

Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended .

Unit Name	Missaukee County Road Comm	County	MISSAUKEE	Type	OTHER	MuniCode	57-0-100
Opinion Date	June 27, 2008	Audit Submitted	June 30, 2008	Fiscal Year	December 31, 2007		

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

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

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

General Fund Revenue:	<input type="text" value="4140927"/>
General Fund Expenditure:	<input type="text" value="4058873"/>
Major Fund Deficit Amount:	<input type="text"/>

General Fund Balance:	<input type="text" value="1507918"/>
Governmental Activities Long-Term Debt (see instructions):	<input type="text" value="130550"/>

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

CPA (First Name)	Stephen	Last Name	Peacock	Ten Digit License Number	1101021255					
CPA Street Address	107 S. Cass Street, Suite A		City	Traverse City	State	MI	Zip Code	49684	Telephone	(231) 946-3230
CPA Firm Name	Rehmann Robson	Unit's Street Address	1199 N. Morey Road		City	Lake City	Zip Code	49651		



Missaukee County Road Commission
(A Component Unit of Missaukee County)

Lake City, Michigan

Financial Statements

For the Year Ended December 31, 2007

MISSAUKEE COUNTY ROAD COMMISSION
(A Component Unit of Missaukee County)

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

June 27, 2008

Members of County Road Commission
County of Missaukee
1199 N. Morey Road
Lake City, MI 49651

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2008 on our consideration of the **Missaukee County Road Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Overview of the Financial Statements

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

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

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

Government-wide Statements

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

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

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

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

The government-wide financial statements can be found on pages 9 and 12 of this report.

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

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

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

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

The Road Commission adopts an annual appropriated budget for its fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund can be found on pages 13 through 14 of this report.

The Road Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission’s financial statements. The notes to the financial statements can be found on pages 15 through 26 of this report.

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

Government-wide Financial Analysis

The Road Commission’s Net assets decreased approximately 3.1% or \$691,927 from \$22,185,550 to \$21,493,623 for the year ended December 31, 2007. The net assets and change in net assets are summarized below.

Missaukee County Road Commission Net Assets:

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$ 1,712,811	\$ 1,653,699	\$ 59,112	3.6%
Capital assets	<u>20,116,255</u>	<u>20,904,055</u>	<u>(787,800)</u>	-3.8
Total assets	<u>21,829,066</u>	<u>22,557,754</u>	<u>(728,688)</u>	-3.2
Long-term liabilities outstanding	117,495	144,369	(26,874)	-18.6
Other liabilities	<u>217,948</u>	<u>227,835</u>	<u>(9,887)</u>	-4.3
Total liabilities	<u>335,443</u>	<u>372,204</u>	<u>(36,761)</u>	-9.9
Net assets				
Invested in capital assets, net of related debt	20,246,805	20,904,055	(657,250)	-0.3
Unrestricted	<u>1,246,818</u>	<u>1,281,495</u>	<u>(34,677)</u>	-2.7
Total net assets	<u>\$ 21,493,623</u>	<u>\$22,185,550</u>	<u>\$(691,927)</u>	3.1%

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of Missaukee County Road Commission, assets exceeded liabilities by \$21,493,623 at the close of the most recent fiscal year.

By far the largest portion of the Missaukee County Road Commission's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. Although the Missaukee County Road Commission's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

Governmental Activities

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

	<u>2007</u>	<u>2006</u>
Program revenue		
Charges for service	\$ 462,269	\$ 992,436
Operating grants and contributions		
State transportation funds	2,914,137	2,298,079
Capital grants and contributions		
Federal and state sources	726,850	2,682,564
Developments		
General revenue		
Interest and rents	28,131	38,685
Other general revenue	-	
Gain on equipment disposal	<u>9,540</u>	<u>140,459</u>
Total revenue	4,140,927	6,782,233
Program expenses	<u>4,832,854</u>	<u>4,633,341</u>
Increase (decrease) in net assets	<u><u>\$ (691,927)</u></u>	<u><u>\$2,148,892</u></u>

Governmental activities decreased the Missaukee County Road Commission's net assets by \$691,927. The key elements of this decrease are as follows:

- There was a 4% increase in public works expenses from the prior year which was primarily funded with net assets that had accumulated in prior years.
- There was a decrease in the availability of federal revenues.

General Fund Budgetary Highlights

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

Capital Assets and Debt Administration

As of December 31, 2007, the Missaukee County Road Commission had invested \$20,117,255 in capital assets. This amount represents a net decrease (including additions and deductions) of \$786,900 for 3.8% as follows:

	<u>2007</u>	<u>2006</u>	<u>Total Percentage Change 2006/2007</u>
Capital assets not being depreciated			
Land	\$ 650	\$ 650	0%
Capital assets being depreciated			
Land improvements	100,364	100,364	0.0%
Buildings and improvements	1,304,759	1,291,094	1.1%
Other equipment	4,571,820	4,310,803	6.1%
Infrastructure and improvement	<u>35,676,315</u>	<u>34,771,328</u>	2.6%
Subtotal	<u>41,653,258</u>	<u>40,473,589</u>	2.9%
Total capital assets	41,653,908	40,474,239	2.9%
Total accumulated depreciation	<u>(21,537,653)</u>	<u>(19,570,184)</u>	10.1%
Total net capital assets	<u>\$20,116,255</u>	<u>\$20,904,055</u>	(3.8) %

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

	<u>2007</u>	<u>2006</u>
Reconstruction of Bridges	\$ 2,184	\$ 589,147
Various resurfacing projects	902,802	3,319,050
Building additions and equipment	<u>332,588</u>	<u>279,829</u>
Total additions	<u>\$1,237,574</u>	<u>\$ 4,188,026</u>

Additional information on the Road Commission's capital assets can be found in note III.B. on page 21.

Long-term debt

Other obligations include accrued vacation and sick pay leave. More detailed information about the Road Commission's long-term liabilities is presented in Note III C to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The 2008 budget was prepared based on bargaining and nonbargaining employment agreements, the state road commission funding formula and expected construction inflation rates.

Requests for Information

This financial report is designed to provide a general overview of the Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Financial Director, Missaukee County Road Commission, 1199 N. Morey Rd., Lake City, Michigan 49651.

MISSAUKEE COUNTY ROAD COMMISSION

STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

DECEMBER 31, 2007

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 815,384	\$ -	\$ 815,384
Accounts receivable			
Michigan transportation fund	423,856	-	423,856
State trunkline maintenance	56,597	-	56,597
Due on county road agreements	104,327	-	104,327
Due from other governments	866	-	866
Sundry accounts receivable	4,939	-	4,939
Inventories			
Equipment material and parts	99,927	-	99,927
Road materials	154,668	-	154,668
Prepaid insurance	52,247	-	52,247
Capital assets	-	-	-
Land and improvements	-	45,855	45,855
Property and equipment - net of accumulated depreciation	-	1,506,496	1,506,496
Infrastructure - net of accumulated depreciation	-	18,563,904	18,563,904
Total assets	\$ 1,712,811	20,116,255	21,829,066
LIABILITIES AND FUND BALANCE / NET ASSETS			
Accounts payable	\$ 70,239	-	70,239
Accrued liabilities	25,577	-	25,577
Advances - State trunkline equipment purchase	109,077	-	109,077
Long-term liabilities			
Due within one year	-	13,055	13,055
Due after one year	-	117,495	117,495
Total liabilities	204,893	130,550	335,443
Fund Balance/ net assets			
Fund balance			
Reserved for inventory and prepaid items	306,842	(306,842)	-
Unreserved, undesignated	1,201,076	(1,201,076)	-
Total fund balance	1,507,918	(1,507,918)	-
Total liabilities and fund balance	\$ 1,712,811		
Net assets			
Investment in capital assets, net of related debt		20,246,805	20,246,805
Unrestricted		1,246,818	1,246,818
Total net assets		\$ 21,493,623	\$ 21,493,623

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

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

DECEMBER 31, 2007

Fund balances - General Fund **\$ 1,507,918**

Amounts reported for *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 in the funds.

Add - land and improvements	101,014
Add - property and equipment	5,876,579
Add - infrastructure	35,676,315
Deduct - accumulated depreciation	(21,537,653)
Deduct - accrued compensated absences	<u>(130,550)</u>

Net assets of governmental activities **\$ 21,493,623**

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

MISSAUKEE COUNTY ROAD COMMISSION

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

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses			
Public works	\$ 2,821,204	\$ 2,011,650	\$ 4,832,854
Capital outlay	1,237,669	(1,237,669)	-
Total expenditures/expenses	<u>4,058,873</u>	<u>773,981</u>	<u>4,832,854</u>
Program revenue			
Charges for services	462,269	-	462,269
Operating grants and contributions			
State transportation funds	2,914,137	-	2,914,137
Capital grants and contributions			
Federal and state sources	726,850	-	726,850
Total program revenues	<u>4,103,256</u>	<u>-</u>	<u>4,103,256</u>
Net program expense			<u>(729,598)</u>
General revenue			
Interest and rents	28,131	-	28,131
Gain on sale of assets	9,540	-	9,540
Total general revenue and special items	<u>37,671</u>	<u>-</u>	<u>37,671</u>
Total revenue	<u>4,140,927</u>		
Net change in fund balance	82,054	(82,054)	-
Changes in net assets	-	(691,927)	(691,927)
Fund balance/net assets			
Beginning of the year	1,425,864	20,759,686	22,185,550
End of the year	<u><u>\$ 1,507,918</u></u>	<u><u>\$ 19,985,705</u></u>	<u><u>\$ 21,493,623</u></u>

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

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

FOR THE YEAR ENDED DECEMBER 31, 2007

Net change in fund balance - General Fund	\$ 82,054
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Amounts reported for *governmental activities* in the statement of activities are different because:

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

Add - capital outlay	332,682
Add - Infrastructure purchases	904,987
Deduct - depreciation expense	(2,025,469)

The change in the accrued compensated absences is reported as an expense in the statement of activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund.

13,819

Change in net assets of governmental activities	<u><u>\$ (691,927)</u></u>
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The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY ROAD COMMISSION

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Permits and licences	\$ -	\$ -	\$ 5,595	\$ 5,595
State sources				
Michigan Transportation funds				
Engineering	10,000	10,000	10,000	-
Allocation	3,082,147	2,820,000	2,862,131	42,131
Snow removal	40,000	42,000	42,006	6
Economic development funds				
Forest Road	67,000	66,700	66,704	4
Contributions				
Townships	499,250	670,000	660,146	(9,854)
Charges for services				
State trunkline maintenance	451,478	490,000	446,833	(43,167)
Salvage sales	-	-	3,237	3,237
Other	-	-	866	866
Interest and rentals	30,000	28,000	28,131	131
Other revenue				
Miscellaneous	30,000	30,000	5,738	(24,262)
Proceeds from sale equipment	-	-	9,540	9,540
Total revenue	<u>4,209,875</u>	<u>4,156,700</u>	<u>4,140,927</u>	<u>(15,773)</u>

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

MISSAUKEE COUNTY ROAD COMMISSION

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

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures				
Primary Road				
Heavy maintenance	\$ 538,398	\$ 166,037	\$ 139,424	\$ 26,613
Maintenance	1,003,813	1,079,238	976,619	102,619
Local Road				
Heavy maintenance	740,596	865,762	765,562	100,200
Maintenance	1,615,193	1,778,963	1,576,497	202,466
Total maintenance	3,898,000	3,890,000	3,458,102	431,898
State trunkline maintenance	451,278	490,000	475,935	14,065
State trunkline non-maintenance	-	-	6,666	(6,666)
Equipment expense (net)	(365,000)	(485,000)	(128,936)	(356,064)
Administrative expense (net)	170,000	230,000	288,889	(58,889)
Capital outlay (net)	55,000	30,000	(41,783)	71,783
Total expenditures	<u>4,209,278</u>	<u>4,155,000</u>	<u>4,058,873</u>	<u>96,127</u>
Net change in fund balance	597	1,700	82,054	80,354
Fund balances, beginning of year	1,425,864	1,425,864	1,425,864	-
Fund balances, end of year	<u>\$ 1,426,461</u>	<u>\$ 1,427,564</u>	<u>\$ 1,507,918</u>	<u>\$ 80,354</u>

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

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by taxes, charges for services and intergovernmental revenues.

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

A combined financial statement is provided for the general fund and the statement of net assets and the general fund and the statement of activity. The general fund is considered to be a major fund for financial reporting purposes.

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

C. Measurement Focus Basis of Accounting and Financial Statement Presentation

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

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

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

The government reports the following major governmental fund:

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits

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

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

2. Inventory

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

3. Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets and statement of changes in net assets). 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.

GASB Statement Number 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement Number 34. The Road Commission has capitalized the current year's infrastructure, as required by GASB Statement Number 34, and has reported the infrastructure assets on the statement of net assets.

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

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

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

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

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

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

4. State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. Management estimates each year for the anticipated back charges but the final amount of adjustments, if any, for the year ended December 31, 2007, has not been determined. Based on past experience, the Road Commission does not believe the adjustment will be a material amount from the estimated accrual.

5. Compensated Absences

The total accumulated unpaid vacation and sick pay liability of the Missaukee County Road Commission at December 31, 2007 was \$130,350. The amount was determined to be a long-term liability in its entirety and is therefore reflected as a non-current liability on the government-wide statements. A liability for these amounts is only reported in the governmental funds for known terminations as of year-end.

County Road employees earn vacation and personal leave in varying amounts depending on the number of years of service. Accumulated vacation may not exceed the total earned for any given year per the union contract. Non-union employees are also subject to the vacation provisions in the union contract. Unpaid vacation and personal leave at December 31, 2007 amounted to \$ 64,826

Sick leave is accumulated at the rate of one day for each month of service with accumulation not to exceed 640 hours. The policy also provides that employees, who are separate from employment with the Road Commission, will be paid for a certain portion of their accumulated sick leave. Unpaid sick leave at December 31, 2007 was \$ 65,724

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

The budgetary data presented in the financial statements of the Road Commission are in accordance with the Uniform Budgeting and Accounting Act (Act 621, Public Acts of 1978), as prescribed by the State of Michigan.

The Road Commission follows these procedures in establishing the budget as reflected in these financial statements:

1. In December the clerk-finance director submits, to the Commission, a proposed operating budget for the year commencing on January 1.
2. Prior to December 31, the budget is legally enacted through passage of a resolution.
3. For purposes of meeting emergency needs of the Road Commission, transfer of appropriations may be made by the authorization of the clerk. Such transfers of appropriations must be approved by the Commission at its next regularly scheduled meeting.
4. The Clerk is charged with general supervision of the budget.
5. During the year the budget is monitored and amendments to the budget resolution are made as deemed necessary.
6. The budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

At December 31, 2007, the amounts of the Road Commission's deposits were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$ 100,000	\$ 100,000
Uninsured – uncollateralized	<u>715,384</u>	<u>722,477</u>
Total	<u>\$ 815,384</u>	<u>\$ 822,477</u>

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Investments

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

B. Capital Assets

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

	Balance January 1, <u>2007</u>	<u>Additions</u>	<u>Deductions</u>	Balance December 31, <u>2007</u>
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
Engineers equipment	-	-	-	-
Yard and storage	-	-	-	-
Infrastructure – bridges	3,621,333	2,184	-	3,623,517
Infrastructure – roads	<u>31,149,995</u>	<u>902,803</u>	<u>-</u>	<u>32,052,559</u>
Total capital assets being depreciated	<u>40,473,589</u>	<u>1,237,669</u>	<u>(58,000)</u>	<u>41,653,258</u>
Less accumulated depreciation				
Land improvements	(51,463)	(3,696)	-	(55,159)
Buildings	(419,553)	(34,236)	-	(453,789)
Road equipment	(3,531,471)	(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>
Total accumulated depreciation	<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>20,904,055</u>	<u>(787,800)</u>	<u>-</u>	<u>20,116,255</u>
Total net capital assets	<u>\$ 20,904,055</u>	<u>\$ (787,800)</u>	<u>\$ -</u>	<u>\$ 20,116,255</u>

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

C. Long-Term Debt

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

	<u>Balance January 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2007</u>	<u>Due Within One Year</u>
Compensated absences	<u>\$ 144,369</u>	<u>\$ -</u>	<u>\$ 13,819</u>	<u>\$ 130,550</u>	<u>\$ 13,055</u>

IV. OTHER INFORMATION

A. **Defined Benefit 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.

B. **Post Employment Benefits**

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.

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

C. Self-Insurance Pool

The 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 Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the 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.

D. Contingencies

The Missaukee County Road Commission contracts with the State of Michigan to perform state highway maintenance functions for the State. The cost of the maintenance is then billed to the State of Michigan who reimburses the Missaukee County Road Commission for the costs incurred. These cost reimbursement contract expenditures are subject to audit at some future date by the State of Michigan. The amount, if any, of expenditures that may be disallowed by the State of Michigan cannot be determined until the State completes its annual audit of its maintenance agreement with the Missaukee County Road Commission. The audit adjustment is accounted for as an adjustment of the current year's expenditures.

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MISSAUKEE COUNTY ROAD COMMISSION

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

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>PRIMARY ROAD FUNDS</u>	<u>LOCAL ROAD FUNDS</u>	<u>COUNTY ROAD COMMISSION FUNDS</u>	<u>TOTAL</u>
Revenues				
Permits and licenses	\$ -	\$ -	\$ 5,595	\$ 5,595
State sources				
Michigan transportation funds				
Engineering	5,800	4,200	-	10,000
Allocation	1,685,080	1,177,051	-	2,862,131
Snow removal	42,006	-	-	42,006
Economic development funds				
Forest road (E funds)	66,704			66,704
Contributions from local units				
Townships	-	628,925	-	628,925
Township maintenance bills	-	31,221	-	31,221
Charges for services				
State trunkline maintenance	-	-	446,833	446,833
Salvage sales	-	-	3,237	3,237
Other - drain	-	-	866	866
Property rentals	-	-	1,217	1,217
Other				
Interest earned	-	-	26,914	26,914
Miscellaneous	-	-	5,738	5,738
Proceeds from sale of equipment	-	-	9,540	9,540
Total revenues	<u>\$ 1,799,590</u>	<u>\$ 1,841,397</u>	<u>\$ 499,940</u>	<u>\$ 4,140,927</u>

MISSAUKEE COUNTY ROAD COMMISSION

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

FOR THE YEAR ENDED DECEMBER 31, 2007

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Expenditures				
Heavy maintenance				
Roads	\$ 139,424	\$ 763,378	\$ -	\$ 902,802
Structures		2,184	-	2,184
Maintenance				
Roads	575,548	1,229,886	-	1,805,434
Winter maintenance	396,670	337,772	-	734,442
Traffic control	4,401	8,839	-	13,240
Total maintenance and construction	1,116,043	2,342,059	-	3,458,102
State trunkline maintenance	-	-	475,935	475,935
State trunkline non-maintenance	-	-	6,666	6,666
Equipment expense (net)	(31,589)	(77,491)	(19,856)	(128,936)
Administrative expense (net)	93,234	195,655	-	288,889
Capital outlay (net)	-	-	(41,783)	(41,783)
Total expenditures	\$ 1,177,688	\$ 2,460,223	\$ 420,962	\$ 4,058,873

MISSAUKEE COUNTY ROAD COMMISSION

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

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>PRIMARY ROAD FUNDS</u>	<u>LOCAL ROAD FUNDS</u>	<u>COUNTY ROAD COMMISSION FUNDS</u>	<u>TOTAL</u>
Total revenues	\$ 1,799,590	\$1,841,397	\$ 499,940	\$ 4,140,927
Total expenditures	<u>1,177,688</u>	<u>2,460,223</u>	<u>420,962</u>	<u>4,058,873</u>
Revenues over (under) expenditures	621,902	(618,826)	78,978	82,054
Fund balance, beginning of year	<u>312,999</u>	<u>74,909</u>	<u>1,037,956</u>	<u>1,425,864</u>
Fund balance, end of year	<u>\$ 934,901</u>	<u>\$ (543,917)</u>	<u>\$ 1,116,934</u>	<u>\$ 1,507,918</u>



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

June 27, 2008

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

We have audited the basic financial statements of the governmental activities and the major fund of the *Missaukee County Road Commission*, a component unit of Missaukee County, as of and for the year ended December 31, 2007, and have issued our report thereon dated June 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control. We consider Findings 2007-1 and 2007-2 as described in the accompanying schedule of financial statement 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 Road Commission's internal control.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Road Commission, in a separate letter dated June 27, 2008.

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

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

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

Missaukee County Road Commission

Financial Statement Findings

December 31, 2007

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

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

Finding 2007-2: Segregation of Duties

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



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

June 27, 2008

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

We have audited the financial statements of the *Missaukee County Road Commission* for the year ended December 31, 2007, and have issued our report thereon dated June 27, 2008. Professional standards require that we provide you with the following information related to our audit.

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

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

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

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

Planned Scope and Timing of the Audit

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

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

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

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

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 25, 2008.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson". The signature is written in a cursive, flowing style.

Missaukee County Road Commission

Comments and Recommendations

For the Year Ended December 31, 2007

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

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

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

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

Other Matters

Bank Reconciliation Process

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

Missaukee County Road Commission

Comments and Recommendations

For the Year Ended December 31, 2007

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

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

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

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

Preparation and Review of Journal Entries

Criteria: An important component of any internal control system is the independent review of journal entries as a check for accuracy, completeness and appropriateness.

Condition: As a part of our procedures related to Statements on Auditing Standards (SAS) No. 99, we reviewed the Commission's procedures related to journal entries and noted that once a journal entry is prepared, there is no independent review by another official.

Cause: This condition is the result of past practice of only one employee handling the general ledger function and lack of knowledgeable personnel dedicated to the Commission's accounting function.

Effect: This condition increases the likelihood that an inappropriate or fraudulent journal entry could be posted to the general ledger and not be detected. Also, it decreases the usefulness of interim financial reports because the probability that an "honest error" would not be caught is also significant.

Missaukee County Road Commission

Comments and Recommendations

For the Year Ended December 31, 2007

Recommendation: Although we have reviewed sample of journal entries prepared by the Road Commission during 2007 and noted no inappropriate or fraudulent journal entries, there is no control in place to review these entries internally. We recommend that a responsible official review journal entries after they are prepared as a check for journal entry appropriateness and completeness. This review should be done by an individual who has knowledge of the Commission's general ledger system and chart of accounts. The preparation and review should be documented by initialing and dating the printed copy of the entry. In order to make this process more efficient, the reviewer can sign off on one "blanket" approval form indicating that the review was for all journal entries or transfer vouchers for that month.

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