	-	89,170
Other	-	-	992
TOTAL REVENUES	1,105	-0-	1,346,849
EXPENDITURES			
Current			
General government	105	-	36,788
Public safety	-	-	495,170
Public works	-	-	70,047
Health and welfare	-	-	524,065
Recreation and cultural	-	-	186,194
Capital outlay	35,166	-	89,274
TOTAL EXPENDITURES	35,271	-0-	1,401,538
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(34,166)	-0-	(54,689)
OTHER FINANCING SOURCES (USES)			
Transfers in	16,591	148,000	610,786
Transfers out	-	-	(200,249)
TOTAL OTHER FINANCING SOURCES (USES)	16,591	148,000	410,537
NET CHANGE IN FUND BALANCES	(17,575)	148,000	355,848
Fund balances (deficit), beginning of year	41,642	(280,000)	386,951
Fund balances (deficit), end of year	<u>\$ 24,067</u>	<u>\$ (132,000)</u>	<u>\$ 742,799</u>

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Missaukee County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF NET ASSETS

Year Ended December 31, 2007

	McBain Sanitary Sewer	2003 Tax Levy	2004 Tax Levy
ASSETS			
Current assets			
Cash	\$ -	\$ -	\$ 876
Receivables			
Taxes	-	-	497
Interest	-	-	254
Due from other governments			
Local	<u>42,525</u>	<u>-</u>	<u>1,194</u>
Total current assets	42,525	-0-	2,821
Noncurrent assets			
Advance to other funds	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	42,525	-0-	2,821
LIABILITIES			
Current liabilities			
Accrued interest	525	-	-
Current portion of long-term debt	<u>12,000</u>	<u>-</u>	<u>-</u>
Total current liabilities	12,525	-0-	-0-
Noncurrent liabilities			
Noncurrent portion of long-term debt	<u>30,000</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>42,525</u>	<u>-0-</u>	<u>-0-</u>
NET ASSETS			
Unrestricted	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,821</u>

<u>2005 Tax Levy</u>	<u>Tax Reversion</u>	<u>Tax Reserve</u>	<u>Total</u>
\$ 3,357	\$ 65,988	\$ 64,488	\$ 134,709
42,490	-	-	42,987
14,019	-	-	14,273
<u>1,246</u>	<u>-</u>	<u>-</u>	<u>44,965</u>
61,112	65,988	64,488	236,934
<u>-</u>	<u>-</u>	<u>132,000</u>	<u>132,000</u>
61,112	65,988	196,488	368,934
<u>-</u>	<u>-</u>	<u>-</u>	<u>525</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>12,000</u>
-0-	-0-	-0-	12,525
<u>-</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>42,525</u>
<u>\$ 61,112</u>	<u>\$ 65,988</u>	<u>\$ 196,488</u>	<u>\$ 326,409</u>

Missaukee County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS

Year Ended December 31, 2007

	McBain Sanitary Sewer	2003 Tax Levy	2004 Tax Levy
OPERATING REVENUES			
Intergovernmental - Local	\$ 2,237	\$ -	\$ -
Charges for services	-	1	11,976
Other	-	15	567
TOTAL OPERATING REVENUES	2,237	16	12,543
OPERATING EXPENSES			
Other	-	-	8,872
OPERATING INCOME (LOSS)	2,237	16	3,671
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	-	-	800
Interest expense	(2,237)	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(2,237)	-	800
INCOME BEFORE TRANSFERS	-0-	16	4,471
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	2,006
Transfers out	-	(60,801)	(76,819)
TOTAL OTHER FINANCING SOURCES (USES)	-0-	(60,801)	(74,813)
CHANGE IN NET ASSETS	-0-	(60,785)	(70,342)
Net assets, beginning of year	-	60,785	73,163
Net assets, end of year	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,821</u>

2005 Tax Levy	Tax Reversion	Tax Reserve	Total
\$ -	\$ -	\$ -	\$ 2,237
13,966	38,426	-	64,369
-	7,313	-	7,895
13,966	45,739	-0-	74,501
9,653	14,491	76	33,092
4,313	31,248	(76)	41,409
27,864	740	59,441	88,845
-	-	-	(2,237)
27,864	740	59,441	86,608
32,177	31,988	59,365	128,017
-	-	107,129	109,135
(53,193)	(7,589)	(276,256)	(474,658)
(53,193)	(7,589)	(169,127)	(365,523)
(21,016)	24,399	(109,762)	(237,506)
82,128	41,589	306,250	563,915
\$ 61,112	\$ 65,988	\$ 196,488	\$ 326,409

Missaukee County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended December 31, 2007

	McBain Sanitary Sewer	2003 Tax Levy	2004 Tax Levy
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 13,375	\$ 133	\$ 41,405
Cash received/paid for interfunds	-	(1,037,415)	(440,446)
Cash paid to suppliers	(138)	-	(8,872)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	13,237	(1,037,282)	(407,913)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES			
Principal paid on debt	(11,000)	-	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	-	-	2,006
Transfers out	-	(60,801)	(76,819)
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	-0-	(60,801)	(74,813)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	-	-	800
Interest expense	(2,237)	-	-
NET CASH FLOWS FROM INVESTING ACTIVITIES	(2,237)	-	800
NET INCREASE (DECREASE) IN CASH	-0-	(1,098,083)	(481,926)
Cash, beginning of year	-	1,098,083	482,802
Cash, end of year	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 876</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 2,237	\$ 16	\$ 3,671
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Decrease in receivables	-	117	28,862
Decrease in due from other governments	11,138	941	328
Decrease in due from other funds	-	-	880,000
(Increase) in advance to other funds	-	-	-
(Decrease) in accrued interest payable	(138)	-	-
(Decrease) in due to other funds	-	(1,038,356)	(1,320,774)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 13,237</u>	<u>\$ (1,037,282)</u>	<u>\$ (407,913)</u>

2005 Tax Levy	Tax Reversion	Tax Reserve	Total
\$ 389,992	\$ 45,739	\$ -	\$ 490,644
(875,149)	-	148,000	(2,205,010)
<u>(9,653)</u>	<u>(14,491)</u>	<u>(76)</u>	<u>(33,230)</u>
(494,810)	31,248	147,924	(1,747,596)
-	-	-	(11,000)
-	-	107,129	109,135
<u>(53,193)</u>	<u>(7,589)</u>	<u>(276,256)</u>	<u>(474,658)</u>
(53,193)	(7,589)	(169,127)	(365,523)
27,864	740	59,441	88,845
<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,237)</u>
27,864	740	59,441	86,608
(520,139)	24,399	38,238	(2,037,511)
523,496	41,589	26,250	2,172,220
<u>\$ 3,357</u>	<u>\$ 65,988</u>	<u>\$ 64,488</u>	<u>\$ 134,709</u>
\$ 4,313	\$ 31,248	\$ (76)	\$ 41,409
376,026	-	-	405,005
4,851	-	-	17,258
-	-	280,000	1,160,000
-	-	(132,000)	(132,000)
-	-	-	(138)
<u>(880,000)</u>	<u>-</u>	<u>-</u>	<u>(3,239,130)</u>
<u>\$ (494,810)</u>	<u>\$ 31,248</u>	<u>\$ 147,924</u>	<u>\$ (1,747,596)</u>

Missaukee County, Michigan

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

December 31, 2007

	Agency		
	Trust and Agency	Northern MI Mutual Aid Force	Reeder Township Tax Collection
ASSETS			
Cash	\$ 34,321	\$ 5,779	\$ 994
Accounts receivable	46	-	-
TOTAL ASSETS	\$ 34,367	\$ 5,779	\$ 994
LIABILITIES			
Undistributed collections payable	\$ 34,367	\$ 1,114	\$ -
Due to other governmental units - local	-	-	994
Due to others	-	4,665	-
TOTAL LIABILITIES	\$ 34,367	\$ 5,779	\$ 994

	Funds			
Library Penal	District Court Trust	Sheriff Inmate Trust	Total	
\$ 33,616	\$ 6,788	\$ 5,671	\$ 87,169	
-	-	-		46
<u>\$ 33,616</u>	<u>\$ 6,788</u>	<u>\$ 5,671</u>	<u>\$ 87,215</u>	
\$ 33,616	\$ 6,788	\$ 5,671	\$ 81,556	
-	-	-		994
-	-	-		4,665
<u>\$ 33,616</u>	<u>\$ 6,788</u>	<u>\$ 5,671</u>	<u>\$ 87,215</u>	

Missaukee County, Michigan

Component Unit Fund

BALANCE SHEET - COMMISSION ON AGING

December 31, 2007

	<u>Special Revenue</u>
ASSETS	
Cash	\$ 79,002
Due from other governmental units - Federal/State	20,258
Taxes receivable	<u>213,338</u>
TOTAL ASSETS	<u>\$ 312,598</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accrued liabilities	\$ 2,573
Deferred revenue	<u>249,693</u>
TOTAL LIABILITIES	252,266
FUND BALANCE	
Unreserved, undesignated	<u>60,332</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 312,598</u>

Note: Reconciliation of the component unit governmental fund balance sheet to the statement of net assets for this component unit is not required as the component unit's fund balance was equal to the component unit's net assets as of December 31, 2007.

Missaukee County, Michigan

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - COMMISSION ON AGING

Year Ended December 31, 2007

	<u>Special Revenue</u>
REVENUES	
Taxes	\$ 231,043
Intergovernmental - Federal/State	223,122
Charges for services	38,022
Interest	3,510
Other	<u>2,056</u>
	497,753
EXPENDITURES	
Health and welfare	<u>467,278</u>
CHANGE IN FUND BALANCE	30,475
Fund balance, beginning of year	<u>29,857</u>
Fund balance, end of year	<u><u>\$ 60,332</u></u>

Note: Reconciliation of the statement of revenues, expenditures, and changes in fund balance of this component unit's governmental fund to the statement of activities for the component unit is not required as the net change in fund balance of the component unit's governmental fund was equal to the change in net assets of the component unit for the year ended December 31, 2007.

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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 Commissioners
Missaukee County
Lake City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Missaukee County, Michigan as of and for the year ended December 31, 2007, which collectively comprise the Missaukee County basic financial statements and have issued our report thereon dated July 17, 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 Missaukee County'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 the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County'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 the County'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 County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

2007-1 PREPARATION OF FINANCIAL STATEMENTS

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with generally accepted accounting principles (GAAP) is based, in part, on its reliance on its external auditors, who cannot, by definition, be considered a part of the government's internal controls. This comment was noted and reported in last year's audit.

2007-1 PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

Criteria: All Michigan governments are required to prepare financial statements in accordance with GAAP. This is a responsibility of the government's management. The preparation of financial statement in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation: Statement on Auditing Standards No. 112 titled "*Communicating Internal Control Related Matters Identified in an Audit*", requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. We are communicating these circumstances as required by professional standards; however, we do not see a need for any changes in the situation at this time.

Corrective Action Response: We will continue status quo at the current time, due to staffing levels and the financial hardship it would be to the County to hire out this requirement to a CPA firm.

2007-2 WRITTEN PROCEDURES AND POLICIES

Condition: During the course of our audit, we noted that the Board has not formally adopted written procedures and policies for the following areas: an accounting policy and procedures manual, a capital assets policy, and a fraud risk management policy.

Criteria: Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations.

Cause: The County has not evaluated and prepared necessary policies and procedures.

Effect: Accounting is an essential function of the County. The County may have greater risk to this function being performed improperly if the related policies and procedures are not documented. Capital assets represent a substantial amount of the County's net assets. These resources are necessary for the delivery of the County's services and programs. The County may have greater risk with these assets if a capital asset policy is not adopted. Also, due to the County not developing a fraud risk assessment and monitoring program it is unable to assess the County's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of financial statements.

Recommendation: We recommend that the County adopt and implement an accounting procedures manual which will describe and explain accounting duties in the event that a person is absent someone else could utilize this manual to perform their duties. We also recommend adoption of a capital asset policy which would define a capitalization threshold and methods for acquiring and disposing of capital assets. We further recommend the County develop and adopt a fraud risk management policy which would include policies and procedures on ways for management to prevent, detect and deter fraudulent activities.

Corrective Action Response: The County does not currently have a fraud risk management policy or an asset capitalization policy, but we will be working on implementing them before year end after the finance review process. We will also be compiling a book of County accounting worksheets and instructions that are currently in both the Clerk's Office and the Treasurer's office and providing copies to the auditors and other necessary personnel.

2007-3 SEGREGATION OF DUTIES

Condition: During our consideration and assessment of fraud risk, we noted that the County may not have sufficient segregation of duties in its accounting structure in certain areas. Specifically, we noted instances with the payroll process and the EMS billing process. We noted the payroll process is completed by an individual who enters new employees into the computerized payroll system, has the ability to change pay rates and withholdings, prepares the checks, and distributes the checks. Additionally, the paychecks are signed by means of a signature stamp. The person who stamps the signatures on the checks is not one of the authorized check signers. We noted the EMS billing process is completed by an individual who does the billing, sends the bills, collects the billings, and enters the data into their subsidiary ledger without any management oversight.

Criteria: Duties should be separated so that no one person is able to control all aspects of a transaction cycle. While this is a common occurrence in smaller organizations due to the limited number of employees, the County should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

Cause: Due to the County's size they have not segregated duties adequately in certain areas.

Effect: The County is susceptible to fraudulent transactions in an accounting cycle where the duties are not appropriately segregated.

Recommendation: We recommend that the County review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the County provide a greater review and supervision of employee functions and procedures. We also recommend that in the future when the County is adopting new or modifying existing financial policies they consider the issue of fraud, and assure that the policy discusses ways that will prevent, deter, and detect fraud within the area the policy is addressing.

Corrective Action Response: The payroll process is currently run by one person and approved by the County Clerk who monitors it on the computer. As a safeguard - a third employee will be responsible for adding new people to the payroll roster and the County Clerk in addition to monitoring it on the computer, will sign the summary sheets produced at the end of each payroll cycle.

With regard to the County Treasurer's deputy encoding the checks: If checks were encoded by only the signers - this would necessitate the County Clerk and Treasurer be in charge of encoding on a daily basis which is not functional. The Treasurer currently is responsible to encode disbursements and she has safeguards in place to balance the checks both daily and monthly.

With regard to the EMS receipt's monitoring: The County Sheriff is currently the Administrator of the EMS program and monitors the daily, weekly, and monthly receipts and disbursements. He is also the only one who can write-off an ambulance bill. He will sign the monthly EMS receipting reports in the future and assign one employee to input ambulance runs and their resulting bills, and have another employee receipt in checks other than the billing clerk. He will also sign all write-offs and maintain them according to their retention schedule.

2007-4 TIMESHEET APPROVAL

Condition: During our testing of the payroll process, we noted that two (2) timesheets out of the twenty-five (25) timesheets selected for testing had not been approved by the appropriate individual at a supervisory level.

Criteria: The County's policy indicates that all timesheets have to be approved prior to payment.

Cause: The applicable departments failed to obtain proper supervisory approval prior to submission for processing.

Effect: The County did not comply with its payroll policy in these instances.

Recommendation: We recommend that all timesheets be formally approved prior to payment.

Corrective Action Response: The County has evaluated this and is implementing procedures to prevent this type of situation from occurring in the future.

2007-5 CASH RECEIPTING PROCEDURES

Condition: During our review of cash receipting procedures in the various departments, we noted the following:

- Clerk's office - The cash drawer is not kept locked during the day. The drawer also is not counted or balanced daily and the weekly transmittal to the Treasurer's office is being reviewed or approved by a supervisor.
- Register of Deeds - The cash drawer is locked, however, the key is in plain sight. The drawer also is not counted or balanced daily and the weekly transmittal to the Treasurer's office is being reviewed or approved by a supervisor but that review is not being documented. Also, it was noted that everyone in the office is able to receipt money into the Eagle receipting system without logging in with a password.
- Treasurer's office - The cash drawer is locked, however, the key is left in plain sight. Also, the daily receipting from the manual receipt books into the computerized system is being reviewed or approved by a supervisor, but this review is not being documented.
- District Court - The cash receipts are kept in an unlocked box which is stored on an employee's desk prior to transmittal to the Treasurer's office.
- Commission on Aging - Three (3) instances out of sixty (60) were noted where supporting documentation could not be provided for receipts and deposits. Also, it was noted that receipts are not always written for all collections and when receipts are written there is not a reconciliation between receipts written and the money transmitted to the Treasurer's office.
- Sheriff's department - The cash drawer is not kept locked during the day. Also, it was indicated that the transmittal to the Treasurer's office is prepared and funds are deposited with the Treasurer's office only approximately on a monthly basis.

Criteria: Procedures should be in place related to the cash receipts processes within all departments to assure adequate controls are in place to prevent, deter, or detect fraud and material misstatements.

Cause: The County does not currently have procedures in place to assure internal controls are operating appropriately.

Effect: Cash receipts are more susceptible to fraud or misstatement in the absence of strong internal controls.

Recommendation: We recommend the County evaluate all aspects of the receipts process within the departments that collect funds and determine if adequate systems are in place. These internal control systems should be adequate to prevent, deter, or detect fraud; prevent material misstatements; and safeguard County assets.

Corrective Action Response: The Missaukee County Clerk-Register's office will continue to keep their money in its current location and already have the following safeguards in place: The County Clerk's system (JIS Software) denotes who is receipting in money. The Register of Deeds Eagle software has the initials of the person doing the receipt on the reports next to the check number. The money is never left unattended and is locked in the vault every evening. Transmittals will continue weekly and the cash in each system will be monitored on an every other day basis.

The Treasurer's cash drawer key is left in the locked drawer in plain sight of all the employees. If for any reason the drawer would need to be left unattended, the key is removed and in the care of that employee as well as the doors to the office being locked. All money is put in the vault after hours. On the manual receipts, the Treasurer's initials are not currently inscribed; the receipts are computerized and monitored daily and balanced monthly. Part of our new procedure will have authorized signers mandated.

The District Court Clerk currently maintains the money box in her drawer and brings it to the Treasurer's vault in the evening. She will keep that box in a locked drawer and continue storing it in the vault at night.

The Commission on Aging will monitor and make sure that all receipts and disbursements are notated in the future.

The Missaukee County Sheriff will be maintaining their cash receipts in a locked area beginning immediately and will be transmitting funds on a bi-monthly basis beginning with the month of August 2008.

2007-6 CASH DISBURSEMENT PROCEDURES

Condition: During our analysis of the cash disbursement process and discussions with management, we noted the following issues:

- All thirty-eight (38) disbursements tested that were expenditures recorded in the TNT Funds were missing the approval of a County Commissioner.
- Disbursements for various conference and travel expenditures that were reimbursed to County employees were reimbursed without the employee providing the Clerk's office with supporting documentation or receipts for the expenditures.
- There were expenditures of County funds for the purchase of gifts for employees for various reasons and purchases of food and meals for employee meetings.

Criteria: County policy requires and strong internal control practices dictate that all disbursements should be approved by the appropriate level of supervision and that all disbursements should be supported by adequate, detailed documentation. Also, guidance concerning lawful expenditures is given by the Michigan Department of Treasury in a document called "Determining Lawful Expenditures" that is available on their website. Specifically disallowed are expenditures for meals (with some exceptions) and employee recognition.

Cause: Procedures are not currently in place which provide the appropriate level of internal control to prevent the above noted instances from occurring.

Effect: The disbursements noted were not appropriately authorized, supported and/or allowable.

Recommendation: We recommend the County evaluate procedures related to disbursements to assure all disbursements are approved, fully supported with detailed documentation and lawful prior to disbursing of funds.

Corrective Action Response: The Traverse Narcotics Executive Board has reviewed this recommendation and recommended at their June 2008 meeting that the Chairman of TNT be authorized to approve and sign all invoices that are currently signed only by Lt Kip Belcher for payment. This method would have more internal control over expenditures than having a County Commissioner approve vouchers for payment due to the fact that the County Commissioner would have no knowledge of proper and allowable expenses incurred by a drug team.

The other disbursements mentioned (travel vouchers not present, employee meals, etc) have already been instituted. The only meals that are currently purchased are during times of emergency personnel and are not just for employees but everyone from the public (usually pizza and pop). The other food purchased is for long budget meetings and everyone from the public is offered a sandwich and they happily take one. These are public meetings and have always been. The County Clerk provides all other baked goods and beverages at her own personal expense for all county board meeting, committee meetings, public hearings, and trainings.

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

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. We consider the deficiencies described below to be material weaknesses in internal control over financial reporting.

2007-7 RESTATEMENT OF NET ASSETS/PRIOR PERIOD ADJUSTMENT

Condition: During the course of our audit, it was noted that previously issued financial statements were materially misstated. A restatement of beginning net assets at the government-wide level and a prior period adjustment to correct fund balance at the fund level was recorded to reflect the correction of misstated receivables.

Criteria: This error was not detected by the County's internal control over financial reporting in the prior year and as a result there was a material misstatement in the December 31, 2006 financial statements.

Cause: Material misstatements were not noted by Management in the previously issued financial statements.

2007-7 RESTATEMENT OF NET ASSETS/PRIOR PERIOD ADJUSTMENT - CONTINUED

Effect: Since this error was not detected by the County's internal control over financial reporting in the prior year, the County's internal controls did not effectively allow management to detect material misstatements in the County's financial statements in a timely manner.

Recommendation: We recommend that the County review procedures related to the review of financial reporting and take steps to ensure that similar issues do not occur in the future.

Corrective Action Response: After reviewing this with the auditors during our exit audit - the County will review all financial procedures, put our policies and instructions in a common book and continue to monitor these procedures as time goes by.

2007-8 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries for the proper recognition of various items throughout the general ledger were proposed by the auditors. These misstatements were not detected by the County's internal control over financial reporting. These entries included audit adjustments of various accruals that were recorded as estimates in early January to close the year when actual amounts were not known. These entries were brought to the attention of management and were subsequently recorded in the County's general ledger. This comment was noted and reported in last year's audit.

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (where applicable), including the notes to the financial statements, in conformity with U.S. generally accepted accounting principles. In addition, year-end accruals should be with actual amounts not estimates. The auditor cannot be a part of internal controls.

Cause: The County's current accounting process for closing a year and preparing for the audit does not include assuring all material journal entries are recorded for the appropriate amounts.

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the County's internal controls.

Recommendation: We recommend that the County take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: We understand this procedure and will leave our books open at the end of our fiscal year until all journal entries have been recorded with actual amounts and not estimated amounts. If receivables and payables are not known in an exact dollar amount and do not become evident before the end of January of the subsequent year, they will be booked in and out after the close of the fiscal year.

2007-9 FUND DEFICIT

Condition: During the course of our audit, it was noted that the County had one (1) fund that ended the year in a deficit financial position.

Criteria: Michigan Public Act 275 of 1980 provides that the County shall not have deficits in any of the County's unreserved fund balances/unrestricted net assets.

Cause: Budgetary controls to limit expenditures and/or transfers of funds were not made to alleviate deficits in these funds.

Effect: The County will be required to submit a deficit reduction plan to the State of Michigan for any funds for which a plan has not previously been filed.

Recommendation: We recommend that the County file a corrective action plan with the State of Michigan.

Corrective Action Response: The County Clerk will file a deficit reduction plan with the State of Michigan in regards to the Capital Reserve fund which shows a deficit due to a loan to the Sheriff Department expansion project. This debt will hopefully be almost eliminated by the end of 2008 and is currently down from \$132,000 to \$90,000.

2007-10 BANK RECONCILIATIONS

Condition: During our analysis of the County's bank accounts during preliminary test work in December 2007, we noted that bank reconciliation of the County general pooled bank account had not been completed since March 2007. The reconciliations for this account were completed by County staff during our audit fieldwork. Additionally, it was indicated that the bank reconciliations were reviewed by the Treasurer, however, that review was not indicated on the face of the reconciliation.

Criteria: All bank accounts should be reconciled to the computerized general ledger on a monthly basis. The completed reconciliations should be reviewed by an employee in a supervisory role. The reviewer should indicate approval on the face of the bank reconciliation.

Cause: Unknown

Effect: The bank reconciliations either had not been prepared or ones that were prepared for several accounts did not agree to the County's general ledger at the beginning of our audit fieldwork. Internal control is a process - affected by an entity's board of directors, management, and other personnel - designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations. The preparation of bank reconciliations is a significant part of the internal controls of the County.

Recommendation: We recommend all bank accounts be reconciled to the computerized general ledger on a monthly basis and reviewed and approved by a supervisor.

Corrective Action Response: New balancing procedures are being developed by the Treasurer to ensure a timely reconciliation of the General Ledger System to the Bank.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Finding 2007-9 is also a compliance issue.

2007-11 UNIFORM CHART OF ACCOUNTS

Condition: During our review of the County's chart of accounts, we noted that some of the County's fund numbers are not in compliance with the Michigan Department of Treasury's Uniform Chart of Accounts

Criteria: The Uniform Chart of Accounts specifies certain fund numbers for specific funds.

Cause: Unknown

Effect: The County's chart of accounts contains various funds that do not conform to the Uniform Chart of Accounts.

Recommendation: We recommend that the County take steps to change the applicable incorrectly numbered funds to comply with the Uniform Chart of Accounts as prescribed by the Michigan Department of Treasury.

Corrective Action Response: The funds that do not currently conform to the Michigan Uniform Chart of Accounts will have the cash and fund balances transferred to the new fund numbers in the 2008 cycle. The data stored in the current numbers will be retained for historical use. It is restrictive to move information from one fund to another due to the restraints of our accounting software.

2007-12 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the County's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund and two (2) Special Revenue Funds.

Criteria: The Uniform Budgeting and Accounting Act requires that the County adopt a budget for the General Fund and all Special Revenue Funds and prohibits budgeting for a deficit fund balance. It also requires the County to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Cause: The County's budget was not amended as it became apparent that expenditures would exceed the amounts appropriated for various activities of the General Fund and Special Revenue Funds.

Effect: The County adopted the budget for the General Fund at the activity level and at the total fund level for the Special Revenue Funds. Having unfavorable budget variances as described above, the County is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the County monitor expenditures against adopted budgets in all applicable funds and make appropriated budget adjustments as needed.

Corrective Action Response: After discussing our options with the auditors, it has been decided to leave a cash reserve in each department instead of adjusting it down to estimated actual amounts. This will also increase the percentage of fund balance at the end of the year. This is being done by department due to the fact the board has adopted the departmental level of budgeting instead of a line item budget.

2007-13 DIVERSIFICATION OF INVESTMENTS

Condition: During our review of the County's bank accounts, we noted that the County holds all of its deposits in checking and savings accounts at three (3) local banks. Also, as of December 31, 2007, the deposits exceeded FDIC coverage by over \$7 million.

Criteria: In accordance with Michigan Compiled Laws, the County is authorized to invest in the following investment vehicles: Bonds and other direct obligations of the United States or an agency or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146; commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase; United States government or Federal agency obligation repurchase agreements; bankers acceptances of United States banks; and mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Also, Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. 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. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Cause: Unknown

Effect: The County is potentially not earning as much interest as it could if the deposits were invested in a diverse mixture of investment vehicles. Additionally, the County has uninsured deposits in excess of \$7 million.

Recommendation: We recommend that the County evaluate the deposits and consider investing in a more diverse mixture of investment vehicles if those investments meet the standards the County has for their investments.

2007-13 DIVERSIFICATION OF INVESTMENTS - CONTINUED

Corrective Action Response: The diversification of investments is a major part of safeguarding the County's funds. Although we are fully aware of the FDIC threshold of \$100,000 of any funds held on deposit, we do not see it as a feasible solution to hold accounts at dozens of institutions. In order to safeguard the funds, we utilize the local institutions that are major banks with ratings above the required score as depositories for county funds. Fifth Third Bank is one institution used and they back our funds with a tri-party collateral agreement held by the Bank of New York Mellon. The other two institutions are Chemical and Citizens Banks who provide sweep accounts that are also fully collateralized with AAA Securities. Any certificates of deposit purchased are kept at the \$100,000 threshold to maintain the FDIC Insurance.

2007-14 SOFTWARE PACKAGES

Condition: During our review of receipting procedures at various County departments, it was noted that various County departments are using various software packages to process receipts within each department.

Criteria: To limit duplication of effort and prevent errors and potential misstatements it is commonly more efficient to have software packages that will integrate with the County's general ledger software.

Cause: Specific software packages are developed to be integrated to handle multiple departments utilizing the same software.

Effect: The County could potentially be paying more for these various packages with the software, support, and licensing than if the County had one software package for receipts. There is also efficiencies and other positive aspects that may be realized with having a common package that integrates with the general ledger.

Recommendation: We recommend that the County review its software packages to determine if there would be benefits to using one software package for receipts.

Corrective Action Response: The County will evaluate all of the various software packages to see if there would be a cost/benefit to consolidating some of them.

The County's responses to the findings identified in our audit are described above. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Commissioners of Missaukee County, others within the County, and Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 17, 2008

Missaukee County, Michigan

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

December 31, 2007

Missaukee County, Michigan

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners
of Missaukee County
Lake City, Michigan

Compliance

We have audited the compliance of Missaukee County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to the major Federal program for the year ended December 31, 2007. Missaukee County's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major Federal program is the responsibility of Missaukee County's management. Our responsibility is to express an opinion on Missaukee County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major Federal programs occurred. An audit includes examining, on a test basis, evidence about Missaukee County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Missaukee County's compliance with those requirements.

In our opinion, Missaukee County complied, in all material respects, with the requirements referred to above that are applicable to the major Federal programs for the year ending December 31, 2007.

Internal Control Over Compliance

The management of Missaukee County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Missaukee County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Missaukee County's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as identified above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregated discretely presented component units, each major fund, and the aggregate remaining fund information of Missaukee County as of and for the year ended December 31, 2007, and have issued our report thereon dated July 17, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Missaukee County's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. 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.

This report is intended solely for the information and use of the Board of Commissioners and management of Missaukee County, the pass-through grantors, and the Federal awarding agencies and is not intended to be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 17, 2008

Missaukee County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2007

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Current Year Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through Michigan State Housing Development Authority Community Development Block Grant (CDBG) Program State's Program 06-07 (Housing)	14.228	MSC20060763HOA	\$ 84,867
U.S. DEPARTMENT OF JUSTICE			
Passed through Michigan Department of Human Services BASIC Grant 2007	16.540	431	10,597
Passed through Michigan Department of Community Health ^(c) 06/07 Byrne Memorial Justice Assistance 07/08 Byrne Memorial Justice Assistance	16.738	2006-DJ-BX-0029 2007-DJ-BX-0048	222,730 <u>54,286</u>
			<u>277,016</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			287,613
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through Michigan Department of Transportation Special Services Operating Assistance Capital Grants 2007 Grant	20.513	2007-0262	1,910
ELECTION ASSISTANCE COMMISSION			
Passed through Michigan Secretary of State Help America Vote Act 2007 Grant	90.401	N/A	399
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (DHS)			
Passed through State Department of Office on Services to the Area Agency on Aging Title III-B Special Programs for the Aging 2007	93.044	N/A	6,000
Passed through Michigan Department of Human Services Child Support Enforcement (Title IV-D) Cooperative Reimbursement ^(a) Prosecuting Attorney - 07/08 Prosecuting Attorney - 06/07	93.563	CS/PA-08-57002 CS/PA-07-57002	7,108 19,687
Title IV D Incentive Payments ^(b) 2007		N/A	19,892

Missaukee County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended December 31, 2007

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantors Number</u>	<u>Current Year Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED			
Passed through Michigan Department of Human Services and Wexford County			
Child Support Enforcement (Title IV-D) Cooperative Reimbursement ^(a)	93.563		
Friend of the Court - 07/08		N/A	\$ 25,183
Friend of the Court - 06/07		N/A	<u>66,833</u>
			<u>138,703</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			144,703
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through Michigan Department of Natural Resources			
Boating Safety Financial Assistance 2007	97.012	N/A	13,136
Passed through Michigan State Police			
Emergency Management Performance Grant 07 Regular	97.042	N/A	<u>4,124</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>17,260</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 536,752</u>

Missaukee County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2007

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Missaukee County, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements, which are reconciled in Note C.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (c) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Reimbursement of these contracts is passed through the State Department of Human Services (DHS). The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on 66% of Title IV-D eligible expenditures for the applicable grants. The entire amount paid by DHS for the reimbursed expenditures is considered Federal.
- (b) The reimbursements for the IV-D Incentive Payments Program are based on support payments collected. Expenditures have been reported to the extent of earned revenues and are 100% Federal.
- (c) Denotes program tested as "major program".

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the Federal revenues reported in the December 31, 2007 basic financial statements to the expenditures of the County administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Federal/ State Revenue</u>	<u>Less State Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT				
GENERAL FUND				
CRP - Prosecuting Attorney	\$ 30,201	\$(3,406)	\$ -	\$ 26,795
CRP - Friend of the Court	115,415	(3,507)	-	111,908
Marine Safety	13,218	(82)	-	13,136
Emergency management	4,330	(206)	-	4,124
Voter aid registration	399	-	-	399
Other programs	<u>409,300</u>	<u>(409,300)</u>	<u>-</u>	<u>-0-</u>
TOTAL GENERAL FUND	572,863	(416,501)	-0-	156,362

Missaukee County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

December 31, 2007

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

	<u>Federal/ State Revenue</u>	<u>Less State Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
SPECIAL REVENUE FUNDS				
Housing	\$ 122,556	\$(37,689)	\$ -	\$ 84,867
Juvenile Justice - Basic Grant	12,970	(2,373)	-	10,597
2006-2007 TNT	222,730	-	-	222,730
2007-2008 TNT	54,286	-	-	54,286
Other Programs	<u>164,875</u>	<u>(164,875)</u>	<u>-</u>	<u>-0-</u>
TOTAL SPECIAL REVENUE FUNDS	<u>577,417</u>	<u>(204,937)</u>	<u>-0-</u>	<u>372,480</u>
TOTAL PRIMARY GOVERNMENT	1,150,280	(621,438)	-0-	528,842
COMPONENT UNIT FUNDS				
Commission on Aging	<u>223,122</u>	<u>(215,212)</u>	<u>-</u>	<u>7,910</u>
TOTAL REPORTING ENTITY	<u>\$ 1,373,402</u>	<u>\$(836,650)</u>	<u>\$ -0-</u>	<u>\$ 536,752</u>

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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 Commissioners
of Missaukee County
Lake City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Missaukee County, Michigan as of and for the year ended December 31, 2007, which collectively comprise Missaukee County's basic financial statements and have issued our report thereon dated July 17, 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 Missaukee County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Missaukee County'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 the County'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 County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies described below as Findings 2007-1, 2007-2, 2007-3, 2007-4, 2007-5, 2007-6, and 2007-7 in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County'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 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 Findings 2007-8, 2007-9, and 2007-10 described in the schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Missaukee County'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as Finding 2007-11, 2007-12, 2007-13, and 2007-14. Finding 2007-9 noted above as a material weakness is also a compliance issue.

Missaukee County's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit Missaukee County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Commissioners of Missaukee County, others within the County, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 17, 2008

Missaukee County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 501(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
16.738	Byrne Memorial Justice Assistance

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Findings

2007-1 PREPARATION OF FINANCIAL STATEMENTS

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with generally accepted accounting principles (GAAP) is based, in part, on its reliance on its external auditors, who cannot, by definition, be considered a part of the government's internal controls. This comment was noted and reported in last year's audit.

Criteria: All Michigan governments are required to prepare financial statements in accordance with GAAP. This is a responsibility of the government's management. The preparation of financial statement in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2007

Section II - Financial Statement Findings - continued

2007-1 PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation: Statement on Auditing Standards No. 112 titled "*Communicating Internal Control Related Matters Identified in an Audit*", requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. We are communicating these circumstances as required by professional standards; however, we do not see a need for any changes in the situation at this time.

Corrective Action Response: We will continue status quo at the current time, due to staffing levels and the financial hardship it would be to the County to hire out this requirement to a CPA firm.

2007-2 WRITTEN PROCEDURES AND POLICIES

Condition: During the course of our audit, we noted that the Board has not formally adopted written procedures and policies for the following areas: an accounting policy and procedures manual, a capital assets policy, and a fraud risk management policy.

Criteria: Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations.

Cause: The County has not evaluated and prepared necessary policies and procedures.

Effect: Accounting is an essential function of the County. The County may have greater risk to this function being performed improperly if the related policies and procedures are not documented. Capital assets represent a substantial amount of the County's net assets. These resources are necessary for the delivery of the County's services and programs. The County may have greater risk with these assets if a capital asset policy is not adopted. Also, due to the County not developing a fraud risk assessment and monitoring program it is unable to assess the County's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of financial statements.

Recommendation: We recommend that the County adopt and implement an accounting procedures manual which will describe and explain accounting duties in the event that a person is absent someone else could utilize this manual to perform their duties. We also recommend adoption of a capital asset policy which would define a capitalization threshold and methods for acquiring and disposing of capital assets. We further recommend the County develop and adopt a fraud risk management policy which would include policies and procedures on ways for management to prevent, detect and deter fraudulent activities.

Corrective Action Response: The County does not currently have a fraud risk management policy or an asset capitalization policy, but we will be working on implementing them before year end after the finance review process. We will also be compiling a book of County accounting worksheets and instructions that are currently in both the Clerk's Office and the Treasurer's office and providing copies to the auditors and other necessary personnel.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2007

Section II - Financial Statement Findings - continued

2007-3 SEGREGATION OF DUTIES

Condition: During our consideration and assessment of fraud risk, we noted that the County may not have sufficient segregation of duties in its accounting structure in certain areas. Specifically, we noted instances with the payroll process and the EMS billing process. We noted the payroll process is completed by an individual who enters new employees into the computerized payroll system, has the ability to change pay rates and withholdings, prepares the checks, and distributes the checks. Additionally, the paychecks are signed by means of a signature stamp. The person who stamps the signatures on the checks is not one of the authorized check signers. We noted the EMS billing process is completed by an individual who does the billing, sends the bills, collects the billings, and enters the data into their subsidiary ledger without any management oversight.

Criteria: Duties should be separated so that no one person is able to control all aspects of a transaction cycle. While this is a common occurrence in smaller organizations due to the limited number of employees, the County should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

Cause: Due to the County's size they have not segregated duties adequately in certain areas.

Effect: The County is susceptible to fraudulent transactions in an accounting cycle where the duties are not appropriately segregated.

Recommendation: We recommend that the County review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the County provide a greater review and supervision of employee functions and procedures. We also recommend that in the future when the County is adopting new or modifying existing financial policies they consider the issue of fraud, and assure that the policy discusses ways that will prevent, deter, and detect fraud within the area the policy is addressing.

Corrective Action Response: The payroll process is currently run by one person and approved by the County Clerk who monitors it on the computer. As a safeguard - a third employee will be responsible for adding new people to the payroll roster and the County Clerk in addition to monitoring it on the computer, will sign the summary sheets produced at the end of each payroll cycle.

With regard to the County Treasurer's deputy encoding the checks: If checks were encoded by only the signers - this would necessitate the County Clerk and Treasurer be in charge of encoding on a daily basis which is not functional. The Treasurer currently is responsible to encode disbursements and she has safeguards in place to balance the checks both daily and monthly.

With regard to the EMS receipt's monitoring: The County Sheriff is currently the Administrator of the EMS program and monitors the daily, weekly, and monthly receipts and disbursements. He is also the only one who can write-off an ambulance bill. He will sign the monthly EMS receipting reports in the future and assign one employee to input ambulance runs and their resulting bills, and have another employee receipt in checks other than the billing clerk. He will also sign all write-offs and maintain them according to their retention schedule.

2007-4 TIMESHEET APPROVAL

Condition: During our testing of the payroll process, we noted that two (2) timesheets out of the twenty-five (25) selected for testing had not been approved by the appropriate individual at a supervisory level.

Criteria: The County's policy indicates that all timesheets have to be approved prior to payment.

Cause: The applicable departments failed to obtain proper supervisory approval prior to submission for processing.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2007

Section II - Financial Statement Findings - continued

2007-4 TIMESHEET APPROVAL - CONTINUED

Effect: The County did not comply with its payroll policy in these instances.

Recommendation: We recommend that all timesheets be formally approved prior to payment.

Corrective Action Response: The County has evaluated this and is implementing procedures to prevent this type of situation from occurring in the future.

2007-5 CASH RECEIPTING PROCEDURES

Condition: During our review of cash receipting procedures in the various departments, we noted the following:

- Clerk's office - The cash drawer is not kept locked during the day. The drawer also is not counted or balanced daily and the weekly transmittal to the Treasurer's office is being reviewed or approved by a supervisor but that review is not being documented.
- Register of Deeds - The cash drawer is locked, however, the key is in plain sight. The drawer also is not counted or balanced daily and the weekly transmittal to the Treasurer's office is being reviewed or approved by a supervisor but that review is not being documented. Also, it was noted that everyone in the office is able to receipt money into the Eagle receipting system without logging in with a password.
- Treasurer's office - The cash drawer is locked, however, the key is left in plain sight. Also, the daily receipting from the manual receipt books into the computerized system is being reviewed or approved by a supervisor but that review is not being documented.
- District Court - The cash receipts are kept in an unlocked box which is stored on an employee's desk prior to transmittal to the Treasurer's office.
- Commission on Aging - Three (3) instances out of sixty (60) were noted where supporting documentation could not be provided for receipts and deposits. Also, it was noted that receipts are not always written for all collections and when receipts are written there is not a reconciliation between receipts written and the money transmitted to the Treasurer's office.
- Sheriff's department - The cash drawer is not kept locked during the day. Also, it was indicated that the transmittal to the Treasurer's office is prepared and funds are deposited with the Treasurer's office only approximately on a monthly basis.

Criteria: Procedures should be in place related to the cash receipts processes within all departments to assure adequate controls are in place to prevent, deter, or detect fraud and material misstatements.

Cause: The County does not currently have procedures in place to assure internal controls are operating appropriately.

Effect: Cash receipts are more susceptible to fraud or misstatement in the absence of strong internal controls.

Recommendation: We recommend the County evaluate all aspects of the receipts process within the departments that collect funds and determine if adequate systems are in place. These internal control systems should be adequate to prevent, deter, or detect fraud; prevent material misstatements; and safeguard County assets.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2007

Section II - Financial Statement Findings - continued

2007-5 CASH RECEIPTING PROCEDURES - CONTINUED

Corrective Action Response: The Missaukee County Clerk-Register's office will continue to keep their money in its current location and already have the following safeguards in place: The County Clerk's system (JIS Software) denotes who is receipting in money. The Register of Deeds Eagle software has the initials of the person doing the receipt on the reports next to the check number. The money is never left unattended and is locked in the vault every evening. Transmittals will continue weekly and the cash in each system will be monitored on an every other day basis.

The Treasurer's cash drawer key is left in the locked drawer in plain sight of all the employees. If for any reason the drawer would need to be left unattended, the key is removed and in the care of that employee as well as the doors to the office being locked. All money is put in the vault after hours. On the manual receipts, the Treasurer's initials are not currently inscribed; the receipts are computerized and monitored daily and balanced monthly. Part of our new procedure will have authorized signers mandated.

The District Court Clerk currently maintains the money box in her drawer and brings it to the Treasurer's vault in the evening. She will keep that box in a locked drawer and continue storing it in the vault at night.

The Commission on Aging will monitor and make sure that all receipts and disbursements are notated in the future.

The Missaukee County Sheriff will be maintaining their cash receipts in a locked area beginning immediately and will be transmitting funds on a bi-monthly basis beginning with the month of August 2008.

2007-6 CASH DISBURSEMENT PROCEDURES

Condition: During our analysis of the cash disbursement process and discussions with management, we noted the following issues:

- All thirty-eight (38) disbursements tested that were expenditures recorded in the TNT Funds were missing the approval of a County Commissioner.
- Disbursements for various conference and travel expenditures that were reimbursed to County employees were reimbursed without the employee providing the Clerk's office with supporting documentation or receipts for the expenditures.
- There were expenditures of County funds for the purchase of gifts for employees for various reasons and purchases of food and meals for employee meetings.

Criteria: County policy requires and strong internal control practices dictate that all disbursements should be approved by the appropriate level of supervision and that all disbursements should be supported by adequate, detailed documentation. Also, guidance concerning lawful expenditures is given by the Michigan Department of Treasury in a document called "Determining Lawful Expenditures" that is available on their website. Specifically disallowed are expenditures for meals (with some exceptions) and employee recognition.

Cause: Procedures are not currently in place which provide the appropriate level of internal control to prevent the above noted instances from occurring.

Effect: The disbursements noted were not appropriately authorized, supported and/or allowable.

Recommendation: We recommend the County evaluate procedures related to disbursements to assure all disbursements are approved, fully supported with detailed documentation and lawful prior to disbursing of funds.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2007

Section II - Financial Statement Findings - continued

2007-6 CASH DISBURSEMENT PROCEDURES - CONTINUED

Corrective Action Response: The Traverse Narcotics Executive Board has reviewed this recommendation and recommended at their June 2008 meeting that the Chairman of TNT be authorized to approve and sign all invoices that are currently signed only by Lt Kip Belcher for payment. This method would have more internal control over expenditures than having a County Commissioner approve vouchers for payment due to the fact that the County Commissioner would have no knowledge of proper and allowable expenses incurred by a drug team.

The other disbursements mentioned (travel vouchers not present, employee meals, etc) have already been instituted. The only meals that are currently purchased are during times of emergency personnel and are not just for employees but everyone from the public (usually pizza and pop). The other food purchased is for long budget meetings and everyone from the public is offered a sandwich and they happily take one. These are public meetings and have always been. The County Clerk provides all other baked goods and beverages at her own personal expense for all county board meeting, committee meetings, public hearings, and trainings.

2007-7 RESTATEMENT OF NET ASSETS/PRIOR PERIOD ADJUSTMENT

Condition: During the course of our audit, it was noted that previously issued financial statements were materially misstated. A restatement of beginning net assets at the government-wide level and a prior period adjustment to correct fund balance at the fund level was recorded to reflect the correction of misstated receivables.

Criteria: This error was not detected by the County's internal control over financial reporting in the prior year and as a result there was a material misstatement in the December 31, 2006 financial statements.

Cause: Material misstatements were not noted by Management in the previously issued financial statements.

Effect: Since this error was not detected by the County's internal control over financial reporting in the prior year, the County's internal controls did not effectively allow management to detect material misstatements in the County's financial statements in a timely manner.

Recommendation: We recommend that the County review procedures related to the review of financial reporting and take steps to ensure that similar issues do not occur in the future.

Corrective Action Response: After reviewing this with the auditors during our exit audit - the County will review all financial procedures, put our policies and instructions in a common book and continue to monitor these procedures as time goes by.

2007-8 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries for the proper recognition of various items throughout the general ledger were proposed by the auditors. These misstatements were not detected by the County's internal control over financial reporting. These entries included audit adjustments of various accruals that were recorded as estimates in early January to close the year when actual amounts were not known. These entries were brought to the attention of management and were subsequently recorded in the County's general ledger. This comment was noted and reported in last year's audit.

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (where applicable), including the notes to the financial statements, in conformity with U.S. generally accepted accounting principles. In addition, year-end accruals should be with actual amounts not estimates. The auditor cannot be a part of internal controls.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2007

Section II - Financial Statement Findings - continued

2007-8 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS - CONTINUED

Cause: The County's current accounting process for closing a year and preparing for the audit does not include assuring all material journal entries are recorded for the appropriate amounts.

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the County's internal controls.

Recommendation: We recommend that the County take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: We understand this procedure and will leave our books open at the end of our fiscal year until all journal entries have been recorded with actual amounts and not estimated amounts. It receivables and payables are not known in an exact dollar amount and do not become evident before the end of January of the subsequent year, they will be booked in and out after the close of the fiscal year.

2007-9 FUND DEFICIT

Condition: During the course of our audit, it was noted that the County had one (1) fund that ended the year in a deficit financial position.

Criteria: Michigan Public Act 275 of 1980 provides that the County shall not have deficits in any of the County's unreserved fund balances/unrestricted net assets.

Cause: Budgetary controls to limit expenditures and/or transfers of funds were not made to alleviate deficits in these funds.

Effect: The County will be required to submit a deficit reduction plan to the State of Michigan for any funds for which a plan has not previously been filed.

Recommendation: We recommend that the County file a corrective action plan with the State of Michigan.

Corrective Action Response: The County Clerk will file a deficit reduction plan with the State of Michigan in regards to the Capital Reserve fund which shows a deficit due to a loan to the Sheriff Department expansion project. This debt will hopefully be almost eliminated by the end of 2008 and is currently down from \$132,000 to \$90,000.

2007-10 BANK RECONCILIATIONS

Condition: During our analysis of the County's bank accounts during our preliminary test work in December 2007, we noted that bank reconciliation of the County general pooled bank account had not been completed since March 2007. The reconciliations for this account were completed by County staff during our audit fieldwork. Additionally, it was indicated that the bank reconciliations were reviewed by the Treasurer, however, that review was not indicated on the face of the reconciliation.

Criteria: All bank accounts should be reconciled to the computerized general ledger on a monthly basis. The completed reconciliations should be reviewed by an employee in a supervisory role. The reviewer should indicate approval on the face of the bank reconciliation.

Cause: Unknown

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2007

Section II - Financial Statement Findings - continued

2007-10 BANK RECONCILIATIONS - CONTINUED

Effect: The bank reconciliations either had not been prepared or ones that were prepared for several accounts did not agree to the County's general ledger at the beginning of our audit fieldwork. Internal control is a process - affected by an entity's board of directors, management, and other personnel - designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations. The preparation of bank reconciliations is a significant part of the internal controls of the County.

Recommendation: We recommend all bank accounts be reconciled to the computerized general ledger on a monthly basis and reviewed and approved by a supervisor.

Corrective Action Response: New balancing procedures are being developed by the Treasurer to ensure a timely reconciliation of the General Ledger System to the Bank.

2007-11 UNIFORM CHART OF ACCOUNTS

Condition: During our review of the County's chart of accounts, we noted that some of the County's fund numbers are not in compliance with the Michigan Department of Treasury's Uniform Chart of Accounts

Criteria: The Uniform Chart of Accounts specifies certain fund numbers for specific funds.

Cause: Unknown

Effect: The County's chart of accounts contains various funds that do not conform to the Uniform Chart of Accounts.

Recommendation: We recommend that the County take steps to change the applicable incorrectly numbered funds to comply with the Uniform Chart of Accounts as prescribed by the Michigan Department of Treasury.

Corrective Action Response: The funds that do not currently conform to the Michigan Uniform Chart of Accounts will have the cash and fund balances transferred to the new fund numbers in the 2008 cycle. The data stored in the current numbers will be retained for historical use. It is restrictive to move information from one fund to another due to the restraints of our accounting software.

2007-12 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the County's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund and two (2) Special Revenue Funds.

Criteria: The Uniform Budgeting and Accounting Act requires that the County adopt a budget for the General Fund and all Special Revenue Funds and prohibits budgeting for a deficit fund balance. It also requires the County to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Cause: The County's budget was not amended as it became apparent that expenditures would exceed the amounts appropriated for various activities of the General Fund and Special Revenue Funds.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2007

Section II - Financial Statement Findings - continued

2007-12 UNFAVORABLE BUDGET VARIANCES - CONTINUED

Effect: The County adopted the budget for the General Fund at the activity level and at the total fund level for the Special Revenue Funds. Having unfavorable budget variances as described above, the County is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the County monitor expenditures against adopted budgets in all applicable funds and make appropriated budget adjustments as needed.

Corrective Action Response: After discussing our options with the auditors, it has been decided to leave a cash reserve in each department instead of adjusting it down to estimated actual amounts. This will also increase the percentage of fund balance at the end of the year. This is being done by department due to the fact the board has adopted the departmental level of budgeting instead of a line item budget.

2007-13 DIVERSIFICATION OF INVESTMENTS

Condition: During our review of the County's bank accounts, we noted that the County holds all of its deposits in checking and savings accounts at three (3) local banks. Also, as of December 31, 2007, the deposits exceeded FDIC coverage by over \$7 million.

Criteria: In accordance with Michigan Compiled Laws, the County is authorized to invest in the following investment vehicles: Bonds and other direct obligations of the United States or an agency or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146; commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase; United States government or Federal agency obligation repurchase agreements; bankers acceptances of United States banks; and mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Also, Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. 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. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Cause: Unknown

Effect: The County is potentially not earning as much interest as it could if the deposits were invested in a diverse mixture of investment vehicles. Additionally, the County has uninsured deposits in excess of \$7 million.

Recommendation: We recommend that the County evaluate the deposits and consider investing in a more diverse mixture of investment vehicles if those investments meet the standards the County has for their investments.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2007

Section II - Financial Statement Findings - continued

2007-13 DIVERSIFICATION OF INVESTMENTS - CONTINUED

Corrective Action Response: The diversification of investments is a major part of safeguarding the County's funds. Although we are fully aware of the FDIC threshold of \$100,000 of any funds held on deposit, we do not see it as a feasible solution to hold accounts at dozens of institutions. In order to safeguard the funds, we utilize the local institutions that are major banks with ratings above the required score as depositories for county funds. Fifth Third Bank is one institution used and they back our funds with a tri-party collateral agreement held by the Bank of New York Mellon. The other two institutions are Chemical and Citizens Banks who provide sweep accounts that are also fully collateralized with AAA Securities. Any certificates of deposit purchased are kept at the \$100,000 threshold to maintain the FDIC Insurance.

2007-14 SOFTWARE PACKAGES

Condition: During our review of receipting procedures at various County departments, it was noted that various County departments are using various software packages to process receipts within each department.

Criteria: To limit duplication of effort and prevent errors and potential misstatements it is commonly more efficient to have software packages that will integrate with the County's general ledger software.

Cause: Specific software packages are developed to be integrated to handle multiple departments utilizing the same software.

Effect: The County could potentially be paying more for these various packages with the software, support, and licensing than if the County had one software package for receipts. There is also efficiencies and other positive aspects that may be realized with having a common package that integrates with the general ledger.

Recommendation: We recommend that the County review its software packages to determine if there would be benefits to using one software package for receipts.

Corrective Action Response: The County will evaluate all of the various software packages to see if there would be a cost/benefit to consolidating some of them.

Section III - Federal Award Findings and Questioned Costs

None

Missaukee County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended December 31, 2007

FINDINGS/NONCOMPLIANCE

Findings Related to Internal Controls over the Financial Statements.

LACK OF ADEQUATE CONTROLS TO PRODUCE FULL-DISCLOSURE GAAP BASIS FINANCIAL STATEMENTS

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Resolution: This issue was not resolved during the current audit.

RECORDING, PROCESSING AND SUMMARIZING ACCOUNTING DATA

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the recording, processing and summarizing of certain accounting data as part of its external financial reporting process. Accordingly, the government has placed reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Resolution: This issue was not resolved during the current audit.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.