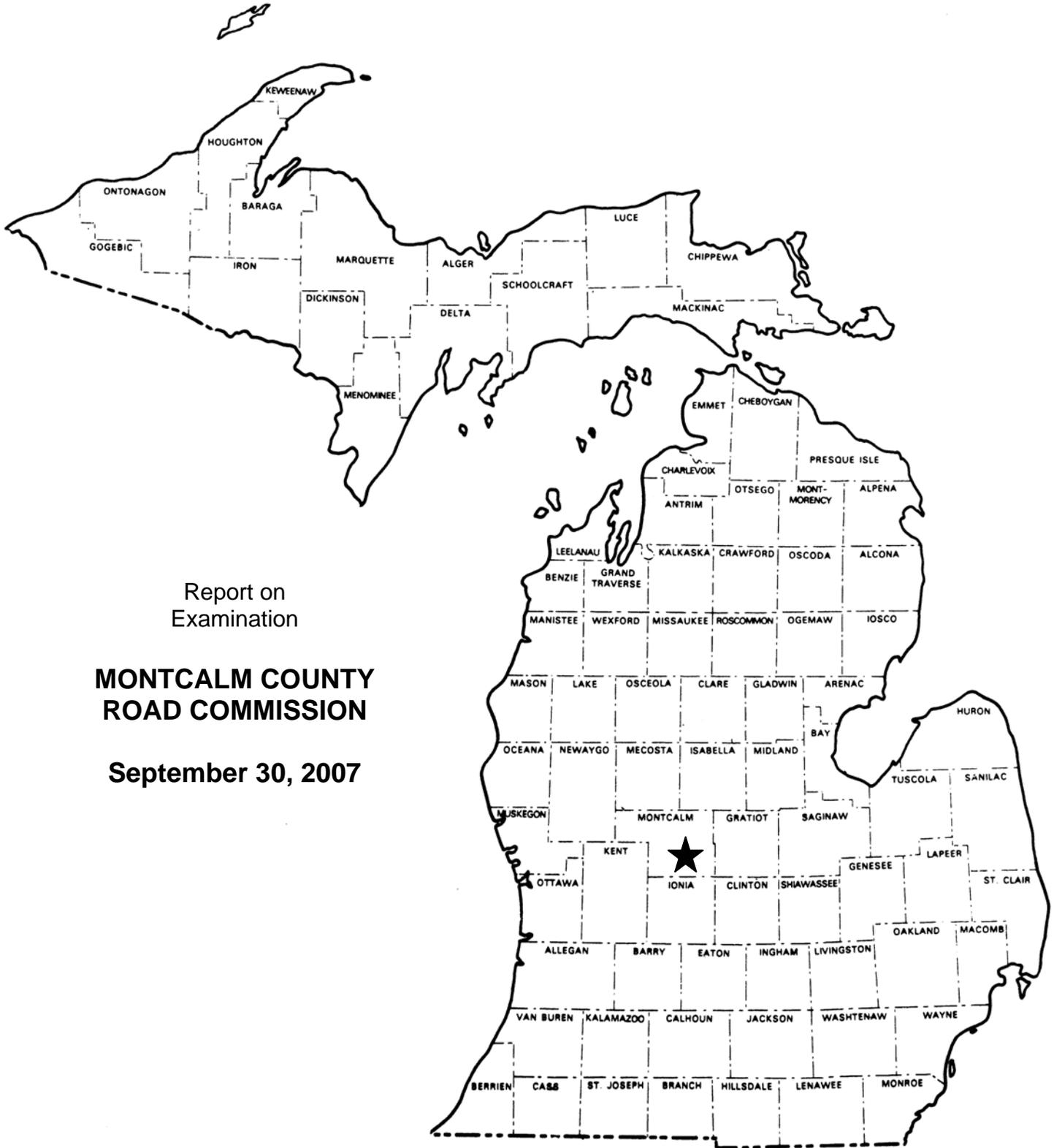


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**



Report on  
Examination

**MONTCALM COUNTY  
ROAD COMMISSION**

**September 30, 2007**

MONTCALM COUNTY ROAD COMMISSION  
BOARD OF COUNTY ROAD COMMISSIONERS

Dale Linton  
Chairperson

Robert Brundage  
Vice Chairperson

Donald McCracken  
Member

Randy Stearns  
Managing Director

Karen Swan  
Finance Director/Clerk

COUNTY POPULATION--2000  
61,266

STATE EQUALIZED VALUATION--2007  
\$2,281,401,324



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

December 19, 2007

Montcalm County Road Commission  
Board of County Road Commissioners  
619 West Main Street  
P.O. Box 337  
Stanton, Michigan 48888

RE: Unqualified Opinions on Basic Financial Statements Accompanied by Required  
Supplementary Information and Supplemental Information

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Montcalm County Road Commission, a component unit of Montcalm County, Michigan, as of and for the year ended September 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montcalm County Road Commission as of September 30, 2007 and the changes in financial position 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 December 19, 2007 on our consideration of the Montcalm County Road Commission'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 on pages 1 through 7 and the budgetary comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Montcalm County Road Commission's basic financial statements. The accompanying supplementary and related information presented as Exhibits I through K is for purposes of additional analysis 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.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

MONTCALM COUNTY ROAD COMMISSION

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**MONTCALM COUNTY ROAD COMMISSION**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**

Using this Annual Report

The Montcalm County Road Commission’s discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission’s financial activity; c) identify changes in the Road Commission’s financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts--management’s discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county 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.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year’s activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year’s revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission’s net assets and changes in them. The reader can think of the Road Commission’s net assets (the difference between assets and liabilities) as one way to measure the Road Commission’s financial health or financial position. Over time, increases and decreases in the Road Commission’s net assets are one indicator of whether its financial health is improving or deteriorating.

**MONTCALM COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Report the Road Commission's Major Fund

The fund financial statements begin on page eight and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental type fund.

- Governmental Fund--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased approximately 2.39% or \$751,278 from \$31,465,098 to \$32,216,376 for the year ended September 30, 2007. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$258,281. The investment in capital assets-net of related debt, increased by \$492,997, which was primarily due to the current year's \$3,002,936 increase in infrastructure and depreciation expense (decrease) related to infrastructure of \$2,422,253.

**MONTCALM COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Net assets as of year ended September 30, 2007 are as follows:

	Governmental Activities <u>09/30/06</u>	Governmental Activities <u>09/30/07</u>	Variance Increase (Decrease) <u></u>
Assets			
Current and Other Assets	\$ 2,671,444	\$ 2,817,225	\$ 145,781
Net Capital Assets	<u>31,121,727</u>	<u>31,394,356</u>	<u>272,629</u>
Total Assets	<u>33,793,171</u>	<u>34,211,581</u>	<u>418,410</u>
Liabilities			
Current Liabilities	561,663	478,813	(82,850)
Long-Term Liabilities	<u>1,766,410</u>	<u>1,516,392</u>	<u>(250,018)</u>
Total Liabilities	<u>2,328,073</u>	<u>1,995,205</u>	<u>(332,868)</u>
Net Assets			
Invested in Capital Assets			
Net of Related Debt	29,484,665	29,977,662	492,997
Restricted	<u>1,980,433</u>	<u>2,238,714</u>	<u>258,281</u>
Total Net Assets	<u>\$ 31,465,098</u>	<u>\$ 32,216,376</u>	<u>\$ 751,278</u>

**MONTCALM COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Changes in Net Assets

A summary of changes in net assets for the year ended September 30, 2007 follows:

	Governmental Activities 09/30/06	Governmental Activities 09/30/07	Total Percentage Change
Program Revenue			
Licenses and Permits	\$ 13,202	\$ 15,368	14.09%
Federal Grants	44,987	388,872	88.43%
State Grants	6,213,586	6,093,318	-1.97%
Contributions From Local Units	1,678,853	1,777,951	5.57%
Charges for Services	852,024	944,474	9.79%
Investment Earnings	207,331	158,623	-30.71%
Reimbursements	5,503	5,599	1.71%
General Revenue			
Private and Other Contributions	30,000	612,822	95.10%
Taxes	568	591	3.89%
Gain on Disposal	10,327	5,000	-106.54%
<b>Total Revenue</b>	<b>9,056,381</b>	<b>10,002,618</b>	<b>9.46%</b>
Expenses			
Primary Road Maintenance	1,385,212	1,348,608	2.71%
Local Road Maintenance	4,067,776	3,888,980	4.60%
State Trunkline Maintenance	846,181	934,834	-9.48%
Non-Road Project	-	322,331	100.00%
Net Equipment Expense	(189,776)	(152,415)	24.51%
Net Administrative Expense	479,778	463,312	3.55%
Infrastructure Depreciation	2,503,022	2,422,253	3.33%
Compensated Absences	3,809	547	596.34%
Interest Expense	52,750	47,953	10.00%
<b>Total Expenses</b>	<b>9,148,752</b>	<b>9,276,403</b>	<b>-1.38%</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ (92,371)</b>	<b>\$ 726,215</b>	<b>-112.72%</b>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies, distributed to the county, which are earmarked by law for road and highway purposes.

**MONTCALM COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended September 30, 2007, the fund balance of the General Operations Fund increased to \$2,314,141 following an increase of \$712,480 in the fund balance for the year ended September 30, 2006 (last year). Total operating revenues were \$10,007,617, an increase of \$951,236 as compared to last year, which was primarily the result of an increase in Federal Grants of \$343,884; an increase in township contributions of \$190,924; an increase in Other Contributions of \$582,749; and a decrease of \$120,268 in State Grants; and \$48,708 in Interest and Dividends.

Total expenditures of \$9,748,790 equaled an increase of \$1,404,890 as compared to last year. This was primarily the result of an increase in Primary Road Preservation of \$364,616; an increase in Local Road and Bridge Preservation of \$791,305; and an increase in Non-Motorized Trail of \$322,331.

Budgetary Highlights

Prior to the beginning of any fiscal year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the fiscal year, the Road Commission's 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 fiscal year.

The original revenue budget for 2007 was less than the actual revenue by \$1,293,252. This was due, in large part, to actual Michigan Transportation Funds being higher by \$28,799; township contributions being higher by \$234,487; Federal Critical Bridge Funds and High Priority Funds being higher by \$228,873; State Critical Bridge Funds and High Priority Funds being higher by \$31,492; and Private Contributions being higher by \$577,822.

The Road Commission's original expenditures were projected at \$8,942,001, while actual expenditures were \$9,748,790. This resulted in total expenditures being over budget by \$806,789. This was primarily due to actual Local Road Preservation expenditures being higher by \$684,888; Non-Motorized Transportation expenditures being higher by \$322,331; and Equipment expenditures being lower by \$85,031.

**MONTCALM COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Capital Assets and Debt Administration

Capital Assets

As of fiscal year end September 30, 2007, the Road Commission had \$31,369,290 invested in capital assets as follows:

	<u>09/30/06</u>	<u>09/30/07</u>	Total Percentage Change
Capital Assets Not Being Depreciated			
Land/Right-of-Way	\$ 33,708	\$ 28,708	-17%
Land Improvements	<u>4,690,355</u>	<u>4,690,355</u>	<u>0%</u>
Subtotal	<u>4,724,063</u>	<u>4,719,063</u>	<u>-17%</u>
Capital Assets Being Depreciated			
Buildings	2,192,253	2,204,785	1%
Road Equipment	6,789,438	6,832,238	1%
Shop Equipment	112,644	118,954	5%
Office Equipment	158,663	161,763	2%
Engineers Equipment	38,043	44,892	15%
Yard and Storage	372,215	359,683	-3%
Infrastructure--Bridges	8,922,527	9,151,205	2%
Infrastructure--Roads	50,500,853	53,280,437	5%
Depletable Assets	<u>6,750</u>	<u>6,750</u>	<u>0%</u>
Subtotal	<u>69,093,386</u>	<u>72,160,707</u>	<u>4%</u>
Total Capital Assets	<u>73,817,449</u>	<u>76,879,770</u>	<u>4%</u>
Total Accumulated Depreciation	<u>(42,695,722)</u>	<u>(45,510,478)</u>	<u>6%</u>
Total Net Capital Assets	<u>\$ 31,121,727</u>	<u>\$ 31,369,292</u>	<u>1%</u>

The Road Commission reported the infrastructure and related assets during the current fiscal year in the amount of \$3,002,936. The infrastructure recorded during fiscal year 2007 will be depreciated beginning in the following fiscal year. The infrastructure is financed through Federal, State and local contributions.

**MONTCALM COUNTY ROAD COMMISSION**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**

This fiscal year’s major capital asset additions included the following:

Reconstruction of Bridges (by location)	\$ 223,352
Various Resurfacing Projects and Related Land/Right-of-Way	2,779,584
Trucks/Equipment	42,800
Shop Equipment	6,310
Administrative/Engineering	<u>9,949</u>
 Total Additions	 <u><u>\$ 3,061,995</u></u>

There were no installment purchases or long-term debt agreements entered into in fiscal year 2007. There was no equipment traded in or disposed of in fiscal year 2007.

Debt

The Road Commission currently has long-term debt in the amount of \$1,492,122, a decrease of \$219,821 from the prior fiscal year. The long-term debt represents PA143 bonds, two lease-purchase agreements and compensated absences payable at September 30, 2007.

Economic Factors and Next Year’s Budget

The board of county road commissioners considered many factors when setting the fiscal year 2007 budget. One of the factors is the economy and high fuel prices. The Road Commission derives approximately half of its revenues from the fuel tax collected. The economic downturn and high fuel prices have resulted in less consumption of fuel and consequently less Michigan Transportation Fund tax to be distributed.

The board realizes, and the reader should understand that there are not sufficient funds available to repair and/or rebuild every road in Montcalm County’s transportation system; therefore, the board attempts to spend the public’s money wisely and equitably and in the best interest of the motoring public and the citizens of Montcalm County.

Contacting the Road Commission’s Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission’s finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Montcalm County administrative offices at: 619 West Main Street, Stanton, Michigan 48888.

**MONTCALM COUNTY ROAD COMMISSION**  
**STATEMENT OF NET ASSETS**  
**September 30, 2007**

**EXHIBIT A**

**ASSETS**

Cash	\$ 425,129
Accounts Receivable	
Sundry Accounts	26,494
State--Trunkline Maintenance	48,483
Michigan Transportation Fund	956,584
State--Other	79,365
Due From Cities/Villages	2,881
Due on County Road Agreements	533,622
Inventories	
Road Materials	310,884
Equipment Parts and Materials	166,729
Restricted Cash	7,561
Restricted Investments	259,493
Capital Assets (Net of Accumulated Depreciation)	<u>31,369,292</u>
Total Assets	<u>34,186,517</u>

**LIABILITIES**

Current Liabilities	
Inventory Payable	15,566
Accounts Payable	114,116
Due to State of Michigan	109,090
Payroll Deductions Payable	(577)
Accrued Liabilities	18,001
Performance Bonds Payable	2,250
Bonds Payable	200,000
Installment Purchase Agreements Payable	20,367
Non-Current Liabilities	
Advances From State	169,637
Advance From Townships	75,000
Bonds Payable	1,000,000
Installment Purchase Agreements Payable	196,327
Vested Employee Benefits Payable	<u>75,428</u>
Total Liabilities	<u>1,995,205</u>

**NET ASSETS**

Investment in Capital Assets	
Net of Related Debt	29,952,598
Restricted for County Roads	<u>2,238,714</u>
Total Net Assets	<u><u>\$ 32,191,312</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**MONTCALM COUNTY ROAD COMMISSION  
STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2007**

**EXHIBIT B**

Program Expenses	
Primary Road Routine and Preventive Maintenance	\$ 1,348,607
Local Road Routine and Preventive Maintenance	3,888,981
State Trunkline Maintenance	891,456
State Trunkline Non-Maintenance	43,378
Non-Motorized Transportation	322,331
Net Equipment Expense	(152,415)
Net Administrative Expense	463,312
Infrastructure Depreciation	2,422,253
Compensated Absences	547
Interest Expense	47,953
	<hr/>
Total Program Expenses	9,276,403
	<hr/>
Program Revenue	
Charges for Services	
Licenses and Permits	15,367
Charges for Services	944,475
Reimbursements	5,599
Operating Grants and Contributions	
State Grants--Michigan Transportation Funds	5,569,997
Investment Earnings	158,623
Capital Grants and Contributions	
Federal Grants	388,872
State Grants	523,321
Contributions From Local Units	1,777,951
Private Contributions	612,822
	<hr/>
Total Program Revenue	9,997,027
	<hr/>
Net Program Revenue	720,624
	<hr/>
General Revenue	
Taxes	591
Gain on Equipment Disposal	5,000
	<hr/>
Total General Revenues and Transfers In	5,591
	<hr/>
Change in Net Assets	726,215
	<hr/>
Net Assets	
Beginning of Year	31,465,097
	<hr/>
End of Year	\$ 32,191,312
	<hr/> <hr/>

**The Notes to Financial Statements are an integral part of this statement.**

**MONTCALM COUNTY ROAD COMMISSION**  
**BALANCE SHEET**  
**September 30, 2007**

**EXHIBIT C**

	<b>GOVERNMENTAL FUND TYPE</b>
	<u>General Operating Fund</u>
<b><u>ASSETS</u></b>	
Cash	\$ 425,128
Accounts Receivable	
State Trunkline Maintenance	48,483
Michigan Transportation Fund	956,584
State Highway--Other	79,365
Due From Other Governmental Units	2,881
Due on County Road Agreements	533,622
Sundry Receivables	26,495
Inventories	
Road Materials	310,884
Equipment Parts and Materials	166,729
Restricted Investments	<u>267,054</u>
Total Assets	<u><u>\$ 2,817,225</u></u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>	
Liabilities	
Accounts Payable	\$ 129,682
Due to State	109,090
Escrow Payable	1,674
Accrued Liabilities	18,001
Advances	
State Trunkline Equipment Purchase	93,829
State Trunkline Maintenance	75,808
Township Road Agreement	<u>75,000</u>
Total Liabilities	<u>503,084</u>
Fund Equities	
Fund Balance	
Reserved for Capital Improvements	267,054
Reserved for Inventory	477,613
Unreserved and Undesignated	<u>1,569,474</u>
Total Fund Equities	<u>2,314,141</u>
Total Liabilities and Fund Equities	<u><u>\$ 2,817,225</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**MONTCALM COUNTY ROAD COMMISSION  
RECONCILIATION OF THE BALANCE SHEET FUND  
BALANCE TO THE STATEMENT OF NET ASSETS  
For the Year Ended September 30, 2007**

**EXHIBIT D**

Total Governmental Fund Balance	\$ 2,314,141
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.	31,369,293
Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(1,492,122)</u>
Net Assets of Governmental Activities	<u><u>\$ 32,191,312</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**MONTCALM COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
For the Year Ended September 30, 2007**

**EXHIBIT E**

	<u>Operating Fund</u>
Revenues	
Taxes	\$ 591
Licenses and Permits	15,367
Federal Grants	388,873
State Grants	6,093,316
Contributions From Local Units	1,777,951
Charges for Services	944,475
Interest and Rents	158,623
Other Revenue	628,421
	<hr/>
Total Revenues	10,007,617
	<hr/>
Expenditures	
Public Works	9,421,411
Capital Outlay	59,058
Debt Service	268,321
	<hr/>
Total Expenditures	9,748,790
	<hr/>
Excess of Revenues Over (Under) Expenditures	258,827
	<hr/>
Fund Balance--October 1, 2006	2,055,314
	<hr/>
Fund Balance--September 30, 2007	\$ 2,314,141
	<hr/> <hr/>

**The Notes to Financial Statements are an integral part of this statement.**

**MONTCALM COUNTY ROAD COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2007**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Funds \$258,828

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 as depreciation expense. This is the amount  
by which capital outlays exceeded depreciation in the current period. 247,566  
Equipment retirement is recorded as an expenditure credit in governmental  
funds, but not recorded as an expense in the Statement of Activities.

Lease proceeds provide current financial resources to governmental funds,  
but entering into lease agreements increases long-term liabilities in the  
Statement of Net Assets. Repayment of notes/leases payable is an  
expenditure in governmental funds, but reduces the long-term liabilities in the  
Statement of Net Assets. 220,368

Some expenses reported in the Statement of Activities do not require the use  
of current financial resources and, therefore, are not reported as expenditures  
in governmental funds. (Increase in compensated absences and decrease in  
interest expense) (547)

Change in net assets of governmental activities \$726,215

**The Notes to Financial Statements are an integral part of this statement.**

## MONTCALM COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

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

#### NOTE A--REPORTING ENTITY

The Montcalm County Road Commission, which is established pursuant to the County Road Law, Michigan Compiled Laws (MCL) 224.1, is governed by a 3 member elected board of county road commissioners. The Road Commission may not issue debt without the approval of the county board of commissioners, and property taxes would be levied under the taxing authority of the county, as approved by the county electors. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors. The taxes would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Montcalm County Road Commission, a discretely presented component unit of Montcalm County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation--Government-Wide 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 Montcalm County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt, or restricted net assets.

# MONTCALM COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are 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 instead as general revenue.

#### Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

#### Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue 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.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; and 2) Michigan Transportation Funds (MTF), State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as needed.

#### Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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 and claims and judgments, are recorded only when payment is due.

# MONTCALM COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Michigan Transportation Funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

#### Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

#### Inventories

Inventories are priced 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.

#### Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Montcalm County Road Commission as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of five years. However, all equipment items (regardless of purchase price or useful life) that have a Schedule C code and rate (Michigan Department of Transportation's "Equipment Rental Rates" report) are capitalized. Such assets are recorded at historical costs or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. During 2003, the Montcalm County Road Commission capitalized the current year's infrastructure and has also reported the retroactive cost for major infrastructure in the Statement of Net Assets for periods ending after June 30, 1980.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (managing director) prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board of road commissioners conducts a public budget hearing and, subsequently, adopts the operating budget. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budget Violations

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. The Road Commission has not complied with certain provisions of the act.

The following activities exceeded the amended budget:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Non-Motorized Transportation	\$ -	\$ 322,331	\$ (322,331)

NOTE D--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated two banks for the deposit of Road Commission funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--DEPOSITS AND INVESTMENTS (Continued)

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash	\$ 425,129
Restricted Investments	<u>267,054</u>
Total	<u>\$ 692,183</u>

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 425,078
Investments in Uncategorized Pooled Investment Funds	267,054
Petty Cash and Cash on Hand	<u>50</u>
Total	<u>\$ 692,182</u>

The bank balance of the primary government's deposits is \$827,240, of which \$100,000 is covered by Federal depository insurance.

Restricted cash and investments at September 30, 2007 consist of \$200,000 to be used for the Road Commission's portion of construction of a new salt storage facility and \$67,054 for road improvements.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited its investments to uncategorized pooled investment funds.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Road Commission has not addressed interest rate risk in their investment policy.

# MONTCALM COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE D--DEPOSITS AND INVESTMENTS (Continued)

#### Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Long-term certificates of deposit do not have a rating provided by a nationally recognized statistical rating organization.

The Road Commission's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities.

#### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Entity's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. The Road Commission has addressed custodial credit risk in its investment policy.

### NOTE E--DEFERRED COMPENSATION PLAN

The Montcalm County Board of Road Commissioners offers all Road Commission employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457 with Comprehensive Financial Services, Inc. The assets of the plans were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	<u>Notes</u>	<u>Account Balances 10/01/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Account Balances 09/30/07</u>
<b>Capital Assets Not Being Depreciated</b>					
Land		\$ 33,708		\$ 5,000	\$ 28,708
Infrastructure--Land Improvements		4,690,355			4,690,355
<b>Subtotal</b>		<u>4,724,063</u>	<u>\$ -</u>	<u>5,000</u>	<u>4,719,063</u>
<b>Capital Assets Being Depreciated</b>					
Buildings	1	2,192,253	12,532		2,204,785
Shop Equipment		112,644	6,310		118,954
Office Equipment		158,663	3,100		161,763
Engineer's Equipment		38,043	6,849		44,892
Yard and Storage	1	372,215		12,532	359,683
Infrastructure--Bridges		8,922,527	228,678		9,151,205
Infrastructure--Roads		50,500,853	2,779,584		53,280,437
Depletable Assets		6,750			6,750
<b>Total</b>		<u>69,093,386</u>	<u>3,079,853</u>	<u>12,532</u>	<u>72,160,707</u>
<b>Less: Accumulated Depreciation</b>					
Building		570,823	45,305		616,128
Road Equipment		5,947,709	330,975		6,278,684
Shop Equipment		74,482	2,391		76,873
Office Equipment		127,282	13,165		140,447
Engineer's Equipment		37,375	667		38,042
Yard and Storage		359,683			359,683
Infrastructure--Bridges		3,158,868	190,184		3,349,052
Infrastructure--Roads		32,412,750	2,232,069		34,644,819
Depletable Assets		6,750			6,750
<b>Total</b>		<u>42,695,722</u>	<u>2,814,756</u>	<u>-</u>	<u>45,510,478</u>
<b>Net Capital Assets Being Depreciated</b>		<u>26,397,664</u>	<u>3,079,853</u>	<u>2,827,288</u>	<u>26,650,229</u>
<b>Total Net Capital Assets</b>		<u>\$ 31,121,727</u>	<u>\$ 3,079,853</u>	<u>\$ 2,832,288</u>	<u>\$ 31,369,292</u>

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Note 1: The reduction to Yard and Storage of \$12,532 and the increase to Buildings is due to a prior year misclassification corrected in 2007.

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 330,975
Indirect Equipment	
Buildings	36,043
Shop Equipment	2,391
Net Administrative Expense	
Buildings	9,262
Office Equipment and Furniture	13,165
Distributive Expense	
Engineer's Equipment	667
Infrastructure	<u>2,422,253</u>
Total Depreciation Expense	<u><u>\$ 2,814,756</u></u>

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	<u>Balance</u> <u>10/01/06</u>	<u>Additions</u> <u>(Reduction)</u>	<u>Balance</u> <u>09/30/07</u>	<u>Due Within</u> <u>One Year</u>
Michigan Transportation Revenue Notes (Act 143 of 1943)	\$ 1,400,000	\$ (200,000)	\$ 1,200,000	\$ 200,000
Installment Purchase Agreements				
Caterpillar Financial Services				
Grader 2003                     2	125,469	(15,405)	110,064	110,064
Caterpillar Financial Services				
Grader 2003                 2	111,594	(4,963)	106,631	106,631
Vested Employee Benefits				
Vacation	59,360	(9,391)	49,969	
Personal Paid Time Off             1		15,520	15,520	
Sick	15,520	(5,582)	9,938	
	<u>\$1,711,943</u>	<u>\$ (219,821)</u>	<u>\$ 1,492,122</u>	<u>\$ 416,695</u>
Total				

Note 1: Personal paid time off is accumulated by employees and can be used for illnesses or vacation time off.

Note 2: The Road Commission is researching the refinancing of the 2003 Graders over 2 additional years instead of paying the balloon payments during 2008.

The annual interest and principal requirements of the Road Commission's long-term borrowing may be summarized as follows:

Notes Payable--Michigan Department of Transportation

On August 1, 2002, the Montcalm County Road Commission borrowed \$2,000,000 at interest rates ranging from 2 to 3.4%. Payments are to be made in varying amounts for 10 years from the Michigan Department of Transportation Fund Revenue Notes of 2003 to defray the cost of constructing certain road improvements and facilities under the provisions of Public Act 143 of 1943.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

Principal and interest requirements to maturity are as follows:

<u>Maturity Year</u>	<u>Principal Outstanding 09/30/07</u>	<u>February Interest</u>	<u>August Interest</u>	<u>Total Annual Payments</u>
2008	\$ 200,000	\$17,450	\$ 17,450	\$ 234,900
2009	200,000	15,200	15,200	230,400
2010	200,000	12,650	12,650	225,300
2011	200,000	9,750	9,750	219,500
2012	200,000	6,650	6,650	213,300
2013	<u>200,000</u>	<u>3,400</u>	<u>3,400</u>	<u>206,800</u>
Total	<u>\$1,200,000</u>	<u>\$65,100</u>	<u>\$ 65,100</u>	<u>\$1,330,200</u>

Installment Lease Purchase Agreement--Caterpillar Financial Services

The Montcalm County Road Commission entered into a lease agreement for \$176,944 at 4% interest on February 1, 2002 from Caterpillar Financial Services for the purpose of financing a grader. The lease agreement called for 59 monthly payments of principal and interest of \$1,674.96 and one payment of \$105,000. Principal and interest requirements to maturity are as follows:

<u>Maturity Year</u>	<u>Principal Outstanding 09/30/07</u>	<u>Interest Payable if Held to Maturity</u>	<u>Annual Payments</u>
2008	<u>\$110,064</u>	<u>\$ 1,076</u>	<u>\$ 111,140</u>
Total	<u>\$110,064</u>	<u>\$ 1,076</u>	<u>\$ 111,140</u>

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

Installment Lease Purchase Agreement--Caterpillar Financial Services

The Montcalm County Road Commission entered into a lease agreement for \$128,175 at 4% interest on February 1, 2002 from Caterpillar Financial Services for the purpose of financing a grader. The lease agreement called for 59 monthly payments of principal and interest of \$776.80 and one payment of \$105,000. Principal and interest requirements to maturity are as follows:

<u>Maturity Year</u>	<u>Principal Outstanding 09/30/07</u>	<u>Interest Payable if Held to Maturity</u>	<u>Annual Payments</u>
2008	<u>\$ 106,631</u>	<u>\$ 1,058</u>	<u>\$107,689</u>
Total	<u><u>\$ 106,631</u></u>	<u><u>\$ 1,058</u></u>	<u><u>\$107,689</u></u>

Vested Employee Benefits

Vacation is earned in varying amounts depending on the number of years of service of an employee. Vacation earned in 1 year is credited to employees on January 1st of the following year. An employee may accumulate up to and carry over from year-to-year 5 days of paid vacation.

Sick leave is no longer earned effective November 28, 1988. The hours accumulated to that date are banked, and up to 3 days per occurrence may be used from the bank, after which disability insurance goes into effect. There is no pay out for the sick leave. Personal paid time off is being given in-lieu-of sick time.

Upon termination of employment through retirement or death, vacation pay is payable at 100%, not to exceed 30 days payment (240 hours).

# MONTCALM COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--EMPLOYEES' RETIREMENT SYSTEM

#### Description of Plan and Plan Assets

The Montcalm County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: Normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death allowance, duty-connected death allowance, post-retirement adjustments, and death-after-retirement surviving spouse benefit. The service requirement for general employees is under the B-2 provision of the retirement contract. This requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.0% of the final average compensation (FAC). The service requirement for salaried employees and commissioners is under the B-4 provision of the retirement contract. This requirement is computed using the same criteria as the B-2 provisions except a sum of 2.5% of the FAC is used. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2006.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended, (MCL 46.12a), State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS 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 MERS at 1134 Municipal Way, Lansing, Michigan 48917.

#### Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining units and requires a 1.5% contribution from general employees and a 3.5% contribution from salaried employees and commissioners. The employees contributed \$41,353 during the calendar year ended December 31, 2006. The Road Commission is required to contribute at an actuarially determined rate; the rate was 12.80% for general employees and 25.99% for the salaried employees and commissioners for the calendar year ending December 31, 2006.

MONTCALM COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Annual Pension Cost

For the year ended December 31, 2006, the Road Commission's annual pension cost was \$489,512. 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 projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity and promotional salary increases.

Three-Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
2004	\$ 389,163	100%
2005	373,284	100%
2006	489,512	100%

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/04	\$7,611,830	\$10,696,031	\$ 3,084,201	71%	\$ 1,964,443	157%
12/31/05	8,035,791	11,380,187	3,344,396	71%	2,089,052	160%
12/31/06	8,660,369	12,091,658	3,431,289	72%	1,919,975	179%

NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits' claims other than dental and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

## MONTCALM COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE I--RISK MANAGEMENT (Continued)

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Montcalm County Road Commission became a charter member in 1982.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. If for any reason the Pool's resources available to pay losses are depleted, the payment of all unpaid losses of the member is the sole obligation of the member.

Dental claims are paid by the Road Commission to the employee up to a maximum per household. Benefits lapse at year end.

#### NOTE J--POST-EMPLOYMENT BENEFITS

Montcalm County Road Commission provides post-employment health care benefits, in accordance with the labor contract and personnel policy, to all employees who retire from the Road Commission. The employer will pay all costs for health and vision insurance and prescription drugs, including spouse, for all vested employees who retire at age 60. The employer continues to pay the premiums until age 65. At age 65, retirees must reimburse the employer for the cost of insurance. For employees choosing to retire at age 55 with at least 15 years of service during an open window period, the Road Commission will pay ½ of the retiree's/spouse's monthly health insurance premium until the retiree turns age 60. The Road commission pays 100% of the retiree's health insurance premium from age 60-65.

Currently, 29 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized when insurance premiums are paid. Premiums paid by the Road Commission for the fiscal year ending September 30, 2007 totaled \$98,511. The expenditures are recognized as the insurance premiums become due on a pay-as-you-go-basis.

## MONTCALM COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE K--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2007, the Federal aid received and expended on behalf of the Road Commission was \$388,873 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administrated by the Road Commission.

#### NOTE L--CONTINGENT LIABILITIES AND SUBSEQUENT EVENTS

##### Claims, Judgements, and Litigation

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

##### Debt Payments

The Road Commission is working with Caterpillar Financial Services to refinance two 2003 Graders for a period of 24 months that have balloon payments due in February 2008 in the amount of \$217,100.

#### NOTE M--STATE TRUNKLINE MAINTENANCE REVENUE

The \$1,248 difference between the State trunkline maintenance revenues of \$892,704 and expenditures of \$891,456 is primarily due to expenditures in the amount of \$401, which had been reported in the monthly billings to MDOT which was not reimbursed and the MDOT adjustments of \$15,422 owed MDOT and the \$16,269 owed MCRC for a difference of \$847.

**MONTCALM COUNTY ROAD COMMISSION**  
**SCHEDULE OF REVENUES--BUDGETARY COMPARISON SCHEDULE**  
**For the Year Ended September 30, 2007**

**EXHIBIT G**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
National Forest Reserve	\$ 570	\$ 590	\$ 591	\$ 1
Licenses and Permits				
Permits	13,000	15,333	15,367	34
Federal Grants				
Critical Bridge	160,000	68,322	156,755	88,433
High Priority	-	-	232,118	232,118
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	3,141,462	3,093,760	3,143,645	49,885
Local Road	2,409,623	2,373,584	2,379,228	5,644
Urban Primary	30,179	29,722	29,792	70
Urban Local	7,266	7,049	7,066	17
Snow Removal	265	265	265	-
Critical Bridge	30,000	12,810	29,391	16,581
High Priority	-	-	32,101	32,101
State Buy Back--Federal Aid Exchange	500,000	461,828	461,828	-
Contributions--Local Units				
Townships	1,522,000	1,736,810	1,756,487	19,677
Other Governmental	-	21,464	21,464	-
Charges for Services				
State Trunkline Maintenance	825,000	887,750	892,704	4,954
State Trunkline Non-Maintenance	-	43,493	43,378	(115)
Salvage Sales	5,000	8,393	8,393	-
Interest and Rents				
Interest Earned	25,000	146,580	158,623	12,043
Other Revenue				
Private Contributions	35,000	243,999	612,822	368,823
Sundry Refunds	-	-	5,599	5,599
Sale of Land			5,000	5,000
Gain on Sale of Land			5,000	5,000
Total Revenues	<u>8,714,365</u>	<u>9,161,752</u>	<u>\$ 10,007,617</u>	<u>\$ 845,865</u>
Fund Balance--October 1, 2006	<u>2,055,313</u>	<u>2,055,313</u>		
Total Budget	<u>\$ 10,769,678</u>	<u>\$ 11,217,065</u>		

**MONTCALM COUNTY ROAD COMMISSION**  
**SCHEDULE OF EXPENDITURES--BUDGETARY COMPARISON SCHEDULE**  
**For the Year Ended September 30, 2007**

**EXHIBIT H**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvement	\$ 912,794	\$ 1,022,925	\$ 1,019,445	\$ 3,480
Routine and Preventive Maintenance	1,159,494	1,342,263	1,338,923	3,340
Local Road				
Preservation/Structural Improvement	868,304	1,231,629	1,760,139	(528,510)
Routine and Preventive Maintenance	3,110,401	3,875,110	3,874,090	1,020
Primary Road Structure				
Routine and Preventive Maintenance	-	10,285	9,685	600
Local Road Structure				
Preservation/Structural Improvement	435,625	224,475	228,678	(4,203)
Routine and Preventive Maintenance	8,000	15,590	14,891	699
State Trunkline				
Maintenance	868,159	891,763	891,456	307
Non-Maintenance	-	44,000	43,378	622
Non-Motorized Transportation			322,331	(322,331)
Equipment Expense--Net	(237,446)	(146,938)		
Direct			\$ 1,058,142	
Indirect			404,082	
Operating			411,595	
Less: Equipment Rentals			<u>(2,026,234)</u>	5,477
Fringe Benefits	1,190,120	-		-
Distributive Expense	428,915	-		-
Administrative Expense--Net	243,214	472,415		
Administrative Expense			567,306	
Less: Overhead--State Trunkline			(88,033)	
Overhead--Other			(4,525)	
Purchase Discounts			<u>(11,436)</u>	9,103
Capital Outlay--Net	(313,900)	(318,631)		
Capital Outlay			59,058	
Less: Depreciation Credits			<u>(392,502)</u>	14,813
Debt Service				
Principal	220,368	220,369	220,368	1
Interest and Fiscal Fees	47,953	47,953	47,953	-
<b>Total Expenditures</b>	<b>8,942,001</b>	<b>8,933,208</b>	<b>\$ 9,748,790</b>	<b>\$ (815,582)</b>
Fund Balance--September 30, 2007	1,827,677	2,283,857		
<b>Total Budget</b>	<b>\$ 10,769,678</b>	<b>\$ 11,217,065</b>		

**MONTCALM COUNTY ROAD COMMISSION  
ANALYSIS OF CHANGES IN FUND BALANCES  
For the Year Ended September 30, 2007**

**EXHIBIT I**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 3,230,752	\$ 4,831,118	\$ 1,945,747	\$10,007,617
Total Expenditures	2,267,738	6,109,215	1,371,837	9,748,790
Excess of Revenues Over (Under) Expenditures	963,014	(1,278,097)	573,910	258,827
Other Financing Sources and (Uses)				
Optional Transfer	(953,787)	953,787	-	-
Interfund Transfer		324,310	(324,310)	-
Total Other Financing Sources and (Uses)	(953,787)	1,278,097	(324,310)	-
Excess of Revenues and Other Sources and (Uses) Over (Under) Expenditures	9,227	-	249,600	258,827
Fund Balance--October 1, 2006	1,028,954	-	1,026,360	2,055,314
Fund Balance--September 30, 2007	\$ 1,038,181	\$ -	\$ 1,275,960	\$ 2,314,141

**MONTCALM COUNTY ROAD COMMISSION  
ANALYSIS OF REVENUES  
For the Year Ended September 30, 2007**

**EXHIBIT J**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes				
National Forest Reserve			\$ 591	\$ 591
Licenses and Permits				
Permits			15,367	15,367
Federal Grants				
Contracted				
Critical Bridge		\$ 156,755		156,755
High Priority			232,118	232,118
State Grants				
Michigan Transportation Fund				
Engineering	\$ 5,700	4,300		10,000
Allocation	3,143,645	2,379,228		5,522,873
Urban	29,792	7,066		36,858
Snow Removal	151	114		265
Critical Bridge		29,391		29,391
High Priority			32,101	32,101
State Buy Back--Federal Aid Exchange			461,828	461,828
Contributions From Local Units				
Townships		1,756,487		1,756,487
Other Governmental Contributions	21,464			21,464
Charges for Services				
State Trunkline Maintenance			892,704	892,704
State Trunkline Non-Maintenance			43,378	43,378
Salvage Sales			8,393	8,393
Interest and Rents				
Interest Earned			158,623	158,623
Other Revenue				
Private Contributions	30,000	497,777	85,045	612,822
Sundry Refunds			5,599	5,599
Sale of Land			5,000	5,000
Gain on Sale of Land			5,000	5,000
Total Revenues	\$ 3,230,752	\$ 4,831,118	\$ 1,945,747	\$ 10,007,617

**MONTCALM COUNTY ROAD COMMISSION**  
**ANALYSIS OF EXPENDITURES**  
**For the Year Ended September 30, 2007**

**EXHIBIT K**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvement	\$ 1,019,445			\$ 1,019,445
Routine and Preventive Maintenance	1,338,923			1,338,923
Local Road				
Preservation/Structural Improvement		\$ 1,760,139		1,760,139
Routine and Preventive Maintenance		3,874,090		3,874,090
Primary Road Structures				
Routine and Preventive Maintenance	9,685			9,685
Local Road Structures				
Preservation/Structural Improvement		228,678		228,678
Routine and Preventive Maintenance		14,891		14,891
State Trunkline				
Maintenance			\$ 891,456	891,456
Non-Maintenance			43,378	43,378
Non-Motorized Transportation			322,331	322,331
Equipment Expense--Net (Per Exhibit H)	(33,303)	(98,841)	(20,271)	(152,415)
Administrative Expense--Net (Per Exhibit H)	133,054	330,258		463,312
Capital Outlay--Net (Per Exhibit H)	(200,066)		(133,378)	(333,444)
Debt Service				
Principal			220,368	220,368
Interest and Fiscal Fees			47,953	47,953
Total Expenditures	\$ 2,267,738	\$ 6,109,215	\$ 1,371,837	\$ 9,748,790



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

December 19, 2007

Montcalm County Road Commission  
Board of County Road Commissioners  
619 West Main Street  
P.O. Box 337  
Stanton, Michigan 48888

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Montcalm County Road Commission, a component unit of Montcalm County, as of and for the year ended September 30, 2007, and have issued our report thereon dated December 19, 2007. 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 Montcalm County Road Commission's internal control over financial reporting as a basis for designing our audit 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 Montcalm County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Montcalm County Road Commission's 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.

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 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 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 Montcalm County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, 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.

This report is intended solely for the information of the Montcalm County Board of Road Commissioners, the Road Commission's management and others within the Road Commission and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division